APPENDIX 2

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2021 / 2022

COUNCIL

9th March 2022

TREASURY MANAGEMENT STRATEGY INCORPORATING INVESTMENT STRATEGY, TREASURY MANAGEMENT INDICATORS AND MINIMUM REVENUE PROVISION (MRP) STATEMENT FOR 2022/23

REPORT OF THE DIRECTOR OF FINANCE AND DIGITAL SERVICES
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1.0 PURPOSE OF THE REPORT

1.1 The purpose of the report is to set out the Council's:-

- Treasury Management Strategy for 2022/23;
- Investment Strategy for 2022/23;
- Treasury Indicators for 2021/22 (actuals to date) and 2022/23, 2023/24 and 2024/25; and
- Minimum Revenue Provision (MRP) Policy Statement.

1.2 To set out the updated Treasury Management Clauses (Appendix 1).

2.0 RECOMMENDATIONS

It is recommended that Members:

2.1 Approve the Treasury Management Strategy, Investment Strategy, Treasury Indicators and the Minimum Revenue Provision (MRP) Policy Statement as set out in the report.

2.2 Approve the updated Treasury Management Clauses (Appendix 1).

3.0 REASON FOR RECOMMENDATION

3.1 To ensure the Council complies with its legal duty under the Local Government Act 2003 and in doing so is in line with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

4.0 INTRODUCTION

4.1 CIPFA defines Treasury Management as:
"The management of the organisation's borrowing, investments and cash flows, including its banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks."

4.2 The Local Government Act 2003 and supporting regulations require the Council to have regard to the CIPFA (Chartered Institute of Public Finance and Accountancy) Treasury Management Code of Practice and the CIPFA Prudential Code. This report also meets the requirements of Welsh Government Minimum Revenue Provision (MRP) Guidance and Welsh Government Investment Guidance.

4.3 This Treasury Management Strategy details the expected activities of the Treasury Management function in the forthcoming financial year (2022/23).

4.4 The Prudential Code is produced by the CIPFA and is underpinned by the Local Government Act 2003. The Code sets out a framework which supports local strategy planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure capital expenditure and investment plans are affordable and proportionate, all external borrowing and other long term liabilities are prudent and sustainable, the risks associated with investments for commercial purposes are proportionate to the financial capacity, and any treasury management decisions are taken in accordance with good professional practice.

4.5 CIPFA has issued a revised Treasury Management in the Public Services Code of Practice and cross-sectoral guidance notes and Prudential Code for Capital Finance in Local Authorities. The 2021 editions replace the 2017 editions and includes the requirement that local authorities must not borrow to invest primarily for financial return. The Treasury Management Code 2021 has also amended the Treasury Management Clauses for Investment Management Practices (IMP's). These are set out in Appendix 1.

4.6 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires revenue costs from capital financing decisions to be included in the budget requirement.

4.7 The implementation of MiFID II (Market in Financial Instruments Directive) reclassified local and public authorities as retail investors, by default, from 3rd January 2018. Such a reclassification would increase costs for financial advice and potentially restrict access to certain financial products. To avoid such additional costs and restrictions the Council has elected for a return to professional status ("opt up") in order to ensure there is access to the full range of services and products required. The conditions of professional status require local authorities to have an investment balance of at least £10M and the person authorised to make the investment decision must have at least one year's relevant professional experience. The Council's money market brokers and treasury management advisors have confirmed our professional client status.

5.0 TREASURY MANAGEMENT STRATEGY 2022/23

5.1 The proposed Treasury Management Strategy for 2022/23 is based on officers' views on likely interest rates, supplemented with forecasts provided by the Council's independent treasury advisors. The strategy covers:

- Current Portfolio Position;
- Prospects for Interest Rates;
- Borrowing Strategy; and
- Debt Rescheduling Opportunities.

5.2 Information is also provided on the use of Treasury Management advisors and relevant training that has taken place.

6.0 Current Portfolio Position

6.1 The Council's treasury portfolio position as at the end of December 2021 comprised:

		£M	Av. Rate
Debt			
Fixed Rate	PWLB	223.142	2.31%
	Market	54.500	5.00%
	Market(LOBO)	31.000	4.50%
Variable Rate	Market	5.000	0.18%
		313.642	**2.96% ***
Investments			
Variable Rate	Public Bodies	19.700**	0.005%

* Estimated weighted average rate of borrowing for 2021/22 is 3.53%

** Does not include investment with Trivallis or Cynon Taf Community Housing Group

6.2 A LOBO is a financial instrument called a “Lender’s Option Borrower’s Option”. It provides a lower rate of interest for the initial period and a higher rate for the rest of its term (reversionary period), albeit that the higher rate was comparable with interest rates prevailing at the time the loans were taken. At the end of the initial period and at six monthly intervals, the lender has the option to increase the interest rate payable. This provides the Council with the option to repay the loan if the terms are not acceptable.

7.0 Prospects for Interest Rates

7.1 The level of the Bank Rate tends to be the main factor which determines the rate of interest the Council receives on its short term investments. The Bank of England’s Monetary Policy Committee (MPC) sets the rate and has recently determined two increases. Firstly on 15th December 2021 an increase from 0.1% to 0.25% and then on 2nd February 2022 a further increase to 0.5%.

7.2 The remit of the MPC is to set monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. In its February 2022 meeting the MPC stated that continuation of rising prices and higher demand for workers in the labour market were sufficient to warrant an increase in the Bank Rate. Inflation is forecast to continue upwards over the remainder of the year with the high price of oil and gas continuing to put upward pressure on CPI.

7.3 Generally, the Council borrows its long term funding from the Public Works Loan Board (PWLB). Long term PWLB rates increase and decrease in line with gilt yields (government bonds). The Council's Treasury Management advisors latest forecast of interest rates (certainty rate) is as follows:

	5 yr	**10 yr**	**20 yr**	**50 yr**
2022/23	2.00%	2.15%	2.35%	2.00%
2023/24	1.95%	2.15%	2.35%	2.00%
2024/25	1.95%	2.15%	2.35%	2.00%

8.0 Borrowing Strategy

8.1 The Council's borrowing requirement for 2022/23 is currently £18.4M based on the updated Capital Programme 2022/23 – 2024/25 (being considered elsewhere on this agenda (Council, 9th March 2022)). The opportunities afforded by the Prudential Code provide for further borrowing in line with decisions taken during the year and the Strategy, Prudential Indicators and Limits may need to be refined accordingly in light of future decisions. Further details of Prudential Indicators and Limits are detailed within the Capital Strategy being considered alongside this report on the same agenda.

8.2 Uncertainty over future interest rate prospects increase the risks associated with treasury activity. As a result the Council will continue to take a cautious approach to its treasury strategy.

8.3 The policy will be to continue to maximise "internal borrowing", running down cash balances and foregoing interest earned at historically low rates. This also minimises counterparty risk (risk that an investment may become irrecoverable). This continues to be our favoured approach (referred to as maintaining an "underborrowed" position), meaning that the capital borrowing need (the Capital Financing Requirement - CFR) has not been fully funded with loan debt. We will though take the opportunity to lock in longer term debt as and when the opportunity arises, in line with advice from our Treasury Advisors.

8.4 Short term borrowing could be taken from the money market or other public bodies such as local authorities by the Treasury Management team for day to day cashflow purposes.

8.5 The majority of the Council's borrowing is from the PWLB. Long-term borrowing rates are influenced by gilt yields and these have risen since mid December 2021, with expectations that they will remain flat from current levels.

8.6 The PWLB updated its guidance in August 2021 whereby loans are no longer available to Councils planning to buy investment assets primarily for yield or solely for exploiting commercialisation opportunities in any of the following three years.

8.7 The Council may arrange forward starting loans where the interest rate is fixed in advance, but the cash is received at a later date, up to a maximum of one year. This would enable certainty of costs without suffering a cost of carry in the intervening period. The cost of carry is the interest cost incurred where funds are borrowed prior to being required.

8.8 There are uncertainties associated with the forecasts detailed above. Alternative approaches given different interest rate forecasts are shown below:

- Risk of sharp fall in long and short term rates – long term borrowing will be postponed and potential rescheduling from long term to short term borrowing could be considered.
- Risk of sharper than forecast rise in long and short term rates – fixed rate borrowing taken whilst rates still cheap.

8.9 The Section 151 Officer (or in his absence the Deputy Section 151 Officer), under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates and forecasts at the time, taking into account advice provided by our advisors and an assessment of risk. Members will be advised of borrowing activity during the year as part of the Council's quarterly performance reporting arrangements and the Mid Year Treasury Management Stewardship review.

9.0 Debt Rescheduling Opportunities

9.1 Debt rescheduling refers to the premature repayment of existing debt and replacing it with alternative cheaper borrowing.

9.2 The difference in rates applied to new borrowing and repayment of existing debt has meant that PWLB rescheduling is now less attractive. Consideration would need to be given to the large premiums which would be incurred on repaying debt early.

9.3 Early repayment of debt could be considered. This would run down investment balances as short term rates on investments are likely to be lower than that on debt. However, premium costs may be expensive and our investment balance estimates for 2022/23 are relatively low given the approach to maximise “internal borrowing”, therefore such a course of action is unlikely to be viable.

9.4 Any rescheduling and repayment of debt is likely to impact upon the Council’s debt maturity profile and this will need to be considered in accordance with the relevant indicator.

9.5 The Council has previously taken advantage of maximising debt rescheduling opportunities. The reasons for any rescheduling to take place could include:

- the generation of savings, at minimum risk;
- to help fulfil the strategy outlined in section 8 above; or
- to enhance the balance of the long term portfolio (amend the maturity profile and/or the balance of volatility).

9.6 The Section 151 Officer will monitor prevailing rates for any opportunities during the year based upon information provided by the Council’s Treasury advisors.

10.0 Treasury Management Advisors

10.1 The Council’s Treasury Management advisors are Arlingclose Ltd. The company provides a range of services including:

- Technical support on treasury matters, capital finance issues and suggested report formats;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;

- Debt rescheduling advice on the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments; and
- Credit ratings/market information service.

10.2 Whilst the advisors provide support to the Council's treasury function, the final decision on any treasury matter remains with the Council.

10.3 The Council ensures that quality of service is maintained via feedback at regular online meetings with key contacts.

10.4 The current contract is for a three year period ending 31st March 2022 with options to extend for a further two years. The option to extend is currently being considered.

11.0 Member and Officer Training

11.1 During 2021/22, officers with Treasury Management responsibilities have attended webinars facilitated by our advisors.

11.2 As part of continued professional development, officers will continue to keep up to date with emerging issues via webinars, research and regular information provided by advisors and other sources.

11.3 If any emerging issues arise, specific training sessions can be arranged for Members facilitated by our advisors. The contractual arrangements with Arlingclose include an annual training session for elected Members.

11.4 The Council's Principal Accountant, Pension Fund and Treasury Management holds the Certificate in International Treasury Management – Public Finance, a professional qualification of CIPFA and the Association of Corporate Treasurers in the fundamentals of treasury management for the public service.

12.0 Reporting and Scrutiny

12.1 The Finance and Performance Scrutiny Committee will continue to undertake the required scrutiny function for treasury management activities as detailed in its Terms of Reference. This is in line with the relevant Codes of Practice, including CIPFA Treasury Management in the Public Services Code of Practice 2021, and will include:

- Quarterly updates (as part of the Council's Performance Reporting arrangements);
- Strategy report (as reported to full Council);
- Formal mid year review of treasury management (as reported to full Council); and
- Annual review (as reported to full Council).

13.0 INVESTMENT STRATEGY

13.1 The Council's investment strategy has regard to the Welsh Government's Statutory Guidance on Local Government Investments and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes. The Council's investment priorities will be security first, liquidity second and then yield (return).

13.2 The Treasury Management Code categorises investments into three categories, those for:

- Treasury management purposes – investments that arise from the Council's cash flows or treasury risk management activity and represent balances that need to be invested until the cash is required for use in the course of business;
- Commercial purposes – investments taken or held primarily for financial return and are not linked to Treasury management activity or directly part of delivering services; and
- Service purposes – investments taken or held primarily for the provision of delivering of public services (including housing, regeneration and local infrastructure), or in support of joint working with others to deliver such services.

13.3 The Welsh Government statutory guidance also requires local authorities to categorise investments as either Financial or Non-Financial. Financial investments can be further sub categorised into Specified, Loans and Non-Specified.

13.4 **Financial Investments**

13.5 The key requirements of both the Treasury Management Code and the Welsh Government statutory investment guidance are to set an investment strategy, as part of its annual treasury strategy for the following year. The guidance includes the identification and approval of the following:

- **Specified investments**. These are high security (i.e. high credit quality, this is defined by the Council), and high liquidity investments in sterling and with a maturity of no more than a year.
- **Loans**. These are agreements where a local authority temporarily transfers cash to a third party, joint venture, subsidiary or associate who agrees a return according to the terms and conditions of receiving the loan.
- **Other Non-specified investments**. These are investments not meeting the definition of a specified investment or loan.

13.6 The priority intention of the strategy is to provide security of investment and minimisation of risk. In order to comply with the Code, the Council must not borrow to invest for the primary purpose of financial return.

Specified Investments

13.7 An investment is a Specified Investment if all of the following apply:

1. the investment is denominated in sterling
2. it is not long term
3. it is not defined as capital expenditure
4. it is of high credit quality or with one of the following public sector bodies:
    a. the UK government; or
    b. a local authority in England or Wales (as defined in S23 of the 2003 Act) or similar body in Scotland or Northern Ireland
    c. a town or community council.

13.8 These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

- The UK Government (such as the Debt Management Account Deposit Facility, UK Treasury Bills or a Gilt with less than one year to maturity).
- A local authority, parish council or community council.
- A body that is considered of a high credit quality. This covers bodies with a minimum long term rating of A- (or the equivalent) as rated by Fitch rating agency or equivalent.
- Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies.

13.9 The Code of Practice requires Councils to not rely solely on credit ratings but to supplement it with other information. The other information referred to includes quality financial press, credit default swaps, share prices, annual reports, statements to markets, information on government support for banks, credit ratings of that government support, rates being paid, what other banks are saying, information provided by advisors, market price (and movement of market price) of existing debt securities issued by counterparties. This represents a significant pool of “other information”.

13.10 The review of all such information will be incorporated into the Council’s decision making processes although it will not be a simplistic and quick process and will need to be considered alongside the relative benefits of making one investment over another (e.g. versus the Debt Management Office - DMO) and the relative risks of exposing the Council's resources.

13.11 Members will recall that all of the Council's investments were transferred to the DMO DMADF (Debt Management Account Deposit Facility) upon the onset of the national and international economic crisis which started in 2008. The cost of this security in terms of loss of interest is negligible as rates offered by banks for short term deposits are comparable to rates offered by the DMO DMADF and other public bodies.

13.12 It is proposed that these arrangements continue for 2022/23, that is, that all Council investments will be with the DMADF or with other Government backed Public Sector Bodies, and that these arrangements should be kept under constant review.

13.13 These investments could also include the Council's own banker if it fails to meet the high credit criteria. In all instances balances are minimised by transferring monies to the DMO but there is a possibility that not all sums can be transferred as there are minimum amounts in place for these transfers. For example, deposits are on occasion transferred into the Council's bank account after the deadline for daily trading / cash transfer. In such circumstances the Council's exposure is limited to the next working day.

Loans

13.14 At its meeting on the 20th July 2016, Council agreed to supplement our existing investment strategy by approving lending to organisations upon which we would undertake appropriate due diligence **and** put in place appropriate security arrangements. This could result in the Council being able to achieve better investment returns at an acceptable level of risk and to secure base budget savings over the short to medium term to protect frontline services.

13.15 Such transactions are classified as "Loans" within the "Financial" investments category under the Welsh statutory guidance. They are classed as investments for service purposes under the Code.

13.16 Decisions on these financial investments will be subject to S151 officer determination, following appropriate due diligence and subject to appropriate and acceptable security arrangements being put in place as part of a commercial agreement. Such loan arrangements should align with and be led by the Council's own corporate priorities.

13.17 A maximum exposure for this type of investment is set at £25M with a maximum maturity limit of 30 years.

13.18 The Council currently has two commercially agreed loans. Notice has been received that one is to be fully repaid on 31st March 2022. Such loans are treated as financial investments and are part of the Investment Strategy enabling lending to organisations, subject to S151 officer determination, following appropriate due diligence and subject to appropriate and acceptable security arrangements. The balance outstanding at 1st April 2022 is expected to be £2.3M.

Non-Specified Investments

13.19 Non-specified investments are any other type of investment (i.e. not defined as Specified or a Loan above).

13.20 The non-specified investments held by the Council are:

- Cynon Valley Waste Disposal Company Ltd, trading as Amgen Cymru Ltd. The principal activities of the company are the provision of recycling services and waste disposal facilities.
- Amgen Rhondda Ltd. The principal activities of the company are the stewardship of a closed landfill site and associated opportunities for income generation.

These are shown in the Council's 2020/21 balance sheet as £3.035M, under "Investment in Subsidiaries". These are the only non-specified investments we hold, the value of which changes in line with the net assets on the balance sheet of the companies. Under the Treasury Management in the public services Code of Practice, these investments are deemed investments for service purposes.

13.21 **Non-Financial Investments**

13.22 The Council has one investment it categorises as a non-financial and commercial investment. Ty Dysgu at Cefn Coed Business Park, Nantgarw was originally approved as an acquisition to support service provision. However, as a result of a change of use for the building consequent to a review of service delivery requirements, the asset was reclassified as an investment property within the balance sheet. The building and site has a fair value of £3.6m, with an annual rental of £322k.

13.23 The Council has investments it categorises as non-financial and other investments relevant to Council functions (investment for Service purposes). These buildings have a fair value of £17.9m, with an annual rental of £1.3m. They relate to 50-53 Taff St, Pontypridd; Unit 1 Cambrian Industrial estate, Clydach Vale; Rhos Surgery, Mountain Ash; Coed Ely Business Units; 96-102 Taff Street, Pontypridd and Llys Cadwyn, Pontypridd.

13.24 Under the International Financial Reporting Standard 9, Financial Instruments (IFRS 9), the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows (interest) and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost in the balance sheet, as principal amount outstanding plus any interest due.

14.0 Risk Benchmarking

14.1 In accordance with Welsh Government guidance (revised 2019), this Investment Strategy sets out the Council's policies for giving priority to firstly, the security of investments, secondly liquidity, and thirdly yield. It sets out the Council's criteria for choosing investment counterparties and limiting the exposure of risk of loss.

14.2 The codes and statutory guidance require the consideration, approval and monitoring of security and liquidity benchmarks. Yield benchmarks are currently widely used and less subjective than those relating to security and liquidity.

14.3 The benchmarks for security, liquidity and yield are targets, not limits and as such, may be breached from time to time. The purpose of the benchmark is to monitor trends and act as early warning signals. Actual activity levels will be reported in the mid year and annual reports.

14.4 <u>Security</u>

14.5 Investment limits are set by reference to the lowest published long term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

14.6 When deteriorating financial market conditions affect the creditworthiness of all organisations, this is not generally reflected in the credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the level of security.

14.7 <u>Liquidity</u>

14.8 This is defined as having adequate, though not excessive cash resources, borrowing arrangements, overdrafts or standby facilities. The Council maintains a bank overdraft facility at £3.0m..

14.9 It is recommended that the Council sets limits for:

- Liquid short term deposits available with a week's notice.
- Weighted Average Life benchmark and maximum. The shorter the weighted average life of the portfolio implies less risk.

As we are maintaining low levels of cash to minimise credit risk, the setting of such targets / limits is not appropriate.

14.10 Any investment for greater than 365 days will be made with a prudent approach to cashflow requirements and in accordance with above limits.

14.11 Yield

14.12 The benchmark used is 7 day LIBID.

15.0 Forecast for Investment Returns

15.1 Traditionally, investments which would have been invested longer would secure better returns, however uncertainty over counterparty creditworthiness suggests short dated investments in higher credit quality establishments will provide better security. The Council will continue to favour security above return.

15.2 Expectations on shorter-term interest rates, on which investment decisions are based, show rates to remain low. Our projected interest receipts will be prudent, reflecting our low risk strategy.

16.0 TREASURY MANAGEMENT INDICATORS AND LIMITS FOR 2022/23

16.1 To comply with both the Prudential Code and Treasury Management Code, the Council has to determine and set Prudential and Treasury Management Indicators in relation to capital expenditure, external debt and treasury management activities. The purpose of the indicators is to provide a framework for Capital Expenditure decision making.

16.2 To comply with the Codes every Council is required to agree a set of prudential indicators prior to the start of the financial year. These indicators are prepared by the Chief Finance Officer and presented to Council, as part of the budget setting process. The indicators cover a three year period and must be monitored during the year.

16.3 The indicators are purely for internal use by the Council and are not intended for use as comparators (i.e. between Councils) nor should they be viewed individually. The real value will arise as a result of monitoring the movement in indicators over time.

16.4 The following indicators are required (by the Prudential Code) to be approved and are included in the Capital Strategy:

- Capital Expenditure
- Capital Financing Requirement
- External Debt
- Gross Debt and the Capital Financing Requirement
- Authorised Limit
- Operational Boundary
- Ratio of Financing Costs to Net Revenue Stream
- Ratio of Net Income from Commercial and Service Investment to Net Revenue Stream

16.5 The following indicators are required (by the Treasury Management Code) to be approved:

- Maturity Structure of Borrowing
- Long Term Treasury Management Investments
- Interest Rate Exposure (optional)

16.6 Indicator : Maturity Structure of Borrowing

16.7 The Maturity Structure of Borrowing indicator sets gross limits to reduce the Council's exposure to large sums falling due for refinancing annually. From 2022/23, this indicator includes variable rate debt. Where the maturity date of borrowing is uncertain, the maturity will be determined by reference to the earliest date at which the lender can require repayment. This applies to the Council's LOBO loans which will be deemed to have a maturity date of the next call date for risk management purposes. However, LOBO funding is a relatively small proportion of overall debt and based on current market conditions and the outlook for interest rates, refinancing is unlikely to be required over the next three years.

	2021/22 Projected Outturn as at 31/12/21	Upper Limit	Lower Limit
Under 12 months	14%	70%	0%
12 months to 2 years	3%	70%	0%
2 years to 5 years	10%	60%	0%
5 years to 10 years	15%	70%	0%
10 years to 20 years	5%	90%	0%
20 years to 30 years	0%	90%	0%
30 years to 40 years	53%	90%	0%
40 years to 50 years	0%	90%	0%

16.8 Indicator : Long Term Treasury Management investments

16.9 In order to maximise investment returns there may be opportunities for sums to be invested for longer than one year. This would only be undertaken with a prudent view of the primary considerations of security and liquidity.

16.10 The following indicator is new in the Treasury Management Code for 2021. Where a Council invests for treasury management purposes in fixed interest instruments for periods longer than a year, the Council will set an upper limit for each forward financial year for the maturing of such investments. The Council does not currently have any such investments.

	Upper Limit £'M	Actual £'M
2023/24	25	0
2024/25	25	0
2025/26	25	0

16.11 Indicator : Interest Rate Exposure

16.12 For measuring the Council's exposure to interest rate risk, the following table shows the revenue impact of a 1% rise or fall in interest rates (based on borrowing and investments as at 31st December 2021):

Interest Rate Risk	Impact £M
One year revenue impact of a 1% rise/fall in interest rates	0.197

16.13 LOBO's are included as fixed rate debt. Although not a requirement of the Prudential Code, an internal limit of LOBO debt is set as follows:

	£M	% of Debt Portfolio
LOBO limits	50	20

The amount of LOBO debt held is £31m being 9.9% of our total debt portfolio. This internally set limit may be temporarily exceeded as a consequence of debt restructuring activities.

17.0 <u>THE MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT</u>

17.1 In accordance with legislative requirements applicable to local government (Local Government Act 2003), there is a requirement to charge an amount to revenue each year in respect of capital expenditure. This charge is known as the "Minimum Revenue Provision (MRP)".

17.2 The implementation of the Prudential Code in 2004 (and subsequent updates) provided greater flexibilities for Councils to borrow to fund capital projects over and above their previous level of capital approvals - referred to as prudential or unsupported borrowing.

17.3 In 2008, and to complement the flexibilities afforded by the Prudential Code, Welsh Government amended the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 (the 'Regulations') to provide for a number of differing options for charging to revenue costs incurred in respect of Capital Expenditure. The regulations also required the approval by full Council of this MRP Policy Statement.

17.4 In November 2018 the Welsh Government issued revised guidance on MRP, with effect from 1st April 2019. The main amendments to the guidance being:

- A revised definition of a prudent provision – "To ensure that the cost of debt is charged to a revenue account over a period that is commensurate with that over which the capital expenditure provides benefit";
- If there is a change in the method of calculating MRP, and the MRP reduces, then this does not give rise to an overpayment;
- Asset lives should not normally exceed 50 years; and
- MRP extends to investment properties where their acquisition is fully or partially funded by an increase in borrowing (as depreciation is not charged on investment properties, the depreciation method is not a suitable approach).

17.5 Supported Borrowing – The MRP on supported borrowing is written off on a straight line basis over 40 years, linked (broadly) to the lives of the Council's assets.

17.6 Unsupported Borrowing - 3 options are detailed:

- Asset life method (equal instalments);
- Asset life method (annuity method); or
- Charge in accordance with the depreciation of the asset.

17.7 Each of these methods might be appropriate depending on the type of asset being created / funded by Prudential borrowing. It is also feasible that an alternative method might be appropriate (for example, linked to a payback period or the period over which the asset provides benefits to the Council) - this is also recognised in the relevant Welsh Government guidance. The Regulations also allow for the commencement of MRP to be in line with the asset being brought into use. Accordingly, a decision upon the relevant method to apply should be made as part of the option appraisal decision to proceed with any Prudential borrowing on a project by project basis.

17.8 Lease schemes - MRP is equivalent to the principal value of repayments as detailed in the Welsh Government Guidance on Minimum Revenue Provision.

18.0 <u>EQUALITY AND DIVERSITY IMPLICATIONS AND SOCIO-ECONOMIC DUTY</u>

18.1 Due regard has been given to the Council's public sector equality duties under the Equality Act 2010, namely the Public Sector Equality Duty and Socio-Economic Duty, as part of compiling the recommended 2022/23 Revenue Budget Strategy and recommended new three-year Capital Programme (2022/23 to 2024/25), which are also being considered alongside this report on the same agenda.

18.2 Equality Impact Assessments have been completed in respect of the 2022/23 Revenue Budget Strategy and new three-year Capital Programme (2022/23 to 2024/25), that inform the Treasury Management Strategy, and conclude that the recommendations set out in the report are in line with the above legislation.

19.0 <u>CONSULTATION</u>

19.1 Following consideration by Council, this report will be presented to the Finance and Performance Scrutiny Committee in line with the laid down Codes of Practice and also the Terms of Reference for this Committee.

20.0 <u>FINANCIAL IMPLICATION(S)</u>

20.1 The financial results / implications of the Council's Treasury Management arrangements will be incorporated into quarterly Performance Reports during the year.

21.0 <u>LEGAL IMPLICATIONS *OR* LEGISLATION CONSIDERED</u>

21.1 The report ensures the Council complies with its legal duty under the Local Government Act 2003 and in doing so is in line with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

22.0 <u>LINKS TO CORPORATE AND NATIONAL PRIORITIES AND THE WELL-BEING OF FUTURE GENERATIONS ACT</u>

22.1 This report supports the delivery of the Council's Corporate Plan 2020-24 "Making a Difference" through the 'Living Within Our Means' theme by pursuing optimum treasury management performance or return at the same time as managing associated risk.

22.2 The report also supports the Well-being of Future Generations Act in particular ‘a globally responsible Wales’ through responsible management and investment of the Council’s resources.

23.0 CONCLUSIONS

23.1 This report provides the Council's Treasury Management Strategy, Investment Strategy, details the Treasury Management Indicators and MRP policy for 2022/23.

23.2 With regard to the Treasury Management Strategy, a cautious approach will continue to be followed. The Section 151 Officer (or in his absence the Deputy Section 151 Officer) will monitor the interest rate environment and adopt a pragmatic approach to any changing circumstances, in consultation with the Council's independent treasury advisors.

23.3 With regard to the Prudential and Treasury Management Indicators, these will be monitored throughout the financial year with details reported to Members as part of the Council's quarterly performance reporting framework and scrutiny process.

Appendix 1

ADOPTION OF TREASURY MANAGEMENT CLAUSES

- Rhondda Cynon Taf CBC will create and maintain, as the cornerstones for effective treasury and investment management:

    - a Treasury Management Policy Statement, stating the policies, objectives and approach to risk management of its treasury management activities

    - suitable treasury management practices (TMPs), setting out the manner in which it will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities

    - investment management practices (IMPs) for investments that are not for treasury management purposes.

- The content of the policy statement, TMPs and IMPs will follow the recommendations contained in Sections 6, 7 and 8 of the Treasury Management Code, subject only to amendment where necessary to reflect the particular circumstances of Rhondda Cynon Taf CBC. Such amendments will not result in the organisation materially deviating from the Treasury Management Code's key principles.

- Rhondda Cynon Taf CBC will receive reports on its treasury and investment management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs and IMPs.

- Rhondda Cynon Taf CBC delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to full Council, and for the execution and administration of treasury management decisions to the Director of Finance and Digital Services, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

- Rhondda Cynon Taf CBC nominates the Finance and Performance Scrutiny Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Other information:
Relevant Scrutiny Committee – Finance and Performance Scrutiny Committee

LOCAL GOVERNMENT ACT 1972

AS AMENDED BY

THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

COUNCIL 9TH MARCH 2022

REPORT OF THE DIRECTOR OF FINANCE AND DIGITAL SERVICES

Item: 2022/23 TREASURY MANAGEMENT STRATEGY INCORPORATING INVESTMENT STRATEGY, TREASURY MANAGEMENT INDICATORS AND MRP STATEMENT

Background Papers

- 9th March 2022 Council meeting – Report: 2022/23 Capital Strategy report
- 9th March 2022 Council meeting – Report: The Council's Capital Programme 2022/23 – 2024/25.
- 9th March 2022 Council meeting – Report: The Council's 2022/23 Revenue Budget

Officer to contact: Barrie Davies (Director of Finance and Digital Services)

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