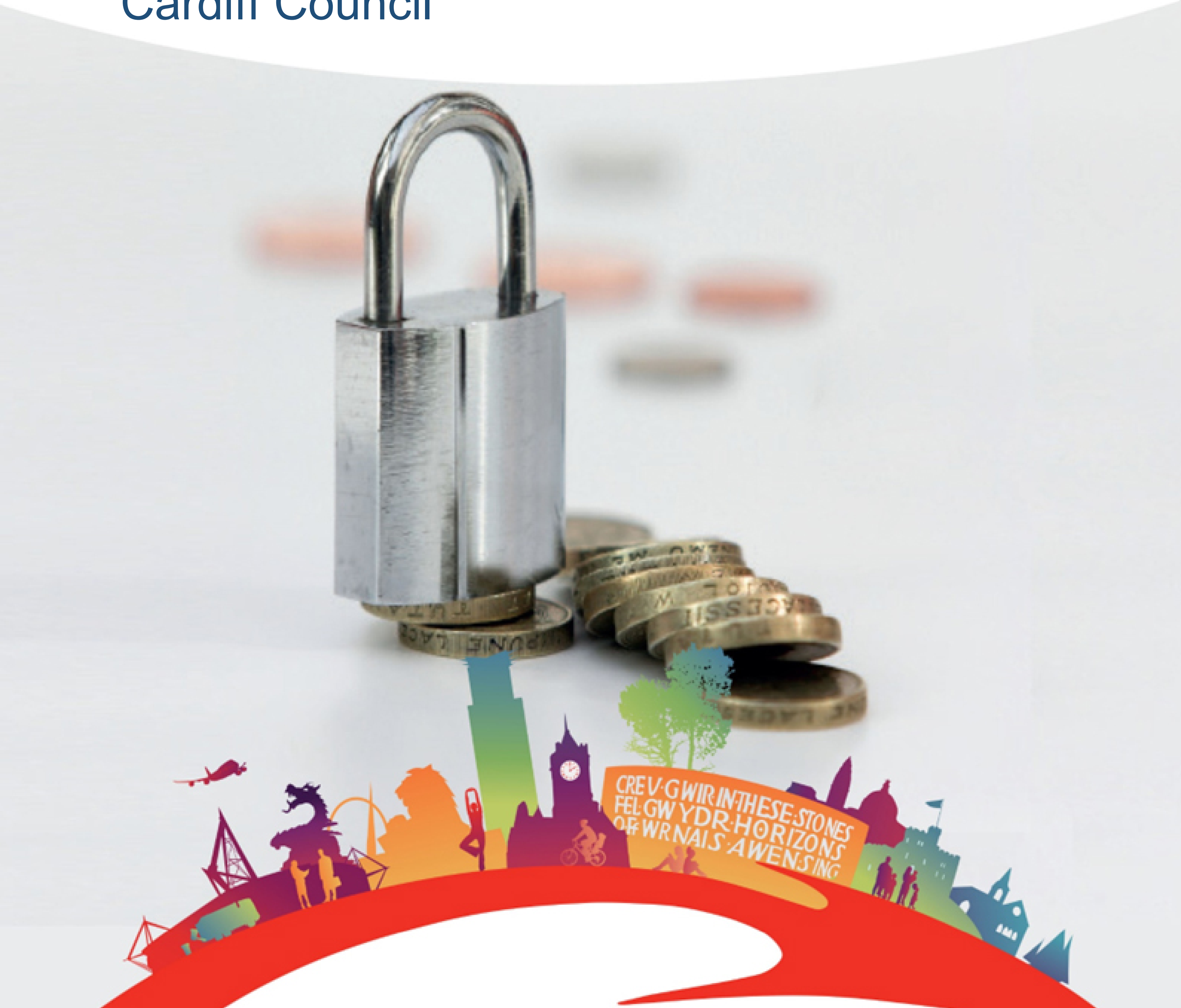
Annex 4

Treasury Management Strategy 2023/24

Cardiff Council



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Introduction

Treasury Management

1. The Council carries out its treasury management activities in accordance with a Treasury Management Code of Practice for public services. This was last updated by CIPFA in December 2021 with any changes to be fully embedded into processes for the 2023/24 financial year. The Code requires the Council to set out the policies and objectives of its treasury management activities and adopt four Clauses of Treasury Management. These were formally adopted by the Council in February 2010. The last section of this strategy includes a glossary of terms used in this document.

2. CIPFA has adopted the following as its definition of treasury management activities:

   The management of the organisation's borrowing, 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.

3. The definition of 'Investments' above includes:
   - treasury management investments (held for the prudent management of financial affairs), as well as
   - non-treasury Investments, undertaken as part of a Capital Strategy either in the course of provision of services; or made for commercial reasons purely to make a financial gain. These are managed outside of normal treasury management activity.

     Treasury management investments represent the placement of cash in relation to the section 12 Local Government Act 2003 Act investment powers, i.e., they are the residual cash left in the authority's bank account resulting from the authority's day to day activities. Non-treasury investments tend to relate to section 1 expenditure powers under the Act.

     This Treasury Management Strategy covers treasury management investments only.

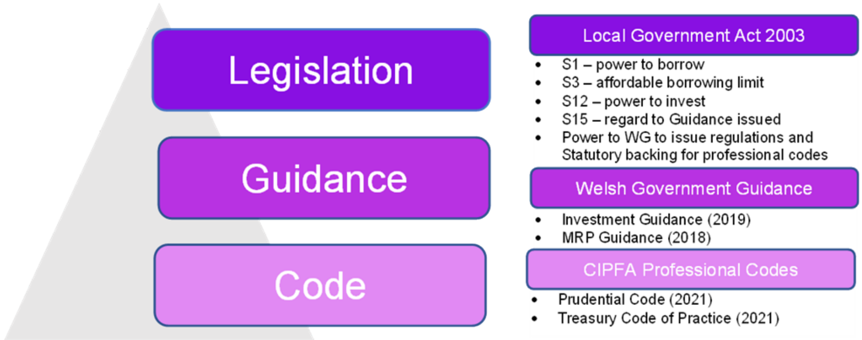
Governance and Reporting

4. In compliance with Codes and Council policy, full Council receives a report on:
   - the Treasury Management Strategy at the start of a forthcoming year
   - a mid-year update and
   - an outturn report, with any significant updates included as part of quarterly monitoring reports to Cabinet.

5. The Treasury Management Strategy is an integral part of the Council's Strategic and Financial planning framework.

Introduction

6. In 2004, local authorities were provided with flexibility in relation to the quantum and timing of borrowing decisions. Legislation, guidance and professional codes of practice were introduced to support decision making and ensure investment and borrowing is Prudent, Sustainable and Affordable.



7. The Council has delegated responsibility for treasury management to the Corporate Director of Resources and S151 Officer. The Council's Treasury Management Practices which are updated annually, identify specific responsibilities of officers as well as setting out schedules highlighting the way in which treasury activities are managed.

8. Responsibility for treasury decisions ultimately remains with the Council, however the Council recognises the value in the use of treasury advisors to support the management of risk and to access specialist skills and resources. Support provided by Link Treasury Services Limited includes advice on timing of decision making, training, credit updates, economic forecasts, research, articles and advice on capital finance.

9. Governance and Audit Committee undertakes scrutiny of the accounting, audit and commercial issues in relation to the Council's Treasury Management Strategy and practices and various reports are produced highlighting treasury management activities in accordance with council policy.

Capital Strategy and Capital Financing Requirement (CFR)

10. The Council's Capital Strategy sets out that successfully delivering the commitments set out in the Council's Capital Ambition will require capital investment. Having a capital strategy in place informs capital investment decisions by providing a framework, which

will:

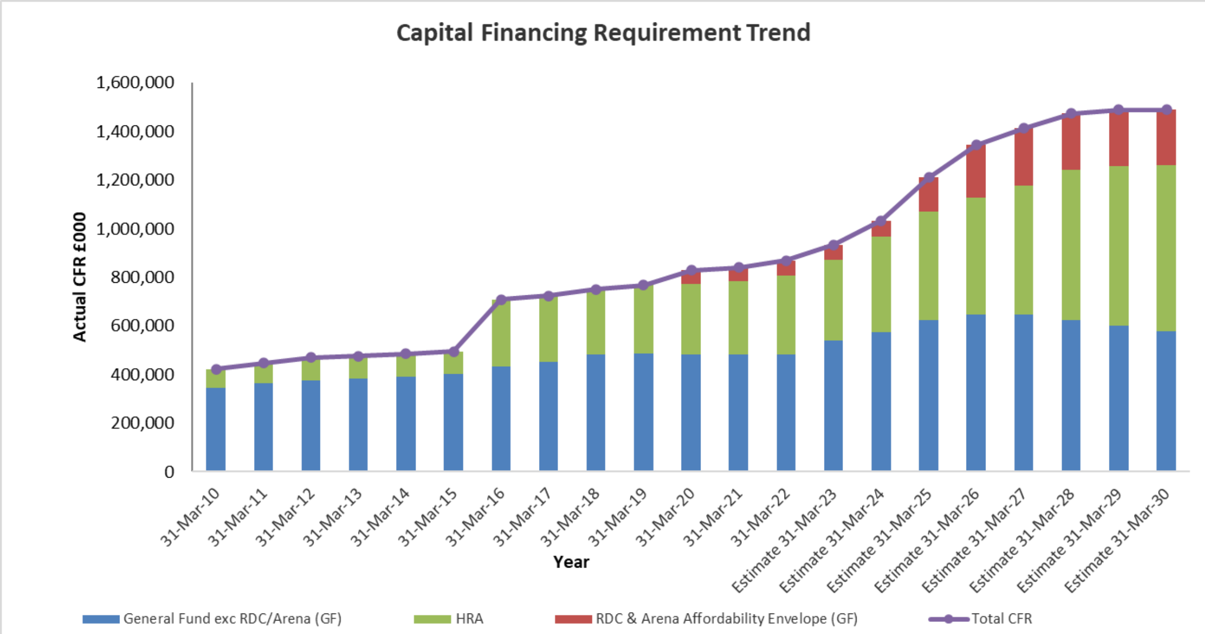
- provide a longer-term view of capital expenditure plans whilst setting out all the financial risks to which the authority is exposed
- ensure decisions can demonstrate sufficient regard to the proportionality of long-term financing, affordability implications and potential risks to the authority
- provide an overview of the Council's asset management planning arrangements, which includes any maintenance requirements that have resource and business planning implications.

11. The Capital Strategy is approved by Council as part of its budget setting process, with specific commentary required by the Council's S151 Officer in respect to deliverability, affordability and risks. The strategy sets out the approach to:

- Working with partners - recognising the enabling role played by the Council in delivering investment and the need for alignment with Welsh Government on a longer term and sustained approach to capital investment.
- Asset Management Planning - how the Council demonstrates stewardship of assets used in service delivery and the need to understand condition and alternative options as a basis for understanding investment requirements.
- Risk Appetite - the main areas where capital investment paid for by borrowing would be considered and how such decisions are informed.
- Governance and decision-making - identifying priorities for investment, securing value for money, and monitoring and reporting of the approved capital programme.
- Capital Investment Programme - the detailed five-year capital investment programme proposed for 2023/24 to 2027/28.
- Funding the strategy and investment programme - the Capital Resources assumed to be used to fund the 2023/24 to 2027/28 investment programme.
- Affordability - understanding the impact of capital investment decisions on the Council's revenue budget and Medium-Term Financial Plan via the calculation of various prudential indicators to be approved by Council. These include highlighting the percentage of capital financing costs committed as a percentage of the revenue budget.
- Managing the borrowing requirement - identifying the Capital Financing Requirement and setting out the strategy to manage Treasury activities including the borrowing requirement and treasury investments. This is considered in the Treasury Management Strategy.

12. The detailed capital investment programme is the subject of the annual review process for review of existing allocations, consideration of new commitments and timing of projects.

13. The indicative programme shows a significant borrowing requirement for a number of reasons. The Capital Financing Requirement for the General Fund, Atlantic Wharf / Arena affordability envelope and Housing Revenue Account are illustrated in the chart below.



14. The CFR projections show a continuing increasing trend. The key reasons for this and assumptions that can impact on the timing of investment include:
- An assumption that the Council has the capacity and can implement the capital programme in accordance with the timescale in which funding is requested.
- An assumption that the proceeds from the disposal of assets (Capital Receipts) are achievable and receivable in a reasonable period.
- The approach to making prudent provision in the Council's revenue budgets for the repayment of any capital expenditure incurred on the basis of borrowing.
- The detailed capital programme that includes:
    - Agreed expenditure pre commitments in the capital programme approved in 2022/23 and prior years
    - Additional investment proposed as part of the budget proposals for 2023/24 to 2027/28
    - Investment in the target to deliver 2800 new affordable homes in the Housing Revenue Account
    - Schools' investment as part of the financial models for 21st Century Schools Band B
    - Specific schemes intended to pay for themselves from future revenue income or savings e.g. District Heat Network, Core Office Strategy. International Sports Village, Pentwyn Leisure Centre and Independent Living Wellbeing Centre
    - Repayable loans offered by Welsh Government for specific schemes such as to tackle Coastal Erosion
    - Agreed council contributions to the Capital Cardiff Region City Deal Wider Investment Fund including expenditure in advance of receiving HM Treasury Grant
    - Expenditure incurred as part of an affordability envelope, for the acquisition of the Red Dragon Centre and related land required for the development of an Arena as part of the Atlantic Wharf Regeneration Masterplan.
    - Council contribution to the enabling costs of an arena and to 'Direct Fund' the Arena construction following the approval by Cabinet in September 2021 of the Full Business Case (FBC). The optimal funding solution is for the Council

to provide the funding to construct the arena. Whilst this will increase the Council's Capital Financing Requirement and need to borrow, the costs of solution are intended to be offset over a 45-year period from operator income receivable.

Treasury Management Strategy

15. The strategy covers the following areas:

- Borrowing to finance the cash requirements arising from the Council's Capital Strategy and detailed capital investment programme. Costs of servicing that financing is included in Medium Term Financial Plans for the General Fund and Housing Revenue Account.
- Treasury investments determining how short-term cash flows will be safely managed to meet the Council's financial commitments and objectives.
- Highlighting the approach to non-treasury Management Investments. Whilst these impact on the treasury function, they arise from capital expenditure plans which are reported separately from day-to-day treasury management activities. Accordingly, this strategy focuses on Treasury investments.

16. The Council accepts that no treasury management activity is without risk. However, the overriding objective is to minimise the risk of adverse consequences or loss, whilst at the same time not unduly constraining investment returns or unnecessarily incurring interest costs.

17. The identification, monitoring and control of risk are integral elements of treasury management activities with risks including credit and counterparty, liquidity, interest rate, refinancing, fraud and regulatory. The Council has Treasury Management Practices to address and mitigate these risks which were updated in March 2022.

18. The proposed strategy is an integrated strategy for the Council including the Housing Revenue Account (HRA) and includes:

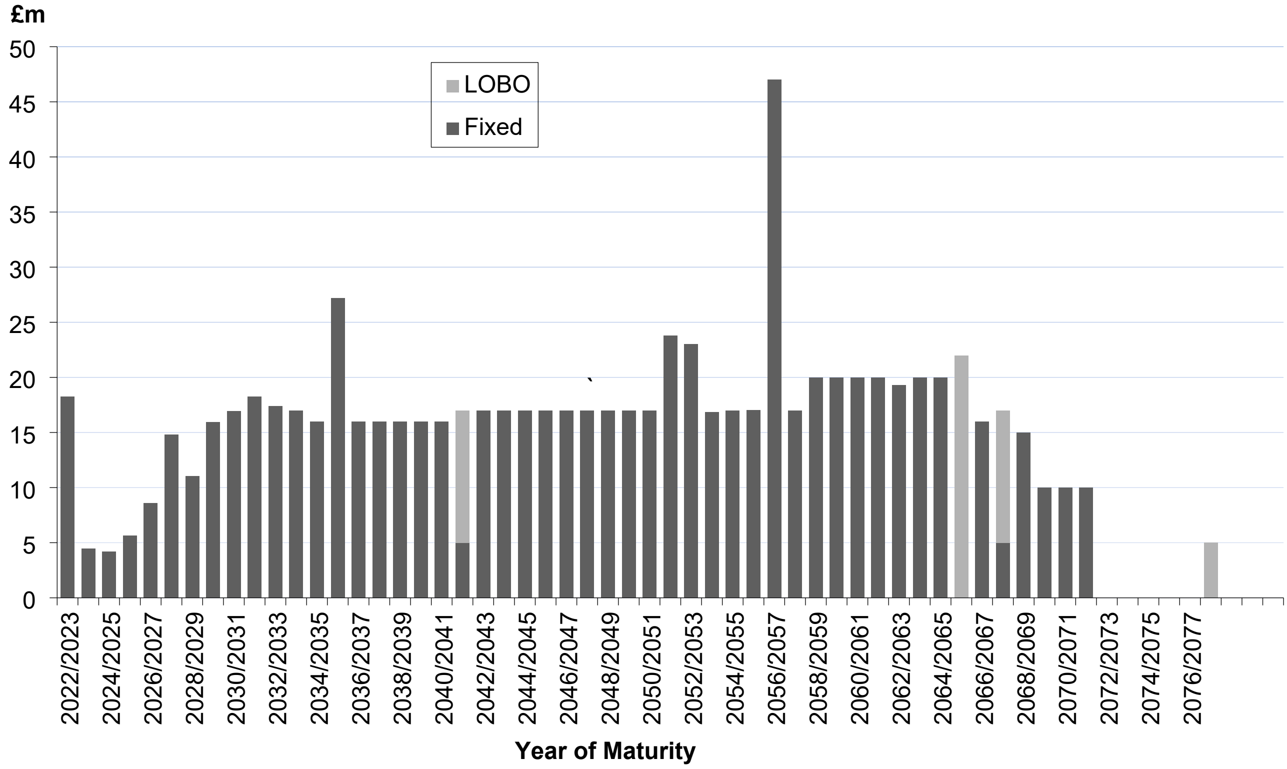
- the current treasury position
- economic background and prospects for interest rates
- borrowing, including:
  - policy
  - council borrowing requirement based on its capital expenditure plans and choice between internal and external borrowing and
  - borrowing strategy
- treasury management indicators and limits for 2023/24 to 2027/28
- investment policy and strategy, including security and investments approved for use
- non-treasury Investments – Commercial / Service Investment, and
- the Treasury Function.

19. Borrowing and investments as at 31 December 2022 and at the same date in the prior year, are shown in the following table. Borrowing is predominantly made up of fixed interest rate loans payable on maturity. Investments fluctuate daily and are represented by fixed term deposits, notice deposit accounts and money market funds. These balances arise due to the timing of cash flows and working capital as well as the existence of reserves, provisions and balances required for future use.

	31 December 2021		31 December 2022	
	Principal £m	Average Rate %	Principal £m	Average Rate %
External Borrowing				
Public Works Loan Board (PWLB)	(763.1)	4.2	(759.7)	4.2
Market (Lender Option Borrower Option)	(51.0)	4.0	(51.0)	4.0
Welsh Government	(23.7)	0.0	(22.8)	0.0
Local Authority	(38.3)	1.3	(18.3)	1.8
Total Debt	**(876.1)**	**4.0**	**(851.8)**	**4.0**
Treasury Investments (Internally Managed)*				
Banks	111.1	0.18	99.0	2.44
Building Societies	13.0	0.04	0.0	0.00
Money Market Funds	29.0	0.04	19.2	3.19
Government	34.2	0.03	40.7	2.71
Local Authority	0	0	10.0	3.00
Total Treasury Investments (Net)	**187.3**	**0.12**	**168.9**	**2.62**
Net Treasury Investments / (Borrowing)	**(688.8)**		**(682.9)**	

*Note all investments are currently managed internally and no external fund management arrangements are in place.

20. The Council's debt maturity profile at 31 December 2022 is shown in the following graph on the assumption that all loans run to their final maturity.



21. LOBO products are loans to the Council where the lender can request a change in the rate of interest payable by the Council on pre-determined dates. The Council at this point has the option to repay the loan without penalty. The Council has six such loans totalling £51 million.

22. Apart from the option to increase rates, these loans are comparable to PWLB loans and have no other complications such as variation in interest rates or complex terms. Interest rates on these loans range between 3.81% and 4.35%. Details of the loans are shown in the next table.

Lender Option Borrower Option (LOBO) Loans			
Potential Next Repayment Date	**Loan Value £m**	**Option Frequency Every**	**Full Term Maturity Date**
17/01/2023	5	5 years	17/01/2078
02/03/2023	6	6 months	23/05/2067
22/05/2023	6	6 months	21/11/2041
22/05/2023	6	6 months	21/11/2041
22/05/2023	6	6 months	23/05/2067
21/11/2025	22	5 years	23/11/2065

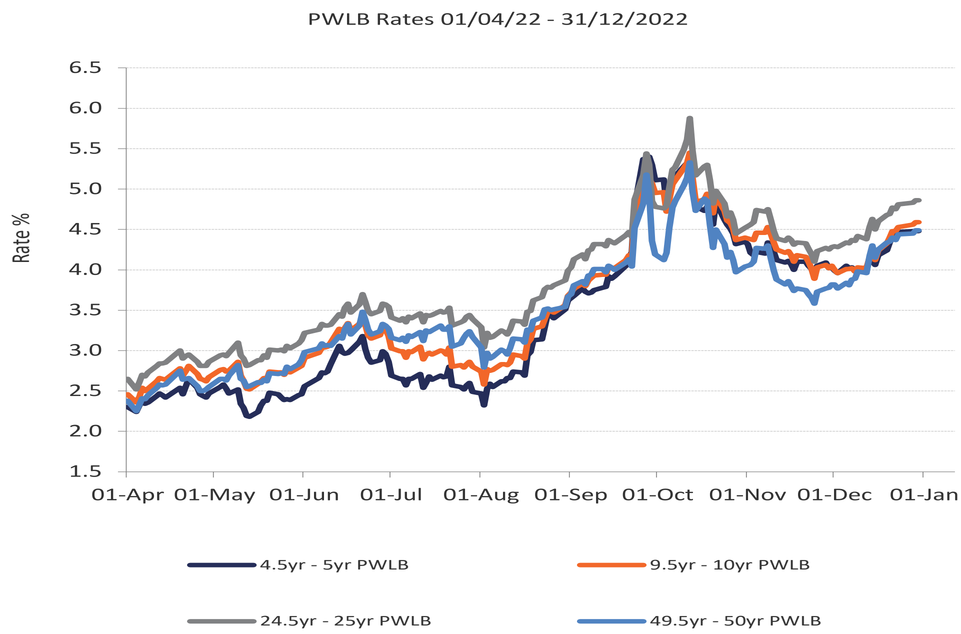
23. It should be noted that £29 million of the LOBO loans are currently subject to the lender potentially requesting a change in the rate of interest payable every six months. A further £22 million has a call option in November 2025.

24. Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, UK interest rates have been volatile across all time periods. The conundrum facing central banks is, inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten. Gross Domestic Product growth is weak and the UK unemployment rate fell to a 48-year low of 3.6%. Without an increase in the labour force participation rate, this may impact on the ability to grow, and with average wage increases running at 5.5% - 6% the Monetary Policy Committee will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine in February 2022. Ultimately, however, it will not only be inflation data but also employment data that will impact the decision-making process of the Monetary Policy Committee as well having regard to the interest rate outlook in the US and other major economies and geo-political events.

25. Recent Monetary Policy Committee meetings have been more concerned with combating inflation by implementing a succession of Bank Rate increases with the last increase on 2 February to 4.00%. With inflation expected to peak in the final quarter, there remains significant uncertainty as to whether such price rises will subside back to more normal levels, including gas prices and electricity once winter is passed.

26. The above economic background and political changes in the UK, have resulted in significant volatility in gilt yields and in turn borrowing rates as markets digest daily developments in the financial markets, release of economic data both domestically and internationally.

27. The Public Works Loan Board is one source of local authority borrowing and subject to annual review of eligibility. PWLB rates are based on gilt (UK Government bonds) yields, however HM Treasury determine a specified margin to add to gilt yields for any local authority borrowing. Most local authorities can undertake loans at the PWLB Certainty Rate, which is gilt rate plus 80 basis points (G+80 bps).



28. The chart above highlights the volatility in PWLB borrowing rates, with long term rates at the end of December 2022 being circa 4.5%. Having regard to various uncertain factors, the table below shows the Council's treasury management advisors last forecasts for Bank Rate and Public Works Loan Board (PWLB) certainty borrowing rates, based on their current lending policy. The forecasts are updated periodically and it is a central forecast, acknowledging for example that there are upside and downside risks. This shows a gradual decrease in Bank Rate and PWLB lending rates over the forecast horizon ending on 31 March 2026, albeit with rates higher than previous years lows.

	Actual 31/12/2022	March 2023	March 2024	March 2025	March 2026
Bank Rate (%)	3.50	4.25	4.00	2.75	2.50
5yr PWLB rate (%)	4.48	4.00	3.70	3.30	3.10
10yr PWLB rate (%)	4.59	4.20	3.90	3.50	3.20
25yr PWLB rate (%)	4.86	4.60	4.20	3.70	3.40
50yr PWLB rate (%)	4.49	4.30	3.90	3.40	3.10

Forecast 7 February 2023

29. The view is that the overall balance of risks to economic growth in the UK is to the downside. Markets have built in the effects on gilt yields of the likely increases in Bank Rate and the poor inflation outlook. However, there will be a lot of unpredictable volatility during this forecast period. This includes, financial market uncertainty, inflation pressures, approach to reversal of quantitative easing, economic growth, public sector borrowing levels, and geo-political risks.

30. It should be noted that following a review of PWLB lending policy, a prohibition is in place to deny access to borrowing from the PWLB for any local authority which includes in its capital programme the acquisition of investment assets bought primarily for yield.

31. Where there is a borrowing requirement for certainty, there is deemed to be better value in borrowing from the PWLB for all maturity periods. The Council will also for strategic investments, consider opportunities and eligibility of borrowing from other sources such as the UK infrastructure bank where projects are in line with its lending objectives.

Borrowing Policy

32. Borrowing to pay for capital investment has long-term financial consequences and risks, with decisions taken many years ago impacting currently and in the future in the form of interest and provision for repayment of capital expenditure. Expenditure decisions are assumed in the Capital Strategy and a detailed programme approved by Council with the recurring cost implications factored into Medium Term Financial Plans. All borrowing is undertaken in the name of the Council and secured on all revenues of the Council.

33. The Council can consider various sources and debt instruments to finance capital expenditure as well as its short-term working capital requirements including unexpected cash outflows. This includes the Public Works Loan Board, the financial markets, Municipal Bond Agency, Local Authorities and other public bodies, leases, public private partnership models and the issuing of bonds for significant levels of funding or smaller bond schemes linked to specific themes such as green growth. These are detailed in the Council's Treasury Management Practices and the advantages and disadvantages of such products would need to be considered including risks, track record and cost of issuance, supported by external advice in respect of different options.

34. The Council's currently maintains a single pool of all Council debt for all activities. Best treasury management practice is that loans are not taken on a project-by-project basis, however this will be a consideration for specific capital investment such as for the arena, where there is a need to meet specific cash flows and track performance over the life of the project.

35. Whilst interest rates for borrowing are greater than interest rates the Council receives for investments (the cost of carry) or if long term interest rates are expected to fall, it makes financial sense to use any internal cash balances held in the short-term to finance capital expenditure and minimise costs (internal borrowing), rather than undertake external borrowing. However, there is a risk that the Council may have to borrow at higher rates when it does need to borrow in future and so this position is kept under continuous review and delegated to the Corporate Director Resources. Borrowing undertaken is reported as part of reports to Council

36. The Council's Borrowing Strategy considers all options to meet the long-term aims of:

- Promoting revenue cost stability to aid financial planning and avoid a stop-start approach to service delivery, although it is recognised that this may have a financial impact.
- Pooling borrowing and investments to ensure the whole Council shares the risks and rewards of treasury activities.
- Ensuring borrowing plans are aligned to known capital expenditure spending plans and financial reserve levels.
- Achieving a balanced maturity profile.
- Having regard to the effects on current and future Council Tax and rent payers.

37. The Council does not intend to borrow in advance of need and will not do so just to gain financially from short term investment of that borrowing. However, this option may be considered if it is felt that borrowing in advance allows opportunities to lock into favourable long-term rates as part of risk mitigation. This will be limited to no more than

the expected increase in the Council's Capital Financing Requirement over a three-year period.

Prudent Repayment of Capital Expenditure – Annual Minimum Revenue Provision (MRP) Policy Statement for 2023/24

38. Where capital expenditure is financed using borrowing, the Council has a statutory duty to charge an amount to future revenue budgets for the eventual repayment of that expenditure. This spreads the cost of capital expenditure incurred now, and historically, to future revenue budgets. Decisions in respect of the allocation of MRP have short, medium and very long-term impacts across generations.

39. Making minimum and any voluntary provision must be considered to be prudent and results in a reduction in the Council's underlying need to borrow known as the Capital Financing Requirement (CFR). Legislation does not define what constitutes a 'prudent provision.' Instead, Welsh Government has provided guidance and examples to interpret that term.

40. A statement on the Council's policy for its annual MRP is required to be submitted to Council for approval before the start of the financial year to which the provision will relate and is included in the Council's Capital Strategy for 2023/24 but is replicated below.

It is proposed that the Council's MRP Policy to apply for 2023/24 and for future years is as follows, with any change in the level, timing and method of provision in year delegated to the Section 151 Officer:

- *Council expenditure undertaken based on 'supported borrowing' approved by Welsh Government is to be provided for on a straight-line basis over 45 years.*
- *HRA supported borrowing, which was part of the previous housing subsidy system is to be provided for at 2% on a straight-line basis. MRP on the significant £187 million settlement buyout payment is to be on 2% straight line basis as a minimum.*
- *Additional borrowing for a general increase in investment either in the Council Fund or HRA to balance the Capital Programme in a year is to be provided for on a straight-line basis over the estimated average life of the assets created.*
- *Any additional expenditure linked to specific schemes e.g. Invest to Save/Earn, 21st Century Schools, Arena affordability envelope etc. is to be provided for on a straight-line basis, or annuity basis, over the estimated useful life of assets being created or a shorter period as determined by the Section 151 Officer or suggested periods determined by Welsh Government as is the case with the Local Government Borrowing Initiative.*
- *Voluntary revenue provision more than the above requirements can be made subject to affordability and following advice of the Section 151 Officer. Voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent where disclosed in accordance with requirements and the proposed use and outcomes are approved and reported to Council.*
- *Subject to agreement of the S151 Officer, MRP may be waived on expenditure recoverable within a prudent period through capital receipts (e.g. land purchases, loan repayments, income) or deferred to when the benefits from investment are scheduled to begin, to manage*

any initial revenue deficits or when confirmed external grant payments towards that expenditure are expected. Where this flexibility is used, risks and mitigations should clearly be set out as part of an approved business case and regularly reviewed.

- *The MRP charged against liabilities under finance leases, or contracts that have the characteristics of finance leases, shall be equal to the principal element of the lease repayment, calculated on an annual basis.*

Council's Borrowing Requirement

41. The following table shows the actual level of external borrowing currently held by the Council, external borrowing planned to date in 2022/23 and scheduled loan repayments in future years. It compares this to the projected CFR i.e. the need to borrow based on estimates and timing of the Council's capital expenditure, proposed MRP policy and indicative funding plans as set out in the budget report for 2023/24. The difference between the projected CFR in 2027/28 (£1,473 million) and the actual level of external borrowing after any planned repayments (£805 million) is £668 million, i.e. there is insufficient cash held by the Council to support this projected level of under borrowing and this means there is a requirement for the Council to undertake further external borrowing in future years.

Indicator							
Gross External Borrowing and the Capital Financing Requirement							
	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
External borrowing at 1 April	811	856	839	839	835	829	820
Known / New borrowing	72	6	4	tbc	tbc	Tbc	tbc
Scheduled repayments	(27)	(23)	(4)	(4)	(6)	(9)	(15)
External Borrowing at 31 March	**856**	**839**	**839**	**835**	**829**	**820**	**805**
Capital Financing Requirement	868	933	1,033	1,211	1,343	1,414	1,473
Shortfall / (Surplus) borrowing requirement	**12**	**94**	**194**	**376**	**514**	**594**	**668**
Requirement as % of CFR	**1**	**10**	**19**	**31**	**38**	**42**	**45**

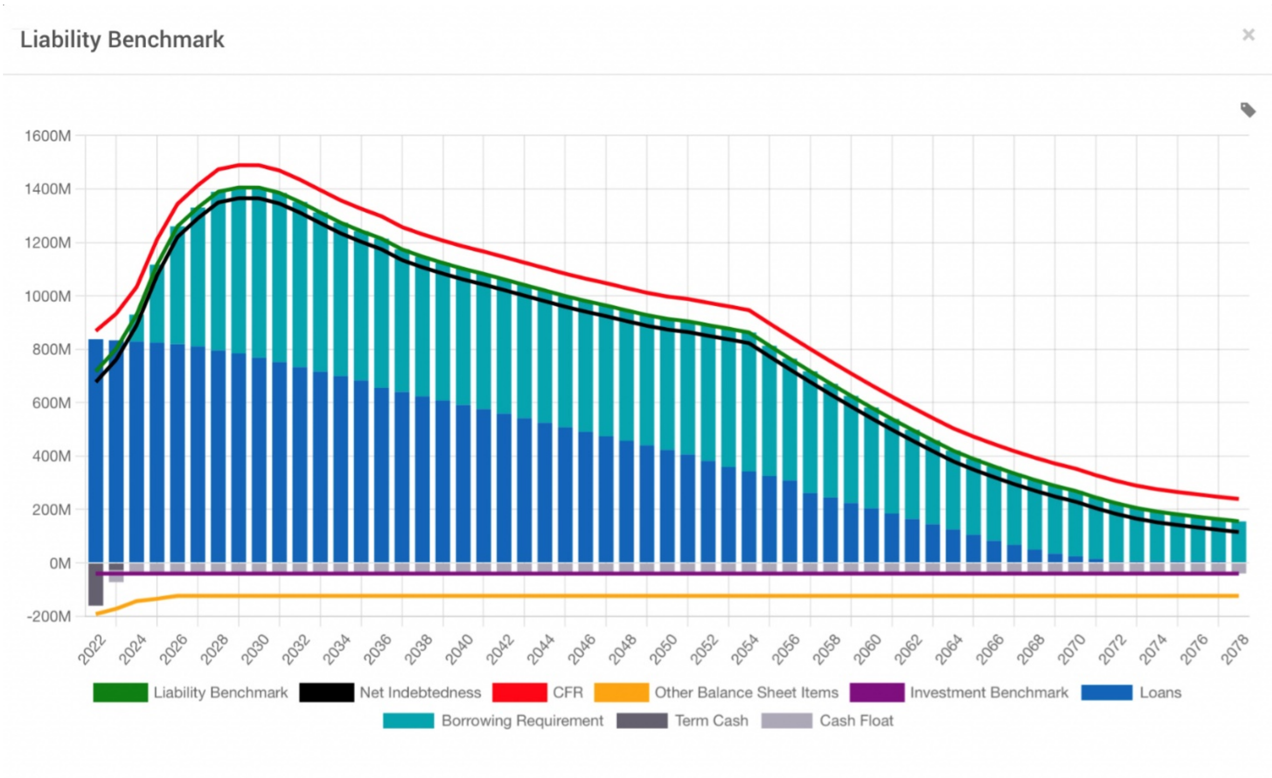
42. The Council is required to set treasury management indicators as part of the CIPFA Treasury Management Code of Practice as well as Capital expenditure indicators in the Capital Strategy and overall budget report to consider affordability indicators. Indicators for future years may be impacted in future years because of updates to the accounting treatment of leases, which is to be considered and implemented during 2023/24.

43. A new prudential indicator required by the Treasury Management Code in 2023/24 is the Liability Benchmark (LB). The Authority is required to estimate and measure the

Liability Benchmark for the forthcoming financial year and the following two financial years, as a minimum. CIPFA strongly recommends that the benchmark is produced for at least 10 years and should ideally cover the full debt maturity profile of a local authority. This is a new indicator and tool and as such it has been prepared as intended. As such the Council will need to continue to assess usefulness and the theoretical principles upon which it is based. It will also require that practical and sustainable data processes are in place corporately and within financial services, to ensure continued improvement in the preparation, update and understanding of this indicator for effective use.

44. CIPFA encourages the production of separate Liability Benchmark indicator for General Fund, HRA and other significant elements where this may be useful. They also recognise that authorities may take different positions in respect of the benchmark and it is not intended to be a boundary of limit that cannot be breached.

45. There are four main components to the Liability Benchmark, with each illustrated in the chart below:
    - Existing gross loan debt assumed to be outstanding in future years.
    - Capital Financing Requirement (CFR) for loans, based on approved capital commitments and planned Minimum Revenue Provision. Given that most Capital investment Programmes are confirmed only for the very near term, similar to most other authorities, this will mean that the CFR will peak in the very near term, whereas other inputs into this indicator are projected forward for a much longer period. In other words, it focuses only on current commitments.
    - Net loans requirement. This shows the Council’s gross loan debt, less its treasury management investments at the last financial year-end, projected into the future where they can reasonably be assumed. This relies on forecasting of future cash balances and balance sheet position well into the future.
    - Liability benchmark (or gross loans requirement): this equals net loans requirement plus an agreed short-term liquidity benchmark. Short-term liquidity allowance means an adequate (but not excessive) allowance for a level of excess cash to be invested short-term to provide access to liquidity if needed (due to short-term cash flow variations). For the preparation of this indicator, this liquidity benchmark has been assumed at £40 million.



46. The Liability Benchmark focuses on the management of the Net Treasury position (borrowing less investments). It assumes minimisation of investments and interest rate and credit risk, profiling the borrowing portfolio to benchmark. It applies to all local authorities, some of whom may have a borrowing requirement such as Cardiff, or others who have net investments because of being debt free or having large reserve balances. The Liability Benchmark is intended to be analysed as part of Treasury Management reporting, with material mismatches explained and be considered when taking new borrowing decisions such as timing and period of borrowing.

47. Comparing the Council's Liability Benchmark with the current borrowing portfolio shows how the existing portfolio matches current commitments of the Authority.
    - A gap between the existing portfolio of loans and the Liability Benchmark, the debt float in the chart above in this case, indicates a borrowing need to match future liabilities and to avoid a determined liquidity benchmark from being insufficient. It does not necessarily indicate the borrowing that will be undertaken in that year.
    - A Liability Benchmark below the existing portfolio of loans would indicate no additional borrowing need and signifies surplus cash more than what may be deemed a short-term liquidity benchmark.

48. Cardiff Council has a borrowing need and this will give rise to net interest cost uncertainty as the borrowing rate has yet to be determined. This is risk is likely to be symmetrical in nature, as interest rates may be higher or lower than those implied from the current market. The section below sets out the approach to meeting the known future borrowing requirement including use of temporary cash balances, external borrowing, sources of borrowing and timing.

Borrowing Strategy

49. The Council will consider various sources and debt instruments to meet the borrowing requirement. The Council continues to qualify for borrowing at the ‘Certainty Rate’ (0.20% below the PWLB Standard Rate).

50. Given the risks within the economic forecasts and certainty of capital expenditure outflows, setting a fixed target for the quantum and timing of borrowing is not deemed appropriate. As seen from the interest forecasts currently available, interest rates on borrowing are expected to fall over the next two years. It should be noted that this is a risk and will need continual review.

51. In managing the Capital Financing Requirement, a pragmatic approach will be adopted by Council’s Section 151 Officer due to changing circumstances with the following combination of approaches proposed.

    - Internal borrowing (using temporary cash balances available) will be maximised in the very near term, whilst ensuring sufficient liquidity, to minimise short term costs. Subject to balance sheet capacity, retention of a minimum liquidity benchmark and previous comments from Governance and Audit Committee, it is suggested that a targeted level of internal borrowing would be circa £100 million or 10% of the 2022/23 Capital Financing Requirement.
    - Short term external borrowing between 1 and 5 years will be undertaken given the current view that interest rates on long term borrowing will fall in the medium term.
    - Medium to long term borrowing will be undertaken to mitigate against the risk of future interest rates not falling as expected and being exposed to risks of interest rates increasing when funds are required. This is likely to be at fixed rates to meet the long-term borrowing policy aims of certainty.

52. The Council’s Treasury Management activities including timing of borrowing decisions are delegated to the Council’s Section 151 Officer. If there was a significant risk of a sharp rise in long and medium-term rates than that currently forecast, then fixed rate external borrowing may be undertaken sooner to reduce the level of internal borrowing. If there was a significant risk of a sharp fall in rates, then long-medium term borrowing would be deferred, following consideration of internal borrowing capacity. Whilst economic and financial forecasts are outside of the Council’s control, it is recognised the Council and Treasury Team will need additional advisory support and capacity to help manage the borrowing requirement and associated risks arising from the Council’s capital investment requirement.

53. It should be noted that current interest rates on the Council’s existing debt portfolio compared to new borrowing rates and penalty rates charged for early debt repayment, have previously resulted in limited options for restructuring of debt. Options have previously been considered for early repayment of loans; however, the penalties outweighed the benefits. With the recent increase in rates, options will continue to be reviewed.

Authorised Limit

54. The Council must set and keep under review how much it can afford to borrow from debt or other long-term liabilities for the forthcoming year and at least the following two financial years (the Affordable Borrowing Limit). It must have regard to the Prudential Code and locally determined indicators when setting this limit and be content that the impact upon future Council Taxpayers and Council tenants is acceptable.

55. The Government retains an option to control either the total of all council's plans, or those of a specific council, although this power has not yet been exercised.

56. Based on the capital programme proposed, it is recommended that the Council approve the following authorised limits (Statutory limit under Section 3 (1) of the Local Government Act 2003) and operational boundaries (figures for 2021/22 are for comparison only). The undertaking of other long-term liabilities, within the overall limit, is delegated to the Section 151 Officer based on the outcome of financial option appraisals and best value considerations.

Indicator						
External Debt - Authorised limit						
	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Limit for external borrowing and other long-term liabilities	1,475	1,517	1,517	1,517	1,517	1,517

57. This limit is consistent with proposals contained within the budget for capital expenditure with the addition of financing and accounting requirements in relation to landfill obligations. The overall limit for the Council has been set at a constant level of £1,517 million for 2023/24 to 2027/28 and cannot be breached without further Council approval.

Operational Boundary

58. The proposed operational boundary or projected level of external debt (excluding landfill) is set at the anticipated level of the CFR at the end of each year.

Indicator						
External Debt - Operational Boundary						
	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Boundary for external borrowing and other long-term liabilities	839	1,033	1,211	1,343	1,414	1,473

59. This will be subject to the level and timing of borrowing decisions and so the actual level of borrowing can therefore be below or above this initial estimate. However, what cannot be breached without a further report to Council is the authorised borrowing limit.

Maturity Structure of Borrowing

60. Limits are set to guard against a large element of the Council's debt maturing and having to be refinanced in a very short space of time, when it may not be economically favourable to do so. The limits have been set to reflect the current debt portfolio, and to allow enough flexibility to enable new borrowing to be undertaken for the optimum period. The table assumes that loans run to their final maturity, however a separate column is also included to show the maturity profile should the Council repay its LOBO loans early.

Indicator				
Maturity structure of borrowing in 2023/24				
	Upper limit **%**	**Lower limit** **%**	**Actual to Maturity** **%**	**Actual if LOBOs Repaid Early** **%**
Under 12 months	20	0	0.53	1.99
12 months and within 24 months	25	0	0.50	0.51
24 months and within 5 years	25	0	3.47	6.78
5 years and within 10 years	20	0	9.49	9.63
10 years and within 20 years	30	0	20.77	19.62
20 years and within 30 years	35	0	21.80	22.12
30 years and within 40 years	35	0	25.55	25.92
40 years and within 50 years	35	0	17.29	13.43
50 years and within 60 years	15	0	0.60	0.00
60 years and within 70 years	5	0	0.00	0.00

Treasury Investment Policy

61. The Council has regard to the CIPFA Treasury Management Code and complies with Welsh Government guidance on Treasury investments. The Council's investments include those arising from its own temporary cash balances as well as balances held from the activities of Joint Committees for which it is the Accountable body.

62. The Council recognises that given the nature of investments, a trade-off between security, liquidity and yield cannot be avoided i.e. there is risk of default. The Council's risk appetite for treasury investments is low and its current business model for financial assets for treasury management investments is to collect contractual cash flows as part of the prudent management of its financial affairs. It aims to achieve the optimum return on investments commensurate with proper levels of security and liquidity. Risk will be contained by ensuring:

- All investments and repayments are in sterling.
- Investment instruments identified for use in the financial year are listed under 'Specified' investments and 'non-Specified' investment categories, dependant on their complexity and risk.
- A list of highly credit worthy counterparties with whom to invest is created and monitored.
- Diversification of approach, investment product and counterparties are sought where possible to avoid concentration of risk.
- Any set limits are implemented with immediate effect following approval of this Treasury Management Strategy by the Council.
- Continual monitoring of treasury activities with the categories of investments that may be used, the credit criteria and associated limits in determining with whom to invest and timing of decisions being delegated to the S151 Officer.

63. The Markets in Financial Instruments Directive (MiFID II) was implemented from 3 January 2018. Where requested by counterparties to do so, the Council has opted up to be classed as a 'professional' client following the submission of qualitative and quantitative information on its treasury activities.

64. Understanding and managing Economic, Social and Governance (ESG) risk is important to the Council and can play an important part in long term investments decision making. However, the key aim for the treasury management of short-term temporary cash balances is Security, Liquidity and then Yield. Credit ratings agencies also incorporate ESG risks alongside more traditional financial risk metrics when assessing counterparty ratings, which the Council uses to determine with whom to invest.

Treasury Investment Strategy

65. The Council will retain access to a range of products and organisations available to manage short term investment balances and to achieve diversification. It uses Welsh Government guidance and judgements to define products available for use as specified or non-specified and sets credit criteria to mitigate credit risk. These are defined in the sections below. Any funds held by the Council on behalf of joint committees

will be managed in accordance with this strategy and segregated where possible to avoid adverse impacts on Cardiff Council's own performance. This is particularly the case for the Cardiff Capital Region City Deal funds held at part of investments at 31 December 2022, which total c £53 million. A full move to a Corporate Joint Committee is to be considered during 2023/24. Any move to such an approach, where such an entity would manage its own funds, would be useful in supporting an understanding of the Council's own treasury performance and position.

66. Financial institutions entered the pandemic with strong balance sheets predominantly a result of regulatory changes imposed on banks following the Financial Crisis. All three rating agencies have reviewed banks around the world with similar results in many countries of most banks being placed on Negative Outlook, in some cases these now being reversed.

67. The ability to change credit criteria and the approach to investments is delegated to the S151 Officer. This allows a prompt response to uncertainties in financial markets, with the Council being kept informed of significant changes through the various reports it receives on treasury activities during the year.

68. The Council aims to have sufficient liquid funds to ensure it does not become a forced borrower for a significant period at rates more than what may be earned on such investments.

Specified Investments

69. A specified investment is defined as one:

- which is in straightforward easily understood low risk products
- not involving corporate share or loan capital
- where the principal sum to be repaid at maturity is the same as the initial principal sum invested and
- is less than one year with an entity with high credit quality

70. Specified investments may comprise up to 100% of the Council's total investments.

Instruments approved for use	Minimum Credit Criteria
Term deposits – UK government and other Local Authorities	Assumed Government Guarantee
Term deposits – banks and building societies up to one year	Long-term A- /Short-term F1 or Government Equity Support

Non-Specified Investments

71. These are all other investments not meeting the definition of a specified investment which could be used to achieve diversification and manage liquidity needs. A maximum upper level of £90 million is to be set for non-specified investments including investments for greater than one year **(Required Prudential Indicator)**.

Instruments approved for use	Min Credit Criteria	Max % of total investments	Max. maturity period
Term deposits – banks and building societies (with maturities more than 1 year)	Long-term AA- /Short-term F1+ or part nationalised	30	2 Years
Term deposits with variable rate and variable maturities in excess of 1 year e.g. structured investment products	Long-term AA- /Short-term F1+	10	2 Years
Certificates of Deposit	Long-term AA- /Short-term F1+	10	Maximum 2-year duration
UK Government Gilts and Gilt funds	Assumed Government Guarantee	40	Maximum 3-year duration
Treasury Bills	Assumed Government Guarantee	40	6 months
Collective Investment Scheme structures – Constant as well as Low Volatility Money Market Funds	AAA – (Fitch, Moody's or S&P)	100	Liquid
Collective Investment Scheme Structures – Ultra Short Dated Bond Funds	AAA - (Fitch, Moody's or S&P)	20	Liquid
Collective Investment Scheme Structures - Government Bond Funds, Corporate Bond Funds, Gilt Funds and Floating Rate Notes	AA-	10	Weighted Average Maturity 3 years

72. The Council can utilise collective investment funds which pool together investments in a diversified portfolio of products and sectors. These may include short-term money market instruments such as bank deposits, certificates of deposit, government guaranteed bonds, corporate bonds and commercial papers, together with a weighted average maturity of up to 60 days. It should be noted that any such funds are triple A rated and allow instant access.

Security / Creditworthiness Policy

73. The Council uses Fitch credit ratings as a basis for assessment of credit worthiness of institutions it will invest with. Changes in the criteria and decisions with whom to invest are delegated to the S151 Officer. Commercial organisations (counterparties) on its approved list will have at least the short-term credit rating of F1 and be authorised institutions within the meaning of the Financial Services and Markets Act 2000. The rating F1 infers "Highest Credit Quality" - the strongest capacity for timely payment of financial commitments.

74. Whilst Fitch ratings form the basis of the Council's threshold criteria, the Council will also have regard to the following when determining with whom to invest:

- rating updates provided by treasury advisors in respect of all three credit rating agencies, as well as other market data
- media reports as well as sovereign credit ratings. No minimum sovereign rating is applied to the UK, however for non-UK based institutions the minimum Fitch sovereign rating is AA-
- the informed judgement of treasury staff and treasury management advisors after consideration of wider economic factors
- financial sector and country exposure
- the extent to which organisations who do not meet the above criteria, are nationalised.

75. Local authorities usually do not have a credit rating but are expected to assume the UK Sovereign rating. In accordance with the Local Government Act 2003, a person lending money to a local authority shall not be bound to enquire whether the authority has power to borrow the money and shall not be prejudiced by the absence of any such power. All loans are secured on future revenues of local authorities, and this includes the ability to take legal action if any debts are not repaid. Inter local authority lending is an option that continues to be available as part of the strategy proposed.

76. The Council's lending list for direct investment in an organisation is based on the following credit criteria, with the maximum limit for direct investment in any one group of related companies, whether ring fenced or otherwise, being £20 million:

Fitch Ratings (minimum)	**Long term**	**Short term**	**Limit £m**
Overnight to three months	A-	F1	6
Overnight to one year	A	F1	12
Overnight to two years	AA-	F1+	15
Money Market Funds	AAA	n/a	12
UK Part Nationalised Banks overnight to two years	n/a	n/a	20

77. Where treasury advisors recommend a shorter duration than would be allowed in accordance with Fitch criteria above, then the shorter period is adhered to.

The Council's current list of approved counterparties is shown below:

	£m	**Duration**
Australia AAA		
Australia and New Zealand Banking Group	12	1 year
Commonwealth Bank of Australia	12	1 year
National Australia Bank	12	1 year
Canada AA+		
Canadian Imperial Bank of Commerce	15	2 years
National Bank of Canada	12	1 year
Toronto Dominion Bank	15	2 years
France AA		
Credit Industriel et Commercial	12	1 year
Societe Generale	6	3 Months

Germany AAA		
Bayerische Landesbank	6	3 Months
DZ Bank (Deutsche Zentral-Genossenschaftsbank)	15	2 years
Landesbank Hessen-Thueringen Girozentrale	12	1 year
Netherlands AAA		
Cooperatieve Rabobank U.A.	12	1 year
Singapore AAA		
Development Bank Singapore	15	2 years
Oversea Chinese Banking Corporation	15	2 years
United Overseas Bank	15	2 years
Sweden AAA		
Skandinaviska Enskilda Banken	15	2 years
Switzerland AAA		
UBS AG	15	2 years
U.K AA- (Including RFB / NRFB)*		
Barclays Bank	12	1 year
Goldman Sachs International Bank	12	1 year
Handelsbanken	15	2 years
HSBC Bank	15	2 years
Santander UK plc	12	1 year
SMBC Bank International Plc	6	3 months
Standard Chartered Bank	12	1 year
Bank of Scotland	12	1 year
Lloyds Bank	12	1 year
National Westminster Bank **	20	2 years
Royal Bank of Scotland	20	2 years
Coventry BS	6	3 months
Leeds BS	6	3 months
Nationwide BS	12	1 year
Skipton BS	6	3 months
Yorkshire BS	6	3 months
UK Local Authority (Per Authority)	15	2 Years
	n/a	6 months
Money Market Funds		
Aberdeen Liquidity Fund	12	Liquid
BlackRock ICS Sterling Fund	12	Liquid
Deutsche Managed Sterling Fund	12	Liquid
Goldman Sachs Sterling Reserves Fund	12	Liquid
HSBC GBP Liquidity	12	Liquid
Insight Sterling Liquidity Fund	12	Liquid
JPMorgan GBP Liquidity LVNAV	12	Liquid
LGIM Sterling Liquidity Fund	12	Liquid

* Ring-Fenced Banks and Non-Ringfenced Banks where applicable
** In respect of the Council's Day to day banking provider, there is a risk that the counterparty limit would be exceeded for a short period on receipt of unexpected funds.

78. The above list has been determined having regard to current participation in the financial markets and brokerages, sovereign countries whose banks we would be content to use and selecting some of their highest rated organisations.

79. The credit ratings of financial institutions are monitored regularly through use of the treasury management advisor's credit service. If a downgrade results in the counterparty or investment scheme no longer meeting the Council's criteria, its further use for new investment will be withdrawn immediately. Investments already held with that counterparty will be reviewed and options to call back funds before maturity would be investigated. It should be noted that any early repayment is only at the discretion of the borrower and often at a penalty.

80. In addition to treasury management investment activity, local authorities can utilise their powers in order to undertake capital expenditure and invest in other Non-Treasury financial assets. Such activity can include:

- Service Investments - loans supporting service outcomes, investment in or loans to subsidiaries, and investment in existing commercial property holdings either to maintain them or increase value or

- Investment assets bought primarily for yield (Financial Return) - An 'investment asset' could be a property asset, or interest or right that generates a balance sheet asset (such as, but not limited to a loan, sale and leaseback agreement). As it has been 'bought primarily for yield,' the asset serves no direct policy purpose linked to the authority's core functions but has been acquired primarily because it would generate an income stream for the authority, which would most often (but not exclusively) be used to support wider service spending. Examples of such assets is included in the glossary.

81. Whilst these investments impact on treasury management activity, they are managed outside of this Treasury Management Strategy and approved separately as part of the Council's Capital expenditure plans arising from its Capital Strategy. Regulator concerns in relation to the extent of this activity have resulted in the recent updates to CIPFA professional Codes of Practice including the Treasury Management Code. Whilst no national monetary, financial or other controls or limits are in place currently, regulations have been updated to ensure the risks and implications of such activities are clearly governed and understood over a long-term period. Recent updates to regulations, CIPFA Codes and PWLB borrowing rules have all adopted a similar outlook to discourage further capital expenditure on investment assets bought primarily for a commercial return or financial yield.

82. The most significant investments currently held by the Council and managed outside of normal treasury management activity are the Council's 100% shareholding in Cardiff Bus and the Council's investment properties, which include various historic freeholds within the City held for income generation or capital appreciation. An independent review of the Council's approach to holding investment properties as well as specific investment management practices, similar to Treasury Management Practices, are being developed and will be included as part of the next Property Strategy.

83. Proposals for Non-Treasury investments would need to form part of the Council's Capital Strategy and Capital Programme. Such investment requires careful investment management and should be managed as part of agreed processes considering monitoring, decision making and reporting. This will include an appropriate investment management and risk management framework, making it explicit in any decision making:

- The powers under which investment is made.
- The governance process including arrangements in place to ensure appropriate due diligence to support decision making.
- The extent to which capital invested is placed at risk and any rewards over a long-term horizon such as 20-30 years.
- Proportionality of any income to the overall resources available to the Council

- The impact of potential losses on financial sustainability.
- The methodology and criteria for assessing performance and changes to market and other conditions.
- How knowledge and skills in managing such investments is arranged and that these are monitored, reported and highlighted explicitly in the decision making process and due diligence.

84. Where investment is undertaken in assets primarily for yield, these investments should be proportional to the level of resources of the authority, but it should be noted, that if undertaking such investments, the Council would not be able to borrow from the PWLB for this and any other capital expenditure within its programme.

85. This emphasises the importance of the Council's S151 (Responsible Finance) Officer role in ensuring the governance of, risk assessment, informing, reviewing and reporting decisions being made in relation to both Treasury and Non-treasury Investments.

86. Treasury management activities are delegated to the S151 Officer and detailed Treasury Management Practices are in place and updated regularly setting out the approach to risk management, reporting, responsibilities and controls. Controls and processes in the Treasury function are subject to a more frequent periodic internal audit.

87. The Treasury function performs a key role including ensuring that sufficient funds are available to meet the Council’s financial commitments and is often the payment mechanism of last resort. The requirements to meet high standards, accuracy and governance requirements are significant for a small specialist team of c 1.2 FTE undertaking all transactional, reporting and compliance activities for Treasury Management Code requirements. Contingency plans in terms of access to bank and systems are in place and proven. allowing continuity of service provision remotely.

88. Changes to CIPFA's Prudential Indicators have reinforced the need to project positions for the long-term to establish benchmark positions for borrowing and treasury investments. To fully embrace these challenges, the Council overall strategic and budgetary planning will need to continue to develop a longer-term planning approach working with key funders.

89. Treasury Management activities continue to be the subject of regulatory change. The function also needs to evolve as the complexity of the Council’s activities. These challenges and approach to implementing and sustaining changes, continue to test skills, resilience and capacity.

90. Whilst traditional approaches to treasury management have worked well for the Authority in the past, achieving a balanced portfolio across loans and investments, it is essential that the treasury function keeps pace with changing circumstances and new ways of working to continue to be able to provide best value services.

91. Changes in the profile of the Council's projected balance sheet, including an ambitious capital investment programme which almost doubles the size of the existing borrowing, will place the emphasis on ensuring borrowing at the most appropriate structure and timing to reduce risk to the council. The treasury team will need to consider focusing allocating resources towards short and long-term tactical borrowing decisions to manage the borrowing requirement and support minimisation of longer-term costs, whilst identifying and managing risk in a proportionate way. This will require the use of external services, where appropriate to provide the tools and / or expertise to support the implementation of the borrowing strategy and the risk management framework.

92. The CIPFA Treasury Management Code requires all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making. Treasury staff directly and regularly involved in borrowing and lending activities are provided access to a wide range of training. This includes seminars and workshops organised by treasury advisors bringing together practitioners from different authorities; seminars organised by CIPFA and other national bodies; regular contact with a client relationship manager

as well as their briefing notes and articles. Staff responsible for treasury activity on a day-to-day basis have a recognised accountancy qualification and are encouraged to undertake relevant treasury management training.

93. The CIPFA Treasury Management Code also requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Governance and Audit Committee Members responsible for reviewing and seeking assurance on treasury management activities will be provided with the opportunity for additional specific external training as informed by individual and collective Governance and Audit Committee self-assessments.

94. It is the responsibility of the Section 151 officer to ensure the adequacy of the treasury management function, skills and expertise having regard to the size and complexity of the treasury management conducted by the council. Options for additional support will be considered as part of the Council’s existing Treasury Management advisory services.

Bank Rate
The rate of interest set by the Bank of England as a benchmark rate for British banks.

Bonds
A long-term debt security issued by a company, a financial institution, a local authority, national government or its affiliated agencies. It represents an undertaking to repay the holder the fixed amount of the principal on the maturity date plus a specified rate of interest payable either on a regular basis during the bond's life (coupon) or at maturity.

Borrowing
Loans taken out by the authority to pay for capital expenditure or for the prudent management of the Council's financial affairs, which are repayable with interest.

Capital Expenditure
Capital expenditure pays for improvements to existing and new assets used in the delivery of Council services as well as other items determined by Regulation. Capital resources are scarce, costly and also have long term revenue implications over many years and even generations where capital expenditure is funded by borrowing. Hence the requirement of the Prudential Code to ensure what is charged as Capital Expenditure is Prudent, Sustainable and Affordable.

The statutory definition of capital expenditure is given in the Local Government Act 2003, the Local Authorities (Capital Finance) Regulations 2003 and 2004 as amended. Statute relies on the accounting measurement of cost in International Accounting Standard (IAS) 16 to determine whether expenditure is eligible to be capitalised or whether it should be treated as revenue expenditure. Key to what is eligible as capital spend are the following words in IAS 16 - 'Costs directly attributable to bringing the specific asset into working condition for its intended use'.

Capital Financing Requirement (CFR)
An authority's underlying need to borrow for a capital purpose. It measures capital expenditure incurred but not yet financed by the receipt of grants, contributions and charges to the revenue account.

Movement	Opening Capital Financing Requirement (CFR)
+	Capital expenditure incurred in year
-	Grants, contributions, reserves and receipts used for capital expenditure
-	Prudent Minimum Revenue Provision and Voluntary Provision
=	Closing Capital Financing Requirement (CFR)

Capital Market
A market for securities (debt or equity), where companies and governments can raise long-term funds (periods greater than one year). The raising of short-term funds takes place on other markets (e.g. the money market).

Capital Programme
The Capital Programme sets out the Council's capital expenditure plans for the forthcoming financial year as well as for the medium term. It is approved annually at Council and identifies the estimated cost of those schemes, their projected phasing over financial years as well as the method of funding such expenditure.

Certificates of Deposits (CDs)
A certificate issued for deposits made at a deposit-taking institution (generally a bank). The bank agrees to pay a fixed interest rate for the specified period and repays the principal at maturity. CDs can be purchased directly from the banking institution or through a securities

broker. An active interbank secondary market exists to buy and sell CDs.

Chartered Institute of Public Finance & Accountancy (CIPFA)

CIPFA is the professional body for accountants in public finance. As a specialised public services body, it provides information, guidance, and determines accounting standards and reporting standards to be followed by Local Government.

Collective Investment Scheme Structures

Schemes whereby monies from a number of investors are pooled and invested as one portfolio in accordance with pre-determined objectives.

Corporate Bonds

Bonds that are issued by a company or other non-government issuers. They represent a form of corporate debt finance and are an alternative means of raising new capital other than equity finance or bank lending.

Counterparty

One of the parties involved in a financial transaction with whom the Council may place investments.

Counterparty / Credit Risk

Risk that a counterparty fails to meet its contractual obligations to the Council to repay sums invested.

Credit Criteria

The parameters used as a starting point in considering with whom the Council may place investments, aimed at ensuring the security of the sums invested.

Credit Default Swaps

A financial transaction which the buyer transfers the credit risk related to a debt security to the seller, who receives a series of fees for assuming this risk. The levels of fees reflect the perceived level of risk.

Credit Rating

A credit rating assesses the credit worthiness of an individual, corporation, or even a country. Credit ratings are calculated from financial history and current assets and liabilities. Typically, a credit rating tells a lender or investor the probability of the subject being able to pay back a loan. Ratings usually consist of a long-term, short term, viability and support indicators. The Fitch credit rating of F1 used by the Council is designated as “Highest Credit Quality” and indicates the strongest capacity for timely payment of financial commitments.

Debt Management Account Deposit Facility (DMADF)

The Debt Management Office provides this service as part of its cash management operations and of a wider series of measures designed to improve local and central government’s investment framework and cash management. The key objective of the DMADF is to provide users with a flexible and secure facility to supplement their existing range of investment options while saving interest costs for central government.

Debt Restructuring

Debt restructuring is a process that allows an organisation to reduce, renegotiate and undertake replacement debt.

Diversification of Investments

The process of creating a portfolio of different types of financial instruments with regard to type, price, risk issuer, location, maturity, etc. in order to reduce the overall risk of the portfolio as a whole.

Duration (Maturity)

The length of time between the issue of a security and the date on which it becomes payable.

External Borrowing

Money borrowed from outside of the Council.

Financial Instrument

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. Typical financial liabilities are borrowing and financial guarantees. Typical financial assets include bank deposits, amounts owed by customers, loans receivable and investments.

Fitch Credit Ratings

A commercial organisation providing an opinion on the relative ability of an entity to meet financial commitments, such as interest, preferred dividends, repayment of principal, insurance claims or counterparty obligations. The opinion is usually provided in the form of a credit rating.

Fixed Rate

An interest rate that does not change over the life of a loan or other form of credit.

Floating Rate Notes

A money market security paying a floating or variable interest rate, which may incorporate a minimum or floor.

Four Clauses of Treasury Management

In compliance with the First Clause, this Council will create and maintain, as the cornerstones for effective treasury 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 way the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

In compliance with the Second Clause, this Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

In compliance with the Third Clause, this Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Cabinet, and for the execution and administration of treasury management decisions to the Corporate Director Resources in accordance with existing delegations, who will act in accordance with the organisation's policy statement, TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

In compliance with the Fourth Clause, this Council requires the scrutiny of the accounting, audit and commercial issues of its Treasury Management Strategy and Practices to be undertaken by the Council's Audit Committee due to the technical nature of the documents.

Fraud / Error Risk

Risk of losses being incurred because of fraud, error or corruption in treasury management and failure to institute adequate systems, procedures and other arrangements to prevent irregularities.

Housing Revenue Account (HRA)

The HRA is an account of expenditure and income that every local authority housing department must keep in accordance with the Local Government & Housing Act 1989. The account is kept separate, or ring fenced from other Council activities. Income is primarily generated by the rents and service charges paid by tenants, while expenditure is on the management and maintenance of the housing stock, and capital financing charges on the HRA's outstanding loan debt.

Interest Rate Risk

Risk that fluctuations in interest rates could impose extra costs against which the Council has failed to protect itself adequately.

Internal Borrowing

Money borrowed from within the Council, sourced from temporary internal cash balances.

Investment assets bought primarily for yield

Assets that serve no direct policy purpose but are held primarily to generate an income. An 'investment asset' could be a capital or property asset, or interest or right that generates a balance sheet asset (such as, but not limited to a loan, sale and leaseback agreement). As it has been 'bought primarily for yield,' the investment asset would serve no direct policy purpose linked to the authority's core functions but has been acquired primarily because it would generate an income stream for the authority, which would most often (but not exclusively) be used to support wider service spending.

Investment assets bought primarily for yield would usually have one or more of the following characteristics: a. buying land or existing buildings to let out at market rate b. buying land or buildings which were previously operated on a commercial basis which is then continued by the local authority without any additional investment or modification c. buying land or existing buildings other than housing which generate income and are intended to be held indefinitely, rather than until the achievement of some meaningful trigger such as the completion of land assembly d. buying a speculative investment asset (including both financial and non-financial assets) that generates yield without a direct policy purpose.

Lender Option Borrower Option Loans (LOBOs)

Loans to the Council where the lender can request a change in the rate of interest payable by the Council at pre-defined dates and intervals. The council at this point has the option to repay the loan.

Liquidity

The ability of the Council to meet its financial obligations as they fall due.

Market Loans

Borrowing that is sourced from the market i.e. organisations other than the Public Works Loan Board or a Public Body.

Medium Term Financial Plan

Plan outlining the financial strategies and actions that are envisaged by the Council in the medium term regarding the budget.

Markets in Financial Instruments Directive (MiFID)

EU legislation that regulates firms who provide financial instrument services. MiFID was applied in the UK from November 2007 but was revised with changes taking effect from **3 January 2018 (**MiFID II).

The aim is to ensure financial institutions undertake more extensive checks on their client's suitability for investment products. Organisations undertaking investments will be either classified as 'retail' or 'professional.'

MiFID II requires all Local Authorities to be initially treated as "retail clients" unless they "opt up" to a "professional client." The assumption being that retail clients require a greater level of due diligence and support for investment decision making. Financial institutions will owe a greater duty of care to retail clients, however, they will have no greater financial protection than professional clients.

Minimum Revenue Provision (MRP)

This is the amount which must be charged to the authority's revenue account each year and set aside as provision for repaying external loans and meeting other credit liabilities. The prudent amount is determined having regard to guidance issued by WG. This has the effect of reducing the Capital Financing Requirement (CFR).

Money Market

The market for short-term securities or investments, such as certificates of deposit, commercial paper or treasury bills, with maturities of up to one year.

Money Market Funds

An investment fund which pools the investments of numerous depositors, spreading those investments over a number of different financial instruments and counterparties. Funds with a Constant Net Asset Value (CNAV) are those where the sum invested is the same on maturity, Low Volatility Net Asset Value (LVNAV) are those where any sum invested is likely to be the same on maturity. Funds with a Variable Net Asset Value (VNAV) are those where the sum on maturity could be higher or lower due to movements in the value of the underlying investments.

Net Asset Value (NAV)

The market value of an investment fund's portfolio of securities as measured by the price at which an investor will sell a fund's shares or units.

Pooling

The process whereby investments or loans are held corporately rather than for specific projects or parts of the Council, with recharges to those areas for their share of the relevant income and expenditure using an agreed methodology, where such a recharge is required to be made.

Prudential Code for Capital Finance

The system introduced on 1 April 2004 by Part 1 of the Local Government Act 2003 which allows local authorities to borrow without Government consent, if they can afford to service the debt from their own resources and that any such borrowing is prudent and sustainable. This requires the preparation and approval of various indicators.

Public Works Loans Board (PWLB)

The Public Works Loans Board is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

Refinancing Risk

Risk that maturing borrowing or other financing of capital projects cannot be renewed on terms that reflect existing assumptions and that the Council will suffer extra costs as a result.

Regulatory Risk

Risk that actions by the Council or by any person outside of it are in breach of legal powers or regulatory requirements resulting in losses to the Council, or the imposition of extra costs.

Ring Fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.

Security

Protecting investments from the risk of significant loss, either from a fall in value or from default of a counterparty.

Sovereign Credit Ratings

The credit rating of a country. It indicates the risk level of the investing environment of a country, considering political risk and other factors.

Sterling

The monetary unit of the United Kingdom (the British pound).

Term Deposits

A term deposit is a money deposit at a banking institution that cannot be withdrawn for a certain "term" or period.

Treasury Management

The management of the organisation’s borrowing, 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.

Treasury Bills

Debt securities issued by a government with a short-term maturity of up to 6 months.

UK Government Gilts

Fixed-interest debt securities issued or secured by the British Government. Gilts are always denominated in sterling though the Government occasionally also issues instruments in other currencies in the Eurobond market or elsewhere.

Variable Rate

An interest rate that changes in line with market rates.

Yield

The annual rate of return paid out on an investment, expressed as a percentage of the current market price of the relevant investment.