



## **AGENDA ITEM 6**

### **RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL**

**MUNICIPAL YEAR 2020 / 2021**

#### **FINANCE AND PERFORMANCE SCRUTINY COMMITTEE**

**13<sup>th</sup> April 2021**

#### **REPORT OF THE SERVICE DIRECTOR OF DEMOCRATIC SERVICES AND COMMUNICATION**

##### **1.0 PURPOSE OF REPORT**

- 1.1 This report constitutes the requirement to provide Members with the opportunity to scrutinise the 2021/22 Capital Strategy Report and 2021/22 Treasury Management Strategy Report both of which were approved by Council on 10<sup>th</sup> March 2021. The Council reports are attached as follows:

Appendix 1:

2021/22 Capital Strategy Report incorporating Prudential Indicators.

Appendix 2:

Treasury Management Strategy incorporating Investment Strategy, Treasury Management Indicators and Minimum Revenue Provision (MRP) Statement for 2021/22.

##### **2.0 BACKGROUND**

Capital Strategy

- 2.1 The Capital Strategy provides contextual information on future Council plans that impact upon Treasury Management activity in line with the Prudential Code for Capital Finance in Local Authorities.

Treasury Management Strategy

- 2.2 The Treasury Management Strategy Report details the expected activities of the Treasury Management function in the forthcoming financial year

(2021/22) in line with the Local Government Act 2003 and the CIPFA<sup>1</sup> Treasury Management Code of Practice and the CIPFA Prudential Code.

- 2.3 This includes the additional reporting requirements brought in by the revised Welsh Government Statutory Guidance on Local Government Investments (November 2019).

### **3.0 RECOMMENDATIONS**

It is recommended that Members:

- 3.1 Scrutinise and comment on the information provided within Appendix 1 and Appendix 2.
- 3.2 Consider whether any matters contained in Appendix 1 and Appendix 2 require scrutiny in greater depth.

### **4.0 EQUALITY AND DIVERSITY IMPLICATIONS**

- 4.1 The reports in Appendix 1 and 2 provide a high-level overview of how the Council's capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risks are managed. As a result, no Equality Impact Assessment is required for the purposes of this report.

### **5.0 CONSULTATION**

- 5.1 Following consideration by Council on 10<sup>th</sup> March 2021, these reports are now being 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.

### **6.0 FINANCIAL IMPLICATIONS**

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

### **7.0 LEGAL IMPLICATIONS OR LEGISLATION CONSIDERED**

- 7.1 The reports 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.

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<sup>1</sup> CIPFA – Chartered Institute of Public Finance and Accountancy

**8.0 LINKS TO CORPORATE AND NATIONAL PRIORITIES AND THE WELL-BEING OF FUTURE GENERATIONS ACT**

8.1 The reports support 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, capital and revenue performance or return at the same time as managing associated risk.

8.2 The reports also support the Well-being of Future Generations Act in particular 'a globally responsible Wales' through responsible management and investment of the Council's resources.

**9.0 CONCLUSION**

9.1 This report, together with Appendix 1 and Appendix 2, provides Members with the opportunity to scrutinise the 2021/22 Capital Strategy Report and Treasury Management Strategy Report 2021/22.

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**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL**

**MUNICIPAL YEAR 2020 / 2021**

**COUNCIL**

**10<sup>TH</sup> MARCH 2021**

**2021/22 CAPITAL STRATEGY REPORT INCORPORATING PRUDENTIAL INDICATORS**

**REPORT OF THE DIRECTOR OF FINANCE AND DIGITAL SERVICES  
AUTHOR:- BARRIE DAVIES (01443) 424026**

**1.0 PURPOSE OF THE REPORT**

1.1 The purpose of the Capital Strategy report is to provide a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of Council services along with an overview of the associated risk, its management and the implications for future financial sustainability.

**2.0 RECOMMENDATIONS**

It is recommended that Members:

2.1 Approve the Capital Strategy report incorporating the Prudential Indicators.

**3.0 REASONS FOR RECOMMENDATION**

3.1 To ensure compliance with the 2017 edition of the Prudential Code requiring local authorities to produce a Capital Strategy Report.

**4.0 BACKGROUND**

4.1 The Prudential Code<sup>1</sup> sets out a framework for self-regulation of capital spending for local authorities, in effect, allowing Councils to invest in capital

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<sup>1</sup> Prudential Code - produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and is underpinned by the Local Government Act 2003 and the Capital Financing Regulations (Wales) 2004

projects without any limit as long as they are affordable, prudent and sustainable.

4.2 The Council has developed this Capital Strategy document to support its strategic and financial planning arrangements, and also complement other key strategies and plans in place. The Capital Strategy does not duplicate information included within other key strategies and plans such as the Treasury Management Strategy, Three Year Capital Programme and Corporate Plan 2020 – 2024, and should be read in conjunction with them.

4.3 The Council's Capital Strategy covers the following areas:

- Strategic Context
- Capital Expenditure and Financing
- Asset Management
- Asset Disposals
- Treasury Management
- Other Long Term Liabilities
- Revenue Budget Implications
- Knowledge and Skills

## 5.0 STRATEGIC CONTEXT

5.1 The Council's Capital Strategy is inherently linked to and informed by other key strategy documents.

### [The Council's Corporate Plan 2020-24 "Making a Difference"](#)

5.2 Capital investment by the Council is guided by the priorities within the Corporate Plan that sets out its ambition through a vision 'To be the best place in Wales to live, work and play, where people and businesses are independent, healthy, and prosperous' and focussing on three priorities:

1. Ensuring **People: are independent, healthy and successful;**
2. Creating **Places: where people are proud to live, work and play; and**
3. Enabling **Prosperity: creating the opportunity for people and businesses to: be innovative; be entrepreneurial; and fulfil their potential and prosper.**

### Other Key Strategies and Plans

5.3 The Council also has a number of other key strategies and plans that inform service delivery and its programme of capital investment. These include<sup>2</sup>:

- Revenue Budget Strategy – setting out the Council's annual revenue budget requirement that includes its Capital Financing budget to support the delivery

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<sup>2</sup> A brief summary of the strategy or plan is provided where it is not covered elsewhere within the Capital Strategy

of the Capital Programme. The Council's Revenue Budget Strategy 2021/22 is to be approved by Council alongside this report on the same agenda.

- Three Year Capital Programme – setting out capital expenditure plans and funding. The Council's Capital Programme 2021/22 to 2023/24 is to be approved by Council alongside this report on the same agenda.
  - Medium Term Financial Plan (MTFP) – setting out a forecast of revenue spending and funding for the period 2020/21 to 2023/24 (and includes a Capital Financing budget projection over this period). The latest MTFP can be viewed by clicking [here](#).
  - Treasury Management Strategy.
  - Corporate Asset Management Plan.
  - Service Delivery / Recovery Plans – a plan for each service area setting out key priorities, measures and risks.
  - Cwm Taf Well-Being Plan - a long term partnership plan for the Cwm Taf area (Rhondda Cynon Taf and Merthyr Tydfil) in line with the Well-Being of Future Generations Act. The Cwm Taf Well-being Plan can be viewed by clicking [here](#).
- 5.4 In [January 2018](#) the Council set out a strategic outline capital investment programme in excess of £300M over the next 5 years over and above its recurring annual capital programme. This commitment was aligned to the Council's strategic plans by supporting long term investment in highways infrastructure, 21<sup>st</sup> Century Schools, new housing, community assets and town centre and economic regeneration.

## **6. CAPITAL EXPENDITURE AND FINANCING**

- 6.1 Capital expenditure is where the Council spends money on assets such as property or vehicles that will be used for more than one year. The Council does have some limited discretion over what it deems to be capital expenditure, for example, assets costing less than £10k are not capitalised and are charged to revenue in-year.

### **Capital Programme 2021/22 to 2023/24**

- 6.2 The Council is to consider its capital programme on 10<sup>th</sup> March 2021 totalling a proposed £116.024M over three years.
- 6.3 All capital expenditure must be financed either from external sources (e.g. grants and third party contributions), the Council's own resources (e.g. revenue and capital receipts) or borrowing (e.g. loans, leasing). A summary of available capital

resources for the Capital Programme 2021/22 to 2023/24 is included at 'Indicator 1 : Capital Expenditure'.

- 6.4 The Council's Capital Programme continues to provide a long term funding commitment to the economic regeneration and well-being of the County Borough and in doing so supports the Council's Corporate Plan Priorities.
- 6.5 In addition to the above, sustained investment has been maintained across a range of funding streams, supported by external funding and the Corporate Plan Investment Priorities. This has enabled a wide range of regeneration activity to be delivered to benefit the local economy.
- 6.6 The Council will continue to work with partners to develop and progress exciting and innovative schemes such as:
- Pontypridd YMCA – Redeveloping the YMCA to be fit for the future as a community centre for creative arts facilitating social enterprise, training opportunities and community involvement;
  - Development of modern business accommodation with new units at Robertstown, Aberdare;
  - Townscape Enhancements across our key town centres – a targeted approach to upgrading town centre buildings for increased business and commercial use and continuing to improve the quality of the townscape providing business investment and employment growth;
  - Development of a new integrated Transport Hub at Porth as part of the Porth Town Centre Regeneration Strategy;
  - Strategic Opportunity Areas – a number of Strategic Opportunity Areas have been developed to deliver economic growth and job creation in Rhondda Cynon Taf. These areas are:
    - Cynon Gateway – Energising the Region;
    - The Wider Pontypridd, Treforest – Edge of the City, heart of the Region;
    - Pontypridd Town – Pivotal in the Region;
    - A4119 Corridor – Regional Rhondda Gateway; and
    - Llanilid on the M4 – Driving the Regional Economy.
- 6.7 There is a statutory duty under the Local Government Act 2003 for the Council to determine and keep under review how much it can afford to borrow. The Council must have due regard to the **Prudential Code** when setting its affordable borrowing limit ("Authorised Limit"). This requires the Council to ensure that total capital investment and borrowing remains affordable, sustainable and prudent.
- 6.8 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.
- 6.9 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 must be



prepared by the Chief Finance Officer and presented to Council, as part of the budget setting cycle. The indicators cover a three year period and must be monitored during the year.

- 6.10 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.
- 6.11 Capital Expenditure is predominantly funded by Welsh Government support, capital grants and capital resources. General capital funding from the Welsh Government takes the form of General Capital Grant plus “supported borrowing”. The remaining balance of expenditure will form a borrowing need and be classed as unsupported and will have an impact on the Council Tax (unless extra borrowing costs are funded through existing budgets).
- 6.12 The following indicators are required (by the Prudential Code) to be approved:
- 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

#### Capital Expenditure and the Capital Financing Requirement

- 6.13 The Capital Expenditure plans of the Council will be financed through various sources such as capital resources, grants and other contributions. The remaining element which cannot be immediately financed from resources will constitute our borrowing requirement. The estimated level of available capital resources is provided in summary as the Capital Expenditure Indicators below.

#### **Indicator 1 : Capital Expenditure**

	2020/21 Projected Outturn £M	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M
Supported spend	87.011	68.904	18.651	16.023
Unsupported spend	21.141	12.409	0.037	0.000
Total spend	108.152	81.313	18.688	16.023
Financed by:-				
Borrowing	27.970	19.282	6.910	6.873
Other Capital Resources (e.g. Grants, Capital Receipts)	80.182	62.031	11.778	9.150

- 6.14 The Capital Financing Requirement (CFR) represents the Council's underlying need to borrow for capital purposes. The CFR is capital expenditure that has not yet been paid for from either revenue or capital resources.
- 6.15 The expected movement in the CFR over the next three years is dependent on the level of supported and unsupported capital expenditure and decisions taken during the budgeting cycle.
- 6.16 The unsupported element of borrowing relates to the capital expenditure freedom allowed under the Prudential Code. The Prudential Code anticipates that these freedoms would enable Councils to enter into projects such as "spend to save" schemes or decisions to allocate additional resource from revenue to capital, to enable service / asset enhancements. Members have already shown their willingness to use this option for schemes such as investment in schools and highways.
- 6.17 The main factor limiting the Council's ability to undertake unsupported capital expenditure is whether the revenue resource is available to support in full the implications of capital expenditure, i.e. both borrowing costs and running costs. In other words, can the Council afford the implications of the unsupported capital expenditure?
- 6.18 The Council's expectations for the CFR in the next three years is shown below.

### Indicator 2 : Capital Financing Requirement (CFR)

	2020/21 31/03/21 Projected Outturn £M	2021/22 31/03/22 Estimate £M	2022/23 31/03/23 Estimate £M	2023/24 31/03/24 Estimate £M
CFR	507.897	512.804	504.866	496.271
Net movement in CFR		4.907	(7.938)	(8.595)

- 6.19 A key risk is that the level of Welsh Government support has been estimated and is, therefore, subject to change. Similarly, some of the estimates for other sources of funding, such as capital receipts, may also be subject to change over this time. Officers will continue to monitor the totality of capital resources and will report back to Members if further action is required.
- 6.20 The expected external debt for each year is as detailed below.

### Indicator 3: External Debt

	2020/21 31/03/21	2021/22 31/03/22	2022/23 31/03/23	2023/24

	Projected Outturn £M	Estimate £M	Estimate £M	31/03/24 Estimate £M
Borrowing	402.226	477.807	474.842	472.876
Other long term liabilities	0.583	0.583	0.583	0.581
Total External Debt 31 <sup>st</sup> March	402.809	478.390	475.425	473.457
Net movement in External Debt		75.581	(2.965)	(1.968)

6.21 Other Long Term Liabilities includes an estimate of the Council's future finance lease liabilities. The accounting change for leases has been delayed in line with CIPFA guidance. These changes are not reflected in the indicators in this report.

#### Limits to Borrowing Activity

6.22 The first key control over the Council's activity is to ensure that, over the medium term, borrowing will only be for a capital purpose. The Council needs to ensure that external borrowing does not exceed the total of the capital financing requirement in the preceding year plus the estimate of the additional capital financing requirement for the next three financial years. This allows some flexibility within a three-year period to deliver an effective treasury management strategy.

#### **Indicator 4: Gross Debt and the Capital Financing Requirement**

	2020/21 31/03/21 Projected Outturn £M	2021/22 31/03/22 Estimate £M	2022/23 31/03/23 Estimate £M	2023/24 31/03/24 Estimate £M
Gross Borrowing	402.809	478.390	475.425	473.457
Capital Financing Requirement	507.897	512.804	504.866	496.271

6.23 As the above shows, gross borrowing is below the relevant CFR for current and future years. This is termed "under-borrowing". This view takes into account current commitments, existing plans and the proposals in the latest 3 year capital programme. Again, this indicator will be monitored and revised at Council, if necessary, during the three-year period.

6.24 The Authorised Limit represents the limit beyond which borrowing is prohibited, and needs to be set, monitored and revised by Members. It reflects the maximum level of borrowing to fund existing capital commitments, which could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need, with some added headroom for unexpected movements.

6.25 This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all Councils' plans or those of a specific Council. The Government has not yet exercised this control.

#### Indicator 5 : The Authorised Limit

	2020/21 31/03/21 Projected Outturn £M	2021/22 31/03/22 Estimate £M	2022/23 31/03/23 Estimate £M	2023/24 31/03/24 Estimate £M
Gross Borrowing Limit	402.226	530.000	530.000	530.000
Other long term liabilities	0.583	2.000	2.000	2.000
Authorised Limit	402.809	532.000	532.000	532.000

6.26 The Operational Boundary is based on the probable external debt during the course of the year; actual borrowing could vary around this boundary, for short times, during the year. It should act as an indicator to ensure the Authorised Limit is not breached.

#### Indicator 6 : The Operational Boundary

	2020/21 31/03/21 Projected Outturn £M	2021/22 31/03/22 Estimate £M	2022/23 31/03/23 Estimate £M	2023/24 31/03/24 Estimate £M
Gross Borrowing Limit	402.226	480.000	480.000	480.000
Other long term liabilities	0.583	1.000	1.000	1.000
Operational Boundary	402.809	481.000	481.000	481.000

#### Affordability Prudential Indicators

6.27 Previous sections have covered overall capital and control of borrowing indicators, but there is also a requirement to assess the affordability of capital

investment plans. This provides an indication of the impact of the capital investment plans on the overall Council finances.

- 6.28 The Ratio of Financing Costs to Net Revenue Stream identifies the trend in the cost of capital (borrowing costs net of interest and investment income), against the "net revenue stream". The net revenue stream for the General Fund is the amount collectable from Council Tax payers added to the Council's Revenue Support Grant (RSG) and Non Domestic Rates (NDR). The key use of this indicator is to compare trends in the ratio of financing costs to the net revenue stream, over time.

#### **Indicator 7 : Ratio of Financing Costs to Net Revenue Stream**

	2020/21 Comparator	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
General Fund	4.98%	5.10%	5.16%	5.16%

#### Governance

- 6.29 The rolling Three Year Capital Programme is constructed in line with the Council's agreed strategies and plans on an annual basis, reviewed by Cabinet and if deemed acceptable, is recommended to full Council for approval each year.
- 6.30 Throughout the year, capital programme updates are made public through the Council's quarterly Performance Reports that are reported to Cabinet for approval and thereafter scrutinised by the Finance and Performance Scrutiny Committee.

### **7.0 ASSET MANAGEMENT**

- 7.1 To ensure that capital assets are managed in a proactive and efficient way, and continue to be of long term use, the Council has a Corporate Asset Management Plan (CAMP). The CAMP outlines the vision and approach to the strategic management of the assets of the Council and sets out the primary aims: to maximise the benefits derived from the Council's land and buildings; to support the delivery of its priorities; to meet service requirements; to raise revenue through rental income; and to comply with regulatory and statutory duties.

### **8.0 ASSET DISPOSALS**

- 8.1 When a capital asset is no longer needed it may be sold so that proceeds, known as capital receipts, can be spent on new assets or to repay debt. Capital receipts are used as part of the overall General Fund Capital Resources to fund the Capital Programme 2021/22 to 2023/24 as set out below. Capital receipts are used to fund the Capital Programme across years and so the figures below

will not align with those estimated to be received within each year as included in the CAMP.

	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M
General Fund Capital Resources	13.919	3.976	3.115

## **9.0 TREASURY MANAGEMENT**

- 9.1 CIPFA defines Treasury Management as “The management of the local authority’s investments and cash flows, 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.”
- 9.2 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council’s spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the Council’s bank current account.
- 9.3 The Council’s Treasury Management Strategy Incorporating Investment Strategy, Treasury Management Indicators and Minimum Revenue Provision (MRP) Statement for 2021/22 (from hereon, the Treasury Management Strategy) is being considered alongside this report on the same agenda.

### Borrowing Strategy

- 9.4 The Council’s policy will continue to be to maximise “internal borrowing”, running down cash balances and foregoing interest earned at historically low rates. 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.
- 9.5 Where the Council does need to borrow to fund the Capital Programme, its main objective is to achieve a low but certain cost of finance while retaining flexibility should there be changes in the financial market. The Council seeks a balance between lower cost short term loans and longer term fixed rate loans where the future cost is known and secured.

### Investment Strategy

- 9.6 The Council’s policy on treasury investments is to prioritise security and liquidity over yield and to focus on minimising risk rather than maximising returns.
- 9.7 The Welsh Government statutory guidance on Local Government Investments categorises investments as either Financial or Non-Financial. Financial investments can be further sub categorised into Specified, Loans and Non

Specified. All Investments are also categorised as either Commercial Investments, Other Investments Relevant to Council Functions or Treasury Management Investments. Details of the Council's Investment Strategy is set out within its Treasury Management Strategy.

- 9.8 Cash that is likely to be spent in the near term is invested with the Debt Management Office (DMO) and other public bodies. Longer term investments include lending to organisations, subject to S151 officer determination, following appropriate due diligence and subject to appropriate and acceptable security arrangements. These type of investments provide support for the delivery of investment aligned to the Council's own strategic objectives.

### Commercialisation

- 9.9 This section sets out the Council's high-level approach and appetite for commercial opportunities:

- Property acquisitions will be regeneration led and whilst there may be a commercial aspect, that is very much a by-product of our regeneration priority where for example public ownership will maximise the potential for property to be brought back into use, improve the viability and sustainability of our town centres and guard against properties being mothballed and a blight on our town centres and communities;
- We will not acquire assets outside of Rhondda Cynon Taf, other than via the auspices of the Cardiff Capital Region Joint Committee, where the asset is of regional significance;
- In line with our Treasury Management Strategy we will lend to other public sector organisations for the purpose of supporting and enabling them to contribute positively to our own corporate priorities and deliver projects from which the Council, our residents and communities will benefit. We will not lend money solely for income generation;
- We will continue to operate in the commercial market place where we have historically been a service provider, for example Trade Waste, Building Regulations, Waste Disposal and providing services to other public bodies, including local Registered Social Landlords. We will not develop our services to enter market places where there is sufficient supply and alternative providers other than where we can provide significant and demonstrable benefit to our residents, businesses and communities. We will continue to deploy our Community Asset Transfer arrangements as part of our work with communities and the voluntary sector to explore alternative delivery models to maintain services and facilities.

9.10 We summarise our approach further in the table below.

<b>Commercial Skills</b>	Our staff development activities and programmes will incorporate opportunities for our staff to develop and enhance their commercial awareness and exploit opportunities, including appropriate risk management;
<b>Efficient and Effective Organisation</b>	Already a pillar within our Corporate Plan, our robust self-assessment and service delivery planning arrangements will require all our services to consider commercial opportunities;
<b>Procurement</b>	We will ensure that our purchasing activities are focussed on achieving best value and will negotiate the best deals we can secure for the Council taking into account both cost and quality considerations. In doing so, we will also consider opportunities to ensure that local suppliers and service providers have the opportunity to compete for contracts we bring to the market;
<b>Use of Assets</b>	We will take advantage of our existing scale, breadth of activities and our asset base to identify opportunities where we can add value and generate income whilst not adversely destabilising existing markets and where the private sector can already provide excellence at good value;
<b>Charging</b>	We will continue to review and update our charging policy annually as part of setting our budget and seek to balance income generation alongside provision of our valued services at affordable prices and not seek to disincentivise our customers based on price;
<b>Trading</b>	We will continue to trade commercially through our wholly owned company, Amgen seeking opportunities to extend trading operations and maximise income generation and profit;
<b>Investing</b>	We will invest in line with the prudential code principles where it is prudent, sustainable and affordable; we will lend commercially where there are clear service and/or regeneration benefits which align with the Council's priorities;

9.11 Decision making on commercial activities will be in line with Council's constitution, approved strategies and policies and will in all instances be with the express approval of the Council's Section 151 Officer and the Director of Legal Services.

### Governance

9.12 Decisions on investments are made by the S151 Officer in line with the criteria and limits approved by Council in the Treasury Management Strategy. Property and other regeneration and commercial investments can be capital expenditure



and therefore will be approved via the appropriate decision making arrangements.

- 9.13 Following approval by full Council, the Treasury Management Strategy and the Capital Strategy Report incorporating Prudential Indicators are reported to the Finance and Performance Scrutiny Committee at the start of each financial year. A Mid-Year Treasury Management Stewardship Report and an Annual Treasury Management Review Report (following year-end) are reported to full Council and thereafter scrutinised by the Finance and Performance Scrutiny Committee. The role of scrutiny is a specific requirement of the laid down code of practice “CIPFA Treasury Management in the Public Services 2017” and also the Terms of Reference for this Scrutiny Committee.

## **10.0 OTHER LONG TERM LIABILITIES**

- 10.1 The Council is committed to making future payments to cover its pension fund liabilities (deficit) on the Pensions Reserve of £658M within the Council's balance sheet, under unusable reserves.
- 10.2 The Council has short term and long term provisions set aside amounting to £4.4M, the majority of which (£4.2M) is to cover Insurance and Land Compensation claims.
- 10.3 The Council's latest audited Statement of Accounts for the 2019/20 financial year can be viewed by clicking [here](#).

## **11.0 REVENUE BUDGET IMPLICATIONS**

- 11.1 The Council's borrowing or debt is only a temporary source of finance, since loans and leases must be repaid over time, usually from Revenue which is known as the Minimum Revenue Provision (MRP). The interest costs and principal repayment of debt, net of any investment income, are known as financing costs and are determined in line with the Council's MRP policy.
- 11.2 The Council's net capital charges form part of the revenue budget and actual spend against budget is reported to Cabinet as part of quarterly Performance Reports. They are also set out within the Mid-Year Treasury Management Stewardship Report and Annual Treasury Management Review Report. The Council also has a Treasury Management Earmarked Reserve in order to mitigate short / medium term volatility against this budget.

## **12.0 KNOWLEDGE AND SKILLS**

- 12.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Council also employ Treasury Management advisors

to provide a range of specialist services including interest rate analysis, investment advice and technical support.

### **13.0 EQUALITY AND DIVERSITY IMPLICATIONS**

- 13.1 The report provides a high level overview of how the Council's capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risks are managed. As a result, no Equality Impact Assessment is required for the purposes of this report.

### **14.0 CONSULTATION**

- 14.1 Subject to approval of the Capital Strategy, this Report will be presented to the Finance and Performance Scrutiny Committee for review, challenge and where deemed required, the scrutiny of specific areas in more detail.

### **15.0 FINANCIAL IMPLICATION(S)**

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

### **16.0 LEGAL IMPLICATIONS OR LEGISLATION CONSIDERED**

- 16.1 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.

### **17.0 LINKS TO CORPORATE AND NATIONAL PRIORITIES AND THE WELL-BEING OF FUTURE GENERATIONS ACT**

- 17.1 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, capital and revenue performance or return at the same time as managing associated risk.
- 17.2 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.

## **18.0 CONCLUSIONS**

- 18.1 The Capital Strategy Report incorporating Prudential Indicators sets out a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of Council services along with an overview of the associated risk, its management and the implications for future financial sustainability.
- 18.2 With regards 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 arrangements and scrutiny process.

### **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 10<sup>th</sup> MARCH 2021**

**REPORT OF THE DIRECTOR OF FINANCE AND DIGITAL SERVICES**

**Item: 2021/22 CAPITAL STRATEGY REPORT INCORPORATING PRUDENTIAL INDICATORS**

**Background Papers**

- 10<sup>th</sup> March 2021 Council meeting – Report: The Council’s Capital Programme 2021/22 – 2023/24.
- 10<sup>th</sup> March 2021 Council meeting – Report: The Council’s 2021/22 Revenue Budget

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**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL**

**MUNICIPAL YEAR 2020 / 2021**

**COUNCIL**

**10<sup>th</sup> MARCH 2021**

**TREASURY MANAGEMENT STRATEGY INCORPORATING INVESTMENT STRATEGY, TREASURY MANAGEMENT INDICATORS AND MINIMUM REVENUE PROVISION (MRP) STATEMENT FOR 2021/22**

**REPORT OF THE DIRECTOR OF FINANCE AND DIGITAL SERVICES**

**AUTHOR:- BARRIE DAVIES (01443) 424026**

**1.0 PURPOSE OF THE REPORT**

- 1.1 The purpose of the report is to set out the Council's:-
- Treasury Management Strategy for 2021/22;
  - Investment Strategy for 2021/22;
  - Treasury Indicators for 2020/21 (actuals to date) and 2021/22, 2022/23 and 2023/24; and
  - Minimum Revenue Provision (MRP) Policy Statement.

**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.

**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 local authority’s investments and cash flows, 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 (2021/22).
- 4.4 The Prudential Code is produced by the CIPFA and is underpinned by the Local Government Act 2003 and the Capital Financing Regulations (Wales) 2004. The Code sets out a framework for self regulation of capital spending, in effect allowing Councils to invest in capital projects without any limit as long as they are affordable, prudent and sustainable.
- 4.5 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.
- 4.6 The implementation of MiFID II (Market in Financial Instruments Directive) reclassified local and public authorities as retail investors, by default, from 3<sup>rd</sup> 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 2021/22**

- 5.1 The proposed Treasury Management Strategy for 2021/22 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 (including borrowing in advance of need); 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 2020 comprised:

		£M	Av. Rate
<b><u>Debt</u></b>			
Fixed Rate	PWLB	233.561	2.60%
	Market	54.500	5.00%
	Market(LOBO)	31.000	4.50%
Variable Rate	Market	18.000	0.70%
		<b>337.061</b>	<b>3.06% *</b>
<b><u>Investments</u></b>			
Variable Rate	Public Bodies	5.000**	0.05%

\* Estimated weighted average rate of borrowing for 2020/21 is 3.32%

\*\* 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 (set by the MPC – Monetary Policy Committee) 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 on the 4<sup>th</sup> February 2021 maintained the Bank Rate at 0.1%.

- 7.2 The Coronavirus (COVID 19) pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short term investments.
- 7.3 The impact on the UK from Coronavirus (COVID 19), lockdown measures, the rollout of the vaccines, as well as the new trading arrangements with the European Union, will remain major influences on the economic environment.
- 7.4 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 is as follows:

	<b>5 yr</b>	<b>10 yr</b>	<b>20 yr</b>	<b>50 yr</b>
2021/22	0.95%	1.20%	1.55%	1.45%
2022/23	1.05%	1.30%	1.65%	1.55%
2023/24	1.05%	1.40%	1.70%	1.60%

- 7.5 On 26<sup>th</sup> November 2020, after the response to its consultation on future lending terms, HM Treasury reduced PWLB interest rates by 1%, thereby reversing the previous increase on 9<sup>th</sup> October 2019. This decreases the cost of borrowing, enabling improved affordability for capital programmes.

## **8.0 Borrowing Strategy (including borrowing in advance of need)**

- 8.1 The Council's borrowing requirement for 2021/22 is currently £19.3M based on the updated Capital Programme 2021/22 – 2023/24 (being considered elsewhere on this agenda (Council, 10<sup>th</sup> March 2021)). The opportunities afforded by the Prudential Code increase the possibility of further borrowing being required during the year. 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 are expected to remain low, with short term yields likely to remain close to zero.
- 8.6 PWLB loans are no longer available to Councils planning to buy investment assets primarily for yield or solely for exploiting commercialisation opportunities.
- 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 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.
- 8.10 The Codes of Practice require Councils to specify their approach in terms of "Borrowing in Advance of Need". In line with the Prudential Code, Councils are able to borrow funds above their Capital Financing Requirement (ie its underlying borrowing requirement) for use in future years, thereby providing a degree of flexibility in terms of timing during the most favourable interest rate conditions. As evident in the Capital Strategy this Council's levels of debt is estimated to remain lower than our CFR and it is not anticipated that borrowing in advance of need is a course of action that this Council would pursue in the short to medium term. Consequently, there is no need to set a limit in terms of value or period of time. Risks and

opportunities associated with borrowing in advance of need will continue to be monitored during the year and reported in the mid year review of treasury management activities.

## **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 2021/22 are relatively low, 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.

### **11.0 Member and Officer Training**

- 11.1 During 2020/21, 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.
- 11.4 The Council's Senior 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. This is in line with the relevant Codes of Practice, including CIPFA Treasury Management in the Public Sector 2017, 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 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 guidance on Local Government Investments places additional reporting requirements upon local authorities that are not integral to treasury management processes and covers investments such as commercial investments and other investments relevant to Council functions.

13.3 The 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 Code and the investment guidance are to set an investment strategy, as part of its annual treasury strategy for the following year, covering 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 written or oral 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.
- **Non-specified investments.** These are investments not meeting the definition of a specified investment or loan.

13.6 The intention of the strategy is to provide security of investment and minimisation of risk.

#### **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

- 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 2021/22, 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. For example, the DMO has a minimum deal size of £1M and 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 overnight.

## Loans

- 13.14 At its meeting on the 20<sup>th</sup> 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.
- 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 has 2 commercially agreed loan agreements. These 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 total balance outstanding as at 1<sup>st</sup> April 2021 is £6.650M.

## 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 2019/20 balance sheet as £3.017M, 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.

### **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 approved and funded via the capital programme. As a result of a change of use for the building, the asset was reclassified as an investment property within the balance sheet. The building and site has a fair value of £3.8m, with an annual rental of £322k.

13.23 The Council has investments it categorises as non-financial and other investments relevant to Council functions. These buildings have a fair value of £17.8m, with an annual rental of £1.1m. They relate to 50-53 Taff St, Pontypridd; Unit 1 Cambrian Industrial estate, Clydach Vale; Rhos Surgery, Mountain Ash; 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 Security

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 Liquidity

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 of £5.5m.

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 2021/22**

- 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
- 16.5 The following indicators are required (by the Treasury Management Code) to be approved:
- Debt Maturity Profile
  - Total Principal sums invested for periods longer than a year.
- 16.6 The Debt Maturity Profile indicator sets gross limits to reduce the Council's exposure to large sums falling due for refinancing annually. This indicator now includes variable debt and LOBO loans which are deemed to have a maturity date of the next call date.

### **Indicator : Debt Maturity Profile**

	2020/21 Projected Outturn as at 31/12/20	Upper Limit	Lower Limit
Under 12 months	13%	70%	0%
12 months to 2 years	4%	70%	0%
2 years to 5 years	10%	60%	0%
5 years to 10 years	16%	70%	0%
10 years to 20 years	6%	90%	0%

20 years to 30 years	0%	90%	0%
30 years to 40 years	51%	90%	0%
40 years to 50 years	0%	90%	0%

16.7 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.

16.8 The following indicator takes account of projected resources available for investment and cashflow forecasts.

**Indicator : Total principal funds invested for periods longer than a year**

Maximum principal sums invested for periods longer than a year	£25M
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16.9 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 31<sup>st</sup> December 2020):

Interest Rate Risk	Impact £M
One year revenue impact of a 1% rise/fall in interest rates	0.189

16.10 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 9.2% of our total debt portfolio. This internally set limit may be temporarily exceeded as a consequence of debt restructuring activities.

**17.0 THE MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT**

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 1<sup>st</sup> April 2019. The main amendments to the guidance are:

- 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 EQUALITY AND DIVERSITY IMPLICATIONS**

18.1 The report details the Council's Treasury Management activities for 2021/22. As a result, no Equality Impact Assessment is required for the purposes of this report.

## **19.0 CONSULTATION**

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 FINANCIAL IMPLICATION(S)**

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 LEGAL IMPLICATIONS OR LEGISLATION CONSIDERED**

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 LINKS TO CORPORATE AND NATIONAL PRIORITIES AND THE WELL-BEING OF FUTURE GENERATIONS ACT**

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 2021/22.

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.

**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 10<sup>TH</sup> MARCH 2021**

**REPORT OF THE DIRECTOR OF FINANCE AND DIGITAL SERVICES**

**Item: 2021/22 TREASURY MANAGEMENT STRATEGY INCORPORATING  
INVESTMENT STRATEGY, TREASURY MANAGEMENT INDICATORS AND  
MRP STATEMENT**

**Background Papers**

- 10<sup>th</sup> March 2021 Council meeting – Report: 2021/22 Capital Strategy report
- 10<sup>th</sup> March 2021 Council meeting – Report: The Council's Capital Programme 2021/22 – 2023/24.
- 10<sup>th</sup> March 2021 Council meeting – Report: The Council's 2021/22 Revenue Budget

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

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