

# 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
<b>Total Debt</b>	<b>107.8</b>	<b>107.2</b>
<u>Investments held</u>		
- In-house	38.7	43.5
<b>Total Investments</b>	<b>38.7</b>	<b>43.5</b>
<b>Net Debt</b>	<b>69.1</b>	<b>63.7</b>

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>
<b>a) <u>Latest Capital Programme and Revenue budgets Impact</u></b>			
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
<b>Estimated funding requirement</b>	<b>42.7</b>	<b>2.8</b>	<b>2.7</b>
<b>b) <u>Maturing Debt Impact</u></b>			
PWLB Maturity debt maturing	4.2	1.2	3.3
<b>Estimated funding requirement</b>	<b>4.2</b>	<b>1.2</b>	<b>3.3</b>
<b>c) <u>Internal Borrowing Position Impact</u></b>			
	<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>
<b>TOTAL ESTIMATED funding requirement</b>	<b>46.9</b>	<b>4.0</b>	<b>6.0</b>

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 8<sup>th</sup> 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	<b>1 year</b>	
Purple	2 years	<b>1 year</b>	
Blue	1 year	<b>1 year</b>	<i>applies to part/fully nationalised UK Banks</i>
Orange	1 year	<b>1 year</b>	
Red	6 months	<b>6 months</b>	
Green	100 days	<b>100 days</b>	
No colour	Not used	<b>Not used</b>	

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 29<sup>th</sup> 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