

CYNGOR SIR CEREDIGION COUNTY COUNCIL

Report to: Cabinet

Date of meeting: 18 February 2025

Title: Treasury Management Strategy for 2025/26 and the MRP Policy for 2025/26.

Purpose of the report: To consider the Treasury Management Strategy and MRP Policy for 2025/26 and to make a recommendation to Full Council for the meeting on 03/03/25.

For: Decision

Cabinet Portfolio: Cllr. Gareth Davies
Finance and Procurement Services

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 2025/26 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 MUFG Corporate Markets Treasury Ltd, formerly known as 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 03/03/25.

4. TREASURY PORTFOLIO POSITION

Details of the Council's treasury portfolio are:

	<u>As at</u> <u>31/03/2024</u> <u>£m</u>	<u>As at</u> <u>31/12/2024</u> <u>£m</u>
<u>Fixed Rate borrowing</u>		
- PWLB	100.0	99.4
- Market loan	5.8	5.8
- WG Repayable Loan funding	0.8	0.8
- National Wealth Fund*	0.0	24.9
Total Debt	106.6	130.9
<u>Investments held</u>		
- In-house	37.2	38.3
Total Investments	37.2	38.3
Net Debt	69.4	92.6

*During the autumn of 2024 the Council borrowed £24.9m from what was then known as the UK Infrastructure Bank (UKIB) to contribute to the funding of the Aberaeron Coastal Defence Scheme. Costs associated with this borrowing are fully funded by Welsh Government. Since this borrowing was taken out UKIB has been renamed as the National Wealth Fund (NWF).

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 2025/26 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>2025/26</u> <u>Estimate</u> <u>£m</u>	<u>2026/27</u> <u>Estimate</u> <u>£m</u>	<u>2027/28</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
Highways Management/Local Government Borrowing Initiative	2.3	-	-
Statutory debt payments set aside (MRP)	(1.5)	(1.7)	(1.8)
Estimated change in Reserves & Balances	8.6	1.5	1.5
Estimated funding requirement	12.3	2.7	2.6
b) <u>Maturing Debt Impact</u>			
PWLB Maturity debt maturing	1.2	3.3	1.3
National Wealth Fund debt maturing*	0.6	0.6	0.7
Estimated funding requirement	1.8	3.9	2.0
c) <u>Internal Borrowing Position Impact</u>			
<i>Estimated Capital Financing Requirement</i>	<i>169.4</i>	<i>171.2</i>	<i>172.9</i>
<i>Estimated Gross External Borrowing</i>	<i>142.8</i>	<i>152.4</i>	<i>160.9</i>
<i>Estimated Difference</i>	<i>26.6</i>	<i>18.8</i>	<i>12.0</i>
Reduction in Internal Borrowing	2.0	3.0	4.0
TOTAL ESTIMATED funding requirement	16.1	9.6	8.6

*During 2024/25 £24.9m was borrowed from the National Wealth Fund which was known as the UK Infrastructure Bank at the time. This was to fund the Aberaeron Coastal Defence scheme and borrowing costs are funded by Welsh Government.

Overall, there is an estimated potential borrowing requirement in the region of £34.3m over the coming 3 year period. The main driver behind this is the utilisation of reserves and balances, PWLB debt repayments together with continually reviewing internal borrowing.

6. PROSPECTS FOR INTEREST RATES

At the time of writing this report the Bank of England Bank Rate stands at 4.50%. Having peaked at 5.25% in August 2023 it has been reduced by 0.25% in August 2024 and another 0.25% in November 2024. The Council's treasury advisor's forecasts for interest rates as at the 28th January 2025 are shown in table below. The forecast expects that the Bank Rate will continue a gradual reduction in the early part of the 25/26 financial year to 4.00% where it will remain until the start of 2026/27.

MUFG Corporate Markets Treasury Limited: Interest Rate Forecast								
	Mar 25	Jun 25	Sept 25	Dec 25	Mar 26	Jun 26	Sep 26	Dec 26
Bank Rate	4.50%	4.25%	4.00%	4.00%	3.75%	3.75%	3.75%	3.50%

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/ Israel.

7. BORROWING STRATEGY

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

MUFG Corporate Markets Treasury Limited: Interest Rate Forecast								
	Mar 25	Jun 25	Sept 25	Dec 25	Mar 26	Jun 26	Sep 26	Dec 26
5Y PWLB Rate	4.90%	4.80%	4.60%	4.50%	4.50%	4.40%	4.30%	4.20%
10Y PWLB Rate	5.10%	5.00%	4.80%	4.80%	4.70%	4.50%	4.50%	4.40%
25Y PWLB Rate	5.50%	5.40%	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%
50Y PWLB Rate	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%	4.70%	4.60%

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.

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 2025/26 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 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 MUFG Corporate Markets Treasury Limited. 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 MUFG's standard methodology, other than still keeping investments under 1 year in duration.

<u>Durational band</u>	<u>MUFG 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 MUFG'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. MUFG 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 MUFG are currently advising.

However, sole reliance will not be placed on the use of this external creditworthiness service provided by MUFG, 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 MUFG
- 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 2025/26 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 2025/26 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

The Council has a contract with Barclays for the delivery of banking services, which runs until February 2031. Barclays is a UK based bank, with a long-term credit rating of A1 (Moody's) and continues to provide the Council with an excellent service.

11. MINIMUM REVENUE PROVISION (MRP) POLICY

The proposed MRP Policy Statement for 2025/26 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 MUFG Corporate Markets Treasury Ltd, who were known as Link Treasury Solutions Ltd at the time.

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 2025/26
- b) the approval of the Minimum Revenue Provision Policy for 2025/26; 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 2025/26

Overview and Scrutiny:

To be considered

Policy Framework:

2025/26 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 its investment balances 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: 2025/26 MRP Policy Statement

Corporate Lead Officer:

Duncan Hall (Finance & Procurement)

Reporting Officer:

Justin Davies (Corporate Manager - Core Finance)

Date: 10 February 2025