

CYNGOR SIR CEREDIGION COUNTY COUNCIL

Report to: Cabinet

Date of meeting: 20 February 2024

Title: Treasury Management Strategy for 2024/25 and the MRP Policy for 2024/25.

Purpose of the report: To consider the Treasury Management Strategy for 2024/25 and the MRP Policy for 2024/25 and to make a recommendation to Full Council for the meeting on 29/02/24.

For: Decision

Cabinet Portfolio and Cabinet Member:
Councillor Gareth Davies, Cabinet Member for Finance and Procurement

1. INTRODUCTION

The CIPFA 2021 Prudential and Treasury Management Codes requires the Council to set out its Treasury Management Strategy, which explains the Council's policies for managing its investments and debt, and for giving priority to the security and liquidity of those investments.

This Strategy needs to be approved annually by Full Council. During the year there will also be quarterly treasury performance reports (June/ December), a mid-year report (September), and at the end of the financial year there will be an Outturn Report. In addition, there can be regular review by Members as part of adhoc reports to the Corporate Resources Scrutiny committee, plus training to Members at appropriate points in time.

The aim of these reporting arrangements is to ensure that those with various responsibilities for the Treasury Management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting. The proposed strategy for 2024/25 is based upon views on interest rates, supplemented with market forecasts provided by the Council's Treasury advisor and covers:

- Treasury Management Policy Statement
- Treasury portfolio position
- Prospects for interest rates
- Debt rescheduling
- Creditworthiness Policy
- Banking Arrangements
- Prudential Indicators
- Funding requirement
- Borrowing strategy
- Investment strategy
- MRP Policy

These elements cover the requirements of the Local Government Act 2003, Welsh Government Investment Guidance and MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

The Council currently employs Link Treasury Solutions Ltd as the Council’s external Treasury advisor on a contract that runs until 30/08/2026. However, even by using external advisors, the responsibility for Treasury management decisions ultimately rests with the Council.

2. TREASURY MANAGEMENT POLICY STATEMENT

The Council defines its Treasury Management activities as ‘the management of the authority’s investments and cashflows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of the optimum performance consistent with those risks’.

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its Treasury management activities will be measured. Accordingly, the analysis and reporting of Treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage those risks.

The Council acknowledges that effective Treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in Treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

3. PRUDENTIAL INDICATORS

The Prudential indicators shown in Appendix A are relevant for the purposes of setting an integrated Treasury Management Strategy. They will be presented for final approval by Council on 29/02/24.

4. TREASURY PORTFOLIO POSITION

Details of the Council’s treasury portfolio are:

	<u>As at</u> <u>31/03/2023</u> <u>£m</u>	<u>As at</u> <u>31/12/2023</u> <u>£m</u>
<u>Fixed Rate borrowing</u>		
- PWLB	101.1	100.6
- Market loan	5.8	5.8
- WG Repayable Loan funding	0.9	0.8
Total Debt	107.8	107.2
<u>Investments held</u>		
- In-house	38.7	43.5
Total Investments	38.7	43.5
Net Debt	69.1	63.7

The figures in the table are a snapshot at a point in time, therefore the actual level of borrowing and investments during the year may vary significantly, as income is received and payments are made.

5. FUNDING REQUIREMENT

The future funding requirement can be estimated by looking at the more significant cashflow items emanating from the combined impacts of the latest 3 year Capital Programme, the proposed 2024/25 budget, the level of upcoming maturing debt and the actual level of current borrowing compared with the underlying need to borrow (also known as internal borrowing). Looking at each of these factors in turn:

	<u>2024/25</u> <u>Estimate</u> <u>£m</u>	<u>2025/26</u> <u>Estimate</u> <u>£m</u>	<u>2026/27</u> <u>Estimate</u> <u>£m</u>
a) <u>Latest Capital Programme and Revenue budgets Impact</u>			
WG Supported Borrowing	2.9	2.9	2.9
Coastal Protection Scheme - WG Supported Prudential Borrowing	27.3	-	-
Statutory debt payments set aside (MRP)	(1.5)	(1.6)	(1.7)
Estimated change in Reserves & Balances	14.0	1.5	1.5
Estimated funding requirement	42.7	2.8	2.7
b) <u>Maturing Debt Impact</u>			
PWLB Maturity debt maturing	4.2	1.2	3.3
Estimated funding requirement	4.2	1.2	3.3
c) <u>Internal Borrowing Position Impact</u>			
	<u>31/03/25</u>	<u>31/03/26</u>	<u>31/03/27</u>
<i>Estimated Capital Financing Requirement</i>	<i>167.8</i>	<i>169.0</i>	<i>170.1</i>
<i>Estimated Gross External Borrowing</i>	<i>149.3</i>	<i>152.0</i>	<i>154.7</i>
<i>Estimated Difference</i>	<i>18.5</i>	<i>17.0</i>	<i>15.4</i>
TOTAL ESTIMATED funding requirement	46.9	4.0	6.0

Overall there is therefore an estimated potential borrowing requirement in the region of £56.8m over the coming 3 year period. The main driver behind this is the WG supported prudential borrowing for the Aberaeron Coastal Protection Scheme (£27.3m latest estimated remaining to be borrowed) in combination with annual PWLB annuity debt repayments and fixed term PWLB debt maturing (£3.0m in 2024/25 and £2.0m in 2026/27).

6. PROSPECTS FOR INTEREST RATES

At the time of writing this report the Bank of England Bank Rate stands at 5.25% having been raised significantly following all-time lows of 0.1% during the Covid-19 pandemic.

The Council’s treasury advisor’s forecasts for Interest rates as at the 8th January 2024 are shown in table below. The forecast expects that the Bank Rate is currently at its peak and will start to fall during the second half of the 2024 calendar year.

Link Asset Services: Interest Rate Forecast								
	Mar 24	Jun 24	Sept 24	Dec 24	Mar 25	Jun 25	Sep 25	Dec 25
Bank Rate	5.25%	5.25%	4.75%	4.25%	3.75%	3.25%	3.00%	3.00%

The above forecast for interest rates was updated on 8th January 2024 and reflects our treasury advisors view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least the second half of 2024

Our advisors expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and when there is a likelihood of the overall economy enduring at least a slowdown or mild recession over the coming months (although most recent GDP releases have surprised with their on-going robustness).

Forecasts are always subject to change and will be guided not only by economic data releases and clarifications from the Bank of England’s MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy developments in the US and Europe as well as the on-going conflicts between Russia and Ukraine, and Gaza and Israel.

7. BORROWING STRATEGY

The Link forecast for borrowing rates, taking account of the PWLB certainty rate reduction 0.20%, are as follows:

Link Asset Services: Interest Rate Forecast								
	Mar 24	Jun 24	Sept 24	Dec 24	Mar 25	Jun 25	Sep 25	Dec 25
5Y PWLB Rate	4.50%	4.40%	4.30%	4.20%	4.10%	4.00%	3.80%	3.70%
10Y PWLB Rate	4.70%	4.50%	4.40%	4.30%	4.20%	4.10%	4.00%	3.90%
25Y PWLB Rate	5.20%	5.10%	4.90%	4.80%	4.60%	4.40%	4.30%	4.20%
50Y PWLB Rate	5.00%	4.90%	4.70%	4.60%	4.40%	4.20%	4.10%	4.00%

The Council is still maintaining an under-borrowed position as it is using internal borrowing in lieu of external borrowing. Effectively the full capital borrowing need (the Capital Financing Requirement excluding Other Long-Term Liabilities) is a higher figure than the Council’s actual external loan debt as shown in the table in Section 5c. This strategy is currently prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy.

Taking account of these factors, combined with the Council’s estimated funding requirement in Section 5, the Council’s proposed borrowing strategy will give consideration to new borrowing by taking account of the following:

- New PWLB loans in order to meet the estimated borrowing requirement identified.
- Where advantageous compared to PWLB, consideration will be given to other government sources of borrowing, for example the UK Infrastructure Bank.
- Long term fixed rate market loans (where rates are significantly below PWLB rates for the equivalent maturity period), provided that an appropriate balance between PWLB and market debt is maintained across the debt portfolio.
- Temporary or short term borrowing from the money markets may be used for periods of up to 5 years,
- Consideration may be given to the Municipal Bonds Agency.

The Council will not borrow more than, or in advance of, its needs purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance of need will be within the approved Capital Financing Requirement estimates (one of the Prudential Indicators) and will be carefully considered to ensure that value for money can be demonstrated, that the Council can ensure the security of such funds and can afford the short term 'cost of carry'.

Against this background, caution will continue to be adopted with the 2024/25 Treasury Management operations. The Section 151 officer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, taking account of the prevailing advice from the Council's external Treasury advisors and reporting any relevant decisions to Cabinet at the next available opportunity.

8. DEBT RESCHEDULING

There are limited options for PWLB to PWLB debt rescheduling in the current climate. It is also unlikely that the Council will be in a position to repay prematurely any further debt outright, unless it is part of debt rescheduling. However should any restructuring opportunities arise they would be carefully considered and the reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- help fulfill the borrowing strategy outlined previously; and
- enhance the balance of the portfolio (e.g. the maturity profile)

9. INVESTMENT STRATEGY

9.1 Overview

The Council will have regard to the Welsh Government Guidance on Local Government Investments, CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021, and the CIPFA Treasury Management Guidance Notes 2021.

Welsh Government and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments. Meaning those managed by the Council's treasury management team.

The Council's investment priorities are (in order of priority):

- The security of capital

- The liquidity of its investments.
- Yield

The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of the Council is low in order to give priority to security of its investments. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate, the Council will also consider the value available in investment periods up to 12 months with high credit rated financial institutions.

The borrowing of monies purely to invest and make a return is unlawful and the Council will not engage in such activity.

9.2 Creditworthiness Policy

The Section 151 officer uses the creditworthiness service provided by Link Treasury Solutions Ltd. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard & Poor's, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following information:

- Credit watches and credit outlooks from credit rating agencies
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings
- Sovereign ratings to select counterparties from only the most creditworthy countries

This modelling approach combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system for which the end product is a series of colour code bands. These bands indicate the relative creditworthiness of counterparties and assign a suggested maximum investment duration. The Council uses similar maximum durations to those suggested by Link's standard methodology, other than still keeping investments under 1 year in duration.

<u>Durational band</u>	<u>Link's suggested max duration</u>	<u>Council maximum duration</u>	
Yellow	5 years	1 year	
Purple	2 years	1 year	
Blue	1 year	1 year	<i>applies to part/fully nationalised UK Banks</i>
Orange	1 year	1 year	
Red	6 months	6 months	
Green	100 days	100 days	
No colour	Not used	Not used	

All credit ratings are monitored on a weekly basis, with the Council being alerted to changes to ratings of all three agencies through its use of Link's creditworthiness service, combined with receiving a weekly bulletin of all counterparties' current credit ratings and durational banding. If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use for new investments will be

withdrawn immediately. Link have, at certain previous points in time, overlaid all counterparties with a default colour of green, indicating a maximum lending period of 3 months. For absolute clarity should this happen again, the Council will look at a counterparty's colour coding prior to this default overlay, in order to establish whether a counterparty meets the approved credit rating criteria in Appendix B: Annex 1 and then use the maximum 3 month time period that Link are currently advising.

However, sole reliance will not be placed on the use of this external creditworthiness service provided by Link, the Section 151 officer will also use market data and information on government support for banks.

9.3 Current Counterparties

The counterparties being used as part of the current investment strategy focuses on:

- No investments for longer than a 1 year duration
- No investments with any counterparty that does not meet the minimum credit rating criteria defined as 'Green' by Link
- Fixed counterparty (still subject to meeting credit rating criteria) list of:
 - Barclays Bank
 - National Westminster Bank Group including NatWest Markets plc
 - Lloyds Banking group including Lloyds Bank Corporate Markets plc
 - HSBC
 - Nationwide Building Society
 - Santander UK
 - Royal Bank of Scotland
 - Coventry Building Society
 - Leeds Building Society
 - Yorkshire Building Society
 - Skipton Building Society
 - Standard Chartered Bank
 - Goldman Sachs International Bank
 - Bank of Scotland Group
 - UK Government DMO Account.

Whilst having full regard for the investment priorities Security, Liquidity and Yield the Council will continue to monitor the market for investment counterparties and investment products that have a positive impact on the environment, communities and society. At present there are many inconsistencies and a lack of standard metrics when it comes to assessing a counterparty's Environmental, Social & Governance (ESG) credentials, however the Council will work closely with our Treasury Advisors to identify appropriate counterparties and investment products.

9.4 Proposed 2024/25 Strategy

Investments will be made with reference to the core balance and cashflow requirements which will generally be investing for periods of up to 3 months. However, where surplus funds allow, then investments for up to a 1 year period may be made. This will be undertaken with advice as required from the Council's external advisors, taking account of prevailing market conditions, combined with ensuring any counterparty used is on the Approved Counterparty list in Appendix B (Annex 1) and meets the defined credit rating criteria.

The complete list of Investment instruments proposed for use in 2024/25 is shown in Appendix B. Counterparty limits are reviewed regularly and any changes are authorised by the Section 151 officer. The latest proposed counterparty list is attached as Annex 1 to Appendix B. It is also not envisaged that an External Fund Manager would be used, except for the purchase of Government Gilts and/or Treasury Bills.

10. BANKING CONTRACT

Due to the banking contract with Barclays expiring on 29th February 2024 the Council carried out a full tender exercise during the Autumn of 2023 inviting banking service providers to tender for the Council's corporate banking services contract. After a robust evaluation exercise Barclays were awarded the contract for a period of seven years with the option to extend for an addition two years.

11. MINIMUM REVENUE PROVISION (MRP) POLICY

The proposed MRP Policy Statement for 2024/25 is attached as Appendix C and reflects the continuance of the existing MRP Policy.

12. KNOWLEDGE & SKILLS

The CIPFA Code requires that the s151 officer ensures that Members receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. Members attended a 'Treasury Management - Member Training' event held on 8th November 2022. This training was presented by our treasury management advisors Link Treasury Solutions Ltd.

The training needs of treasury management officers are also regularly reviewed. The Council maintains a Knowledge & Skills register which identifies all roles involved with the Treasury function, identifies the core competences required for each role, records any training attended by officers together with their future training requirements.

Wellbeing of Future Generations:

Has an Integrated Impact Assessment been completed? If, not, please state why.

Yes

Summary of Integrated Impact Assessment:

- Long term:** The strategy sets out how the council manages its cash, investments debts in both the short term and in the longer term.
- Collaboration:** With our Corporate Banking Suppliers (Barclays), our Treasury Advisors and the stated counter-party list within the Strategy.
- Involvement:** N/A – Information only
- Prevention:** The strategy sets out how the council will manage its cash resources in a proactive manner.
- Integration:** N/A – Information only

Recommendation(s):

It is recommended that Cabinet notes the report and:

and recommends to Full Council:

- a) the approval of the Treasury Management Strategy for Borrowing and Investments for 2024/25
- b) the approval of the Minimum Revenue Provision Policy for 2024/25; and
- c) that Council delegates authority to the Section 151 officer, in consultation with the Cabinet Member for Finance and Procurement, to amend the Treasury Management Strategy, and Investment Schedule, during the course of the year.

Reasons for decision:

To set a Treasury Management Strategy and Minimum Revenue Policy for 2024/25

Overview and Scrutiny:

To be considered

Policy Framework:

2024/25 Treasury Management Strategy

Corporate Well-being Objectives:

Ceredigion County Council is an organisation that is fit-for-purpose to deliver improving services to meet the needs of our citizens.

Finance and Procurement implications:

Finance: Investment Income/External interest paid

Legal Implications:

None

Staffing implications:

None

Property / asset implications:

Setting the strategy for how the Council manages it's investment balance and borrowing needs.

Risk(s):

None

Statutory Powers:

Local Government Act 2003

Background Papers:

None

Appendices:

Appendix A: Treasury Management related Prudential Indicators

Appendix B: Investment Schedule

Appendix C: 2024/25 MRP Policy Statement

Corporate Lead Officer:

Duncan Hall, Corporate Lead Officer: Finance & Procurement

Reporting Officer:

Justin Davies, Corporate Manager: Core Finance

Date:

12 February 2024

Treasury Management related Prudential Indicators

Gross debt and the Capital Finance Requirement

In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that gross external debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

The Section 151 officer reports that the authority did not have any difficulty in meeting this requirement in 2022/23, nor are there any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in the 3 year capital programme.

Authorised Limit for External Debt				
	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Borrowing	134	158	163	168
Other long term liabilities	7	10	10	10
Total	141	168	173	178

Operational Boundary for External Debt				
	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Borrowing	128	152	157	162
Other long term liabilities	6	9	9	9
Total	134	161	166	171

Actual External Debt

The Council's actual external debt at 31/03/2023 was £113.7m (consisting of External Borrowing of £107.8m and Long term liabilities of £5.9m).

Maturity Structure of Borrowing		
	Upper limit	Lower limit
Under 12 months	20%	0%
12 months & within 24 months	20%	0%
24 months & within 5 years	50%	0%
5 years & within 10 years	75%	0%
10 years & above	95%	25%
<u>Sub-category within 10 years and above</u> 50 years & above	20%	0%

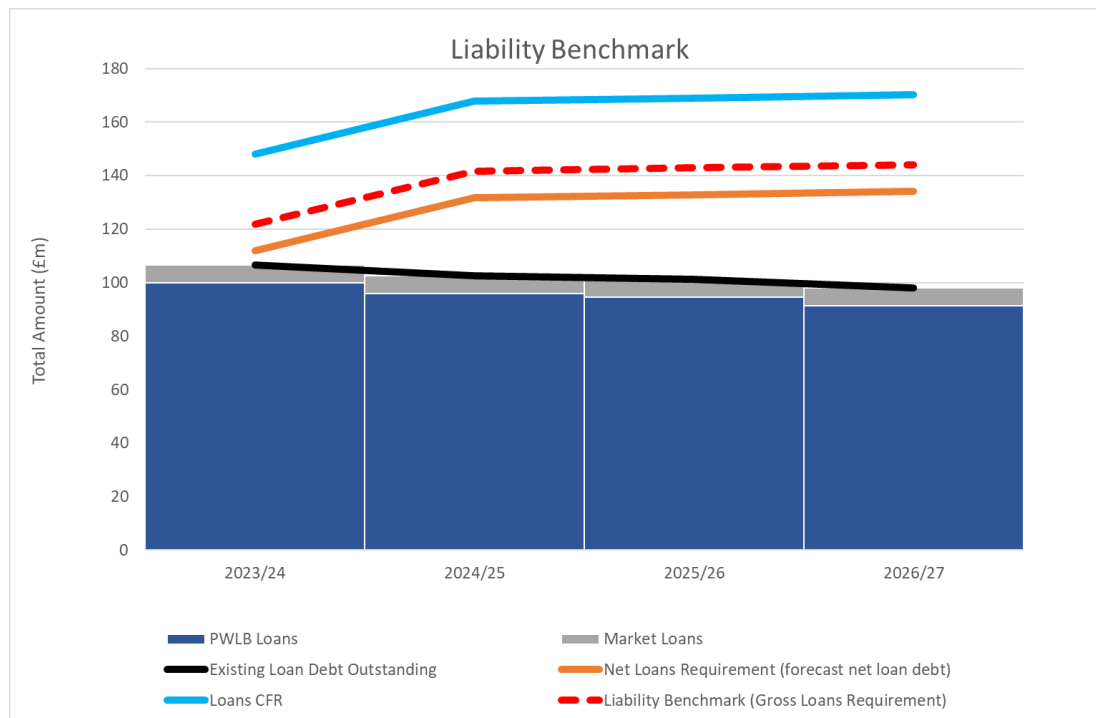
Upper limit for total principal sums invested for more than 1 year			
2023/24	2024/25	2025/26	2026/27
£2.5m	£2.5m	£2.5m	£2.5m

Liability Benchmark

The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance. In its simplest form, it is calculated by deducting the amount of investable resources available on the balance sheet (reserves, cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day-to-day cash flow.

There are four components to the Liability Benchmark: -

- Existing loan debt outstanding: the Authority's existing loans that are still outstanding in future years.
- Loans CFR: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
- Net loans requirement: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
- Liability benchmark (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.



INVESTMENT SCHEDULE

Category Of Investment	Specified Individual Investment Limit	Specified Category Investment Limit	'High' Credit Rating Criteria	Security / Minimum 'High' Credit Rating (Fitch or other equivalent)	Repayable/ Redeemable within 12 months?	Circumstance of use	Maximum period of investment
SPECIFIED INVESTMENTS (All investments listed below must be sterling-denominated and are not Share or Loan Capital)							
UK Government Debt Management Office - Debt Management Agency Deposit Facility (DMADF)	Unlimited	Unlimited	N/A	UK Government-backed	Yes	In-house	6 months (Current DMO Policy)
Banks part or fully nationalised by the UK Government	See Annex 1	See Annex 1	Blue colour on Link durational bandings	Short term F2	Yes	In-house	1 year
Fixed Term and call deposits with the UK government	Unlimited	Unlimited	N/A	High security	Yes	In-house	1 year
Fixed Term and call deposits with credit-rated deposit takers (banks and building societies)	See Annex 1	See Annex 1	Yellow, Purple, Orange, Red or Green colour on the Link durational bandings *	Long Term Short term A-F1	Yes	In-house	1 year for Yellow, Purple & Orange 6 months for Red 100 days for Green
Certificates of Deposits issued by credit-rated deposit takers (Banks & Building Societies) (Custodial arrangement required prior to purchase)	£2.5m	£2.5m	Yellow, Purple, Orange or Red colour on the Link durational bandings *	Long Term Short term A-F1	Yes	In-house and External fund manager(s)	1 year
UK Government Gilts (Custodial arrangement required prior to purchase)	£2.5m	£2.5m	N/A	UK Government backed	Yes	In-house and External fund manager(s)	1 year
Treasury Bills (Custodial arrangement required prior to purchase)	£2.5m	£2.5m	N/A	UK Government backed	Yes	In-house and External fund manager(s)	1 year
Government Liquidity / Money Market Funds - These funds do not have any maturity date and can usually be accessed either on the same day or at one day's notice	£2m	£2m	AAA	Highest credit rating	Yes	In-house, subject to the guidelines and parameters agreed	The period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements

* Footnote - Prior to any short term overlay

Category Of Investment	Non-Specified Individual Investment Limit	Non-Specified Category Investment Limit	Repayable/ Redeemable within 12 months?	Circumstance of use	Maximum period of investment
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NON SPECIFIED INVESTMENTS					
Property Funds	£2.5m	£2.5m	No	These funds can be deemed to be capital expenditure. Appropriate due diligence, including advice from the Council's External Treasury advisors would be undertaken before investment of this type is undertaken	The period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements

Specified Individual Investment Limit per Banking Group	Specified Category Investment Limit	Credit Rating Criteria <i>(Based on Link durational bandings)</i>	Fixed List of Specific Counterparties <i>(Subject to regular updating for credit rating changes and meeting Credit Rating criteria)</i>
£7m	£7m	BLUE or RED	<p><u>Part or 100% nationalised by UK Government</u> Natwest Group plc, including; National Westminster Bank plc (Including Notice/Instant Access call account) The Royal Bank of Scotland Plc NatWest Markets Plc (NRFB)</p>
£6m	£25m	YELLOW or PURPLE or ORANGE or RED	<p><u>UK Banking Group / Building Society (1):</u> Any of the banks or building societies in the UK Banking Group / Building Society category (2) if their status changes from GREEN to RED or ORANGE or PURPLE or YELLOW plus HSBC Bank Plc Bank of Scotland Plc (Including Notice/Instant Access call accounts) Nationwide Building Society Coventry Building Society Skipton Building Society Lloyds Banking Group, including; Lloyds Bank Plc Lloyds Bank Corporate Markets (NRFB) Bank of Scotland Plc (Including Notice/Instant Access call accounts)</p>
£4m	£10m	YELLOW or PURPLE or ORANGE or RED or GREEN	<p><u>Foreign Banking Group parent:</u> Santander UK plc (including Notice/Instant Access call accounts) Standard Chartered Bank Goldman Sachs International Bank</p>
£3m	£6m	YELLOW or PURPLE or ORANGE or RED or GREEN	<p><u>UK Banking Group / Building Society (2):</u> Any of the banks or building societies in the UK Banking Group / Building Society (1) category if their status changes from RED to GREEN plus Yorkshire Building Society Leeds Building Society</p>

£9m	£6m	YELLOW or PURPLE or ORANGE or RED or GREEN	Barclays Bank Plc * – Limit for overnight balances on corporate bank accounts
	£3m		Barclays Bank Plc * – Limit for Fixed Term deposits and Notice/Instant access (including Green Deposit Accounts) Call Accounts Limit for Call account balances

* Footnote – Barclays Bank are the Council's current Banking Services provider

2024/25 MRP Policy Statement

1. General Principles

- a) The Council's proposed Minimum Revenue Provision (MRP) Policy for 2024/25 follows the principles of the guidance issued by the Welsh Government under section 21(1A) of the Local Government Act 2003, through using one of the options outlined in the guidance, combined with introducing a further option that is underpinned by the principle of prudent provision.
- b) Estimated life periods will be determined in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom unless WG require or determine otherwise. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.
- c) As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

2. Methods for calculating MRP

- a) The major proportion of the MRP for 2024/25 will relate to the more historic debt liability that existed pre 2008 or post 2008 where it relates to Supported Borrowing funded by WG. The MRP liability on the Council's Capital Financing Requirement that relates to pre 2008 debt and post 2008 Supported Borrowing funded by WG through RSG will be provided for using Option 3 (Asset life method) of the 2018 WG guidance and applying the Annuity Method with an interest rate of 4.20% (the average borrowing rate of loans outstanding as of 01/04/21) over a 44 year period commencing 01/04/2021.
- b) As further new Supported Borrowing is utilised in the Capital Programme, the MRP liability on each new tranche of Support Borrowing will also be provided for using Option 3 (Asset life method) of the 2018 WG guidance and applying the Annuity Method.
- c) A significant proportion of the MRP for 2024/25 will relate to the Historic Unsupported Prudential Borrowing since 2008 which is reflected within the Capital Financing Requirement. The MRP liability on the Council's Capital Financing Requirement that relates to post 2008 Unsupported Borrowing will be provided for using Option 3 (Asset life method) of the 2018 WG guidance and applying the Annuity Method with an interest rate of 3.68% (the weighted average interest rate of the borrowing concerned) over a 39 year period commencing 01/04/2021.
- d) As further Unsupported Prudential Borrowing is utilised in the Capital Programme, the MRP liability reflected within the Capital Financing Requirement will be charged over a period commensurate with the average estimated useful life of assets using Option 3 (Asset life method) of the 2018 WG guidance and applying the Annuity Method.
- e) Where there is Temporary Borrowing in lieu of future Capital receipts (e.g. WG repayable finance loans or temporary Unsupported Prudential Borrowing) the principal of not charging MRP will continue, e.g. whilst awaiting the realisation of capital receipts from the sale of surplus assets.
- f) Where an asset is under construction, the Council reserves the right to not make an MRP charge until the financial year after that in which the capital expenditure is incurred and in the case of a new asset comes into service use.
- g) MRP on PFI credit arrangements will be charged over a period commensurate with the estimated useful life applicable to the asset and using the Annuity Method.

- h) Where MRP relates to a pre-determined profile linked to a credit arrangement (e.g. Finance Lease) then the MRP calculation will be in accordance with the relevant bespoke repayment profile.
- i) The Council has the option of making additional Voluntary MRP contributions in addition to the above MRP calculations at any point in time. E.g. The Council may treat any Voluntary MRP as 'up-front' provision (having a similar impact to the early repayment of debt) and thus recalculate future MRP charges accordingly.