Report

Council

Part 1

Date: 25 February 2025

Subject 2025/26 Capital Strategy and Treasury Management Strategy

Purpose The purpose of this report is to present to Council the Capital and Treasury Management Strategies for approval. The report summarises the key aspects of both strategies, as well as highlighting the main implications and risks arising from them. The report also includes the proposed Capital Programme, which Cabinet approved at its meeting on 12th February 2025.

Author Chief Accountant / Head of Finance

Ward General

Summary As set out within the Corporate Plan, the Council has ambitious plans for the city, with the Capital Programme a key enabler in delivering this ambition. The current programme runs from 2024/25 to 2028/29. In line with the rolling programme management approach, the next iteration of the five-year programme will run from 2025/26 to 2029/30. The next iteration of the programme will predominantly only include what is already approved i.e. annual recurring capital spend areas and the completion of a number of ongoing schemes from the existing programme. In addition, it now also includes the Sustainable Communities for Learning rolling programme; this being the 'new/additional' programme/projects included.

This report includes both the Capital and Treasury Management Strategies which, at their core, (i) confirm the Capital Programme, as part of the Capital Strategy and (ii) the borrowing limits and other indicators which govern the management of the Council's borrowing and investing activities, as part of the Treasury Management Strategy.

The Capital Strategy also sets out the long-term context (10 years) in which capital decisions are made. It demonstrates that the Council's approach to taking capital and investment decisions is in line with service objectives, whilst giving consideration to risk, reward and impact.

The treasury management activities the Council undertakes is inherently linked to the capital plans of the authority and, therefore, the Treasury Management Strategy is included alongside the Capital Strategy.

The main recommendations arising from the two strategies are outlined in this covering report.

Proposal Council is asked;

- To approve the Capital Strategy (Appendix 2), including the proposed Capital Programme within it (shown separately in Appendix 1), and the borrowing requirements/limits needed to deliver the proposed programme.

- To approve the Treasury Management Strategy and Treasury Management Indicators, the Investment Strategy and the Minimum Revenue Provision (MRP) policy for 2024/25. (Appendix 3)

- As part of the above

  - To note the increasing debt, and corresponding revenue cost of this, in delivering the rolling Capital Programme, and the implications of this over both the short and medium-long term with regard to affordability, prudence and sustainability.

  - To note the feedback provided by the Governance & Audit Committee on 30th January 2025

Action by Chief Accountant / Head of Finance

Timetable Immediate

This report was prepared after consultation with:

- Leader of the Council
- Chief Executive
- Strategic Directors
- The Council's Treasury Advisors
- Governance & Audit Committee

Signed

Background

Governance and requirement of councils

1. In November 2022, the Cabinet approved the Council's new Corporate Plan, which sets out how it would achieve the ambition of an *Ambitious, Fairer, Greener Newport for everyone*. This mission is underpinned by four wellbeing objectives and supported by a transformation plan. Achievement of the four wellbeing objectives will be pursued via a series of actions and individual service plans. In some instances, these actions will involve activity and projects of a capital nature.

2. Whilst Cabinet makes decisions regarding the capital projects to be included in the programme, it is full Council that approves the borrowing limits that the overall programme must remain within. Many projects are funded from capital grants, capital receipts and specific reserves, which do not impact on borrowing levels, but, where borrowing is required, it is important that those limits are not exceeded. This is an important area of overall financial management governance in that debt funded capital expenditure, and the external borrowing that results, lock the Council into a long-term liability for the associated revenue costs. These costs, known as 'Capital Financing Costs' are comprised of the external loan interest costs and the annual financial provision required for the repayment of the borrowing itself, known as Minimum Revenue Provision (MRP).

3. In addition to the continuation of a challenging financial environment, the Council had to implement a new accounting standard, IFRS16 Leases, from 1st April 2024. This standard requires all councils to treat leasing arrangements as capital expenditure, rather than revenue expenditure. As a result of this, the previous revenue cost of leasing arrangements, met from service area budgets, has been replaced by an MRP charge. Overall, in broad terms, this change has had a neutral financial impact, as the MRP charges against the revenue budget is of equivalent value to current leasing charges. However, by treating the full cost of the lease as capital expenditure, it has increased the Council's Capital Financing Requirement (CFR) and impact upon the prudential indicators, especially the Operational Boundary and Authorised Limit. Throughout the two strategies, it should be noted that a number of the prudential indicators will focus on capital expenditure that drives borrowing, and, where appropriate, excludes the impact that the accounting treatment for leases and PFI under IFRS 16 has on the CFR. This is because whilst treating the full cost of the lease as capital expenditure has increased the CFR, this has not impacted on the Council's external borrowing requirement. Each of the Council's leases will also have a revenue budget within the service area that is responsible for that lease and that will cover the cost of the lease.

4. The key governance documents that underpin this area of local authority finances are:

   Capital Strategy

   This, at its core:

   i) Sets out the long-term context (10 years) in which capital decisions are made and includes the medium-term Capital Programme;

   ii) Demonstrates that the local authority takes capital / investments decisions in line with service objectives, giving consideration to risk, reward and impact;

   iii) Shows how the Council takes account of stewardship of public funds, value for money and affordability, sustainability and prudence in its decisions and plans.

   Treasury Management Strategy

   This, at its core:

(i) Sets out the Council's longer term borrowing requirement and approach, which is driven by the Capital Programme requirements i.e. capital spend funded from borrowing, and, in Newport specifically, the reducing 'internal borrowing' capacity as its reserves are reduced;

(ii) Outlines how the Council will manage and invest any surplus cash;

(iii) Includes additional guidance, namely the Welsh Government Investment Guidance and the MRP Policy.

Both these strategies are a requirement of CIPFA's Prudential Code, which ensures, within the frameworks that these documents set, and a suite of prudential indicators, that capital expenditure plans are:

- **Affordable –** there must be sufficient resources to be able to meet the capital financing consequence of debt-funded capital expenditure within the overall revenue budget. There must also be sufficient capital resources for any non-debt funded capital expenditure. In addition, total capital expenditure is to be within **sustainable** limits. Councils are required to consider their current and estimated future resources available, together with the totality of their capital expenditure and income forecasts in assessing affordability.

- **Prudent –** it is important that whilst capital expenditure and capital financing costs are affordable, they are also proportionate. I.e. it is important that an appropriate proportion of the revenue budget is allocated for the purpose of financing past capital expenditure and that this is **sustainable**. Consideration as to overall financial **sustainability** is a key aspect to this. The operational borrowing limit should provide for the most likely level of borrowing, not the worst case, with the authorised limit providing sufficient headroom to enable day to day cash management. There should be alignment with the treasury management policy statement and practices and investing activities should strike an appropriate balance between security, liquidity and yield, in that order.

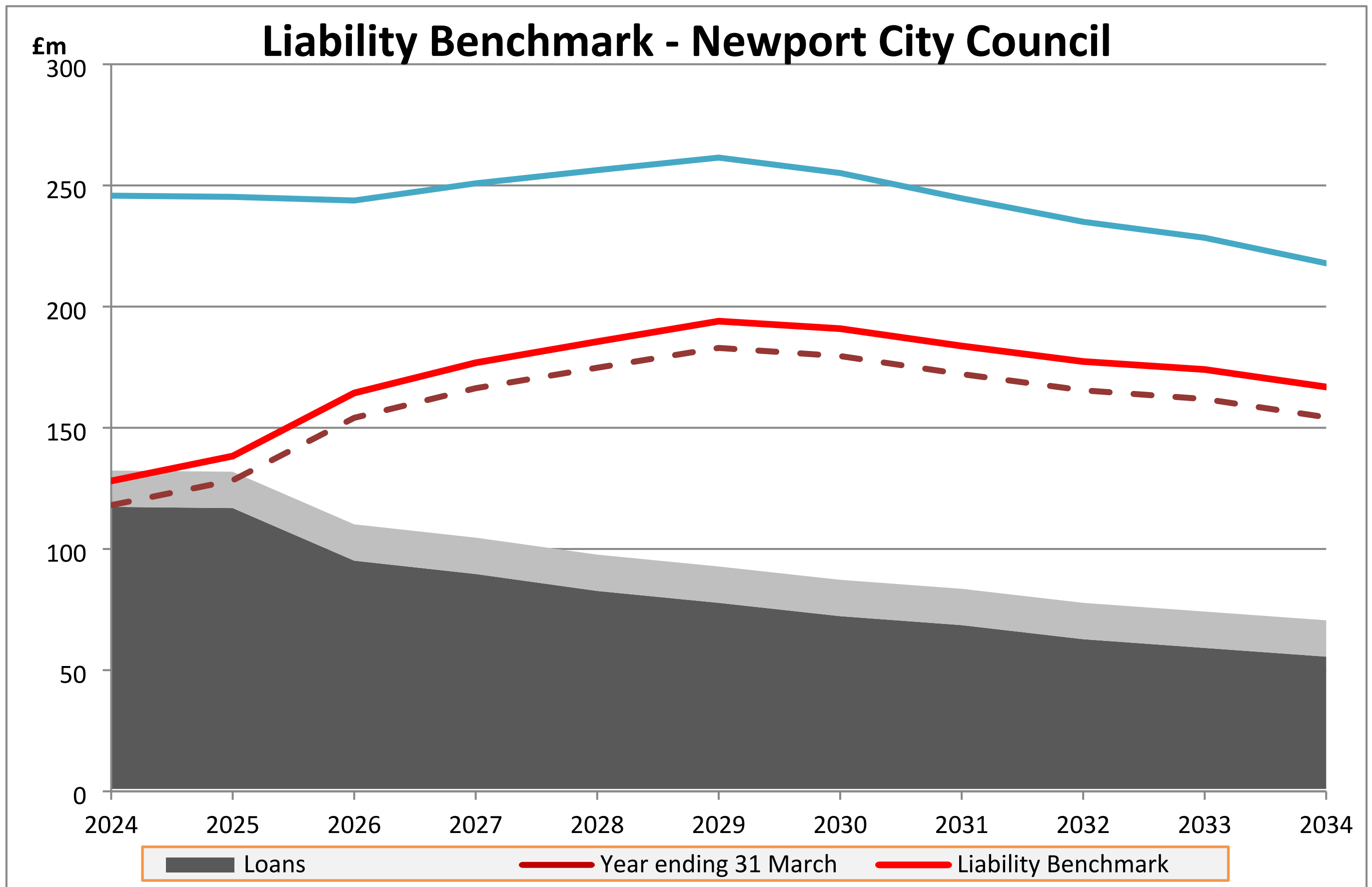
- **Sustainable –** sustainability is a key theme when considering both affordability and prudence and is something that should be assessed in terms of the long-term financial picture.

5. The Capital and Treasury strategies of the Council are based on a number of assumptions which drives the Council's Capital financing requirement and it's overall need to borrow. These assumptions are based on the expected use of the Council's cash back reserves, the current capital programme/projects funded from borrowing and timescales for these, including slippage forecasts. These have been updated based on the November 2024 forecasts.

   There have been key updates to some assumptions, compared to the existing strategies. The main changes are that the level of reserves that are forecast as being used over the short term are now higher than was assumed in the 2024/25 strategy. Also, the capital programme for 2025/26 to 2029/30 now includes the Council's Sustainable Communities for Learning (SCfL) programme, which has recently been approved by Welsh Government, at the spend profile that was approved within the Strategic Outline Plan. These changes to the assumptions have had an impact on the Council's liability benchmark.

6. The Council's liability benchmark is show by the below graph and is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £10m required. This indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The below chart is in relation to the 'loans (borrowing)' Capital financing requirement and excludes any impact of IFRS 16.

Chart 1: Liability Benchmark (excluding PFI and Leases)



7. The graph above shows the following;

(i) Resulting from the increased borrowing associated with new schemes i.e. sustainable communities for learning.

- Increasing the Council's CFR over the next 4 years which in turn increase the need for actual external borrowing, denoted by the solid and dashed red lines i.e. the liability benchmark and loan requirement lines, over the same 4-year period. The speed of this need to borrow is faster than was the case in the 2024/25 Capital and Treasury strategies as shown by the steepness of the lines

(ii) resulting from the expected use of the Council's cash back reserves

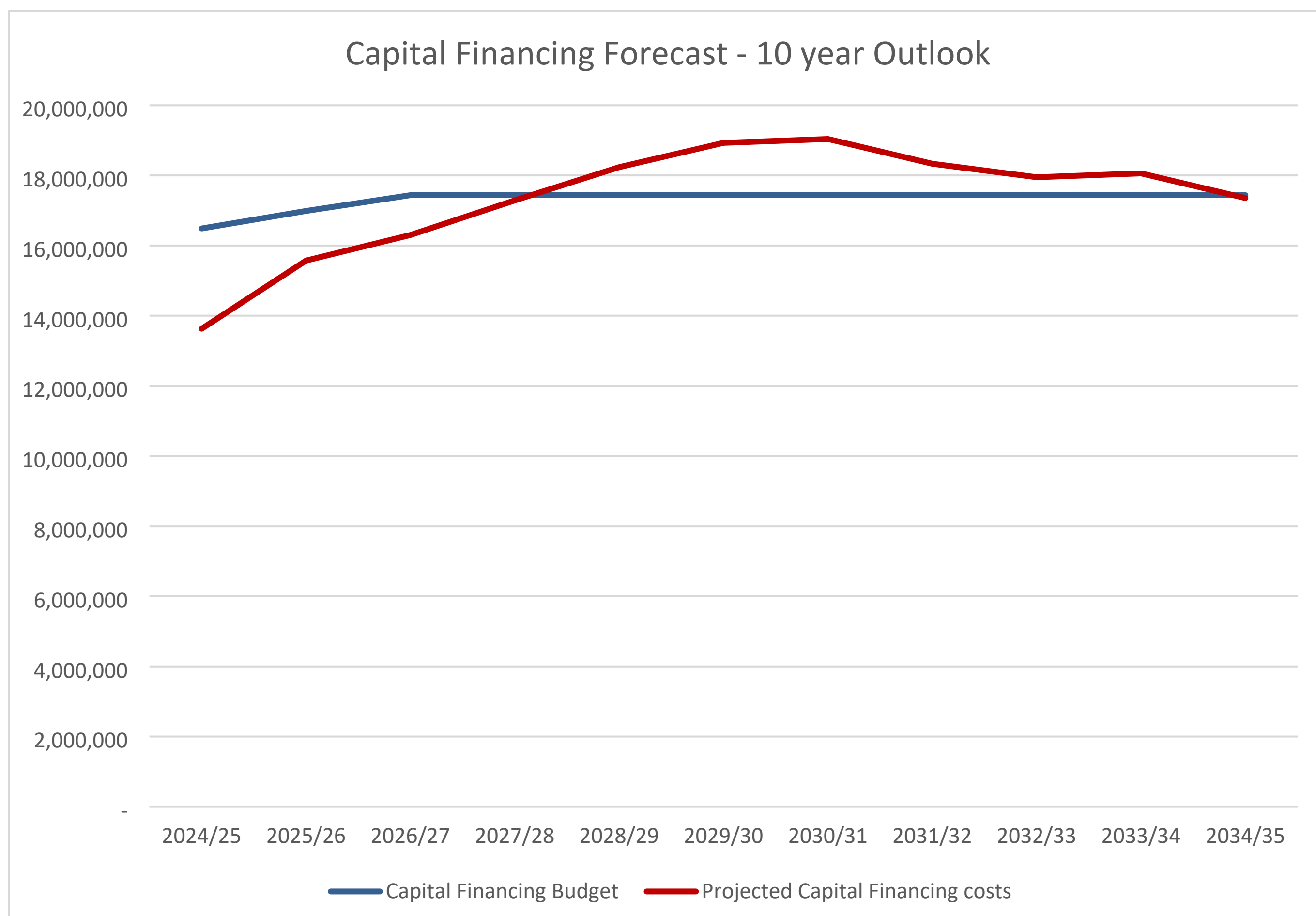
- The impact of the reducing capacity for internal borrowing, demonstrated by the convergence of the red and blue lines i.e. the liability benchmark / loans requirements lines with the CFR line, over the course of the 10-year period. This shows the Council's reducing internal borrowing headroom and this update here shows this happening quicker than was assumed within the 2024/25 strategy

(iii) generally

- As the Council's existing borrowing is scheduled for repayment (denoted by the shaded grey area) over the medium to long term, it will require re-financing as the Council's borrowing requirement is up to the red lines i.e. liability benchmark / loan requirement lines

8. The programme detailed within the 2024/25 Capital and Treasury Strategy, plus the projected use of reserves then meant that the level and speed of borrowing were more limited and therefore the capital financing costs of this was within the current budget levels for the revenue budget, peaking in around 2030 and producing (reducing) revenue budget underspends until then. Updated projections and assumptions with the 2025/26 strategies i.e. faster use of spending cash backed reserves and the borrowing costs associated with the education sustainable communities for learning programme now means that capital financing costs are likely to exceed the revenue budget for this – in around 2028/29. The below chart relates to non PFI and leases capital financing cost as they have separate budgets within service area revenue budgets.

Chart 2: Capital Financing Cost Forecast, excluding PFI/leases



Due to reserves being used faster than previously assumed and the inclusion of the SCfL programme at the current suggested profile, the capital financing costs of the programme would, in the 2028/29 financial year, go above the current capital financing budget, as demonstrated in the graph above. It is important to note, that these are forecast figures and the projected capital financing costs would be reviewed quarterly / annually. If there is more slippage than currently forecast, or the use of reserves are slower than assumed, the need to borrow and timing of that would change, and therefore also the projected capital financing costs would change. As the expected budget pressure is not expected to occur until 2028/29, this can be reviewed in future capital strategies. But the Council will need to consider options to ensure that the costs remain within the available budget or make future provision to increase the capital financing budget within the Council's Medium Term Finance plan i.e. the revenue budget in order to ensure that the Capital programme remains affordable.

9. The Capital Strategy and Treasury Management Strategy are inherently linked and the main recommendations and observations arising from these are summarised in the following sections. In

light of the requirement for full Council to ultimately provide approval of these strategies, the Governance & Audit Committee were asked to review and provide comments on both strategies, and the limits and prudential indicators contained within them, as necessary, to enable Cabinet to consider, and then Council, to approve each strategy as required.

10. The report was considered by Governance & Audit Committee on 30th January 2025. There were no significant comments or observations raised, but the Committee noted the content of the report, as well as the demand for capital resources leading to the increase to the Capital financing requirement.

Capital Strategy 2025/26 to 2034/35

Capital Programme to 2029/30

11. The Council's current capital programme, which covers the period 2024/25 to 2028/29, amounts to £161m, with £81m forecast to be spent in 2024/25 alone. Current forecasts suggest slippage of £11m against a budget of £92m this financial year, which has been transferred into future years. As mentioned previously, the current programme includes a very limited amount of borrowing headroom, due to the funding challenges already outlined over the medium-term period. However, whilst borrowing headroom is limited, some capital headroom exists via the Capital Expenditure Reserve and Capital Receipts Reserve and can be used to meet the costs of new schemes or the increasing costs of existing schemes. This currently stands at £12.770m and is assumed to be spent equally over the next 3 years.

12. The proposed programme for the period covering 2025/26 to 2029/30 is set out in the table that follows. It shows a total programme of £253.9m, which includes
    - Annual Sums - recurring annual capital expenditure of £33.4m
    - Ongoing schemes - slippage from 2024/25, other existing approved schemes in progress, plus the Sustainable Communities for Learning programme (SCfL), following the Strategic Outline business case approval from Welsh Government in 2024, totalling £147.5m. It should be noted that the programme for SCfL extends beyond the five year programme timeframe shown here though the substantial part of it is programmed to be spent in this timeframe here. No other new projects are included here.
    - The £12.770m uncommitted headroom assumed to be spent over the next three years – new projects that will likely arise, which will need to be monitored and updated as appropriate.
    - Leasing costs, which under the new IFRS 16 standing, is now reported as capital expenditure.

13. Significant projects included within the on-going schemes here include the new leisure and wellbeing provision, the Transporter Bridge refurbishment and the Council's contribution towards the Cardiff Capital Region City Deal (CCRCD) investment programme. The total value of the programme in 2025/26 stands at £11.6m, it should be noted that the Council will be required to meet CCRCD cost contributions beyond 2029/30.

Table 1: Prudential Indicator: Estimates of Capital Expenditure and Capital Financing in £ millions

	5-YEAR CAPITAL PROGRAMME					
	2025/26 Budget £m	**2026/27 Indicative £m**	**2027/28 Indicative £m**	**2028/29 Indicative £m**	**2029/30 Indicative £m**	**Total Programme £m**
Annual Sums	7.4	6.5	6.5	6.5	6.5	**33.4**
Ongoing Schemes	43.5	31.6	31.7	38.8	5.1	**150.7**
Uncommitted headroom	4.3	4.3	4.3			**12.8**
Total Capital Programme	**55.2**	**42.3**	**42.5**	**45.3**	**11.6**	**196.9**
Leasing Arrangments	11.6	11.7	11.2	11.1	11.4	**57.1**
TOTAL EXPENDITURE	**66.9**	**54.0**	**53.7**	**56.3**	**23.0**	**253.9**

Affordable borrowing limit

14. Capital Expenditure funded by debt increases the need to undertake external borrowing, unless it is possible to bridge this need via ‘internal borrowing’, which is the use of existing cash resources which arise through the Council’s cash backed earmarked reserves. As the capacity to internally borrow reduces, as reserves are utilised as intended, the need for external borrowing increases. This is particularly the case for this Council, which has had a high level of internal borrowing capacity in the past, but is now seeing that capacity reducing over the medium-long term. Because of this, coupled with an increased level of capital expenditure funded from borrowing, the Council is committed to be a net borrower for the long term. To ensure this borrowing is affordable and sustainable, Council is required to set an affordable borrowing limit each year.

15. The affordable borrowing limit, also termed the ‘Authorised Limit’ for external debt, is the absolute maximum amount of borrowing that can be undertaken, in order to manage the overall, day to day, cash requirements of the Council. It also allows for a level of borrowing in advance of need to be undertaken, where appropriate and affordable. In addition, the Council needs to set an ‘Operational Boundary’, which is the expected level of borrowing required to finance the current Capital Programme, and the reduction of internal borrowing as a result of use of reserves. Any increase required to the Operational Boundary needs to be approved by full Council.

Table 2: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2024/25 limit	**2025/26 limit**	**2026/27 limit**	**2027/28 limit**
Authorised limit – borrowing	259	270	286	297
Authorised limit – PFI and leases	92	92	89	86
Authorised limit – total external debt	**351**	**362**	**375**	**383**
Operational boundary – borrowing	165	185	201	212
Operational boundary – PFI and leases	92	89	86	86
Operational boundary – total external debt	**257**	**274**	**287**	**298**

16. Over the medium term, it is anticipated that the level of borrowing required to facilitate the capital programme will be substantial. As outlined in Table 2, it is projected that long-term borrowing will reach £212m, excluding PFIs/leases, compared with the £155m that is currently held. It can also be seen that there is a significant difference between the Authorised Limit and the Operational

Boundary. This is because the operational boundary for external debt should align with capital expenditure plans and provide for the most likely, not worse case, scenario. The authorised limit should provide sufficient borrowing headroom to enable day to day cash management.

17. It should be noted that the two limits described above only place a theoretical limit on borrowing that can be undertaken to fund new capital expenditure. This is particularly relevant where there is evidence of slippage occurring across the programme. As a consequence, in theory, additional borrowing could be undertaken over and above that budgeted in the existing Capital Programme, because the slippage means that the operational boundary, for example, would not be reached. This would present a risk that, ultimately, the cumulative level of borrowing could exceed that which is deemed affordable. Therefore, to ensure a measure of control on borrowing undertaken to fund new capital expenditure, a local indicator was introduced in 2022/23 and been used since, which is directly linked to the level of borrowing headroom within the Capital Programme. The limit amounts to £8.759m in 2025/26.

Longer term outlook

18. As well as considering the medium-term outlook, there is a need to look beyond this timeframe. This is particularly relevant when considering the long-term implications that capital financing decisions have. As outlined earlier, the overriding objective is to ensure that capital expenditure plans are affordable, prudent and sustainable, requiring a limit to be placed upon debt funded capital expenditure over that period. When looking longer term, the following points will need to be considered:

    - the high level of forecast borrowing and corresponding higher level of capital financing revenue budget cost over the next few years.
    - the anticipated reduction in reserves and consequent reduced capacity to be internally borrowed, requiring a continuing increase in external borrowing to replace it.
    - the need to refinance existing maturing borrowing, which could incur a higher interest cost than currently being incurred.
    - the Council’s methodology for charging MRP, which realised a budget saving when changed in recent years, but which increases the charge each year from that point and will continue to do so going forward.
    - the challenging medium-term outlook driven by inflationary pressures, increasing demand for services and external funding constraints.

19. It is recognised that whilst there are financial constraints to work within, there is also a need to invest in the Council’s assets. It is therefore important that an appropriate balance is struck between financial restraint and the requirement to maintain and enhance the asset base. Therefore, whilst opportunities to introduce new borrowing capacity will be sought, it is also critical that all opportunities to increase the capital headroom via one-off sums need to be taken when available and potentially prioritised over other emerging pressures. This will assist with mitigating the impact of the maintenance backlogs and potentially avoiding the high-cost impact of asset failure. The absence of significant capital headroom will mean that other funding sources will need to be pursued for any new schemes, as well as maximising the ability to self-fund schemes. The governance arrangements currently in place will be a crucial part of managing the challenging situation over the medium to long term.

Accountability and Responsibility for delivery of the Capital Programme

20. As outlined in the main strategy report, and capital monitoring reports throughout recent years, there has been a general challenge in relation to slippage. Some of this is due to issues, such as overly optimistic profiling and a degree of placeholding each time a new programme is developed, which have had an impact. As a consequence of slippage, there is a risk that revenue budget is provided in advance of need and external borrowing is undertaken before required. This is an issue that has

been recognised as needing addressing and, as a result, the Council has taken steps to introduce new governance arrangements with the aim of ensuring closer management and oversight of the Capital Programme.

21. To address this issue, a Capital Assurance Group was introduced around 18 months ago, comprising senior management representatives and senior finance officers. This group provides assurance to the Council's Executive Board and, ultimately, Cabinet. It has a remit to scrutinise progress in scheme delivery and hold Heads of Service and Project Managers to account for the schemes for which they are responsible. The introduction of this group has not diminished the responsibilities of Cabinet and Council, who remain responsible for approving the overall programme and borrowing limits. In addition, the group is responsible for reviewing new bids for capital resources, whether that be internal or external resources. By introducing this additional step in the process for securing capital resources, it is intended to ensure that only those schemes with a realistic prospect of being delivered, both within budget and timeframe, are added to the capital programme. This should result in a more manageable programme and, again, reduce the instances of slippage and overspending.

Treasury Management Strategy

22. The Council's detailed Treasury Management Strategy for 2025/26 and beyond is included as Appendix 3, as are the various treasury management indicators. Key points of interest are summarised below.

Borrowing Strategy

23. As outlined in earlier sections of this report, the Council is committed to being a net borrower over the life of the proposed Capital Programme. In particular, a significant increase in the need to borrow is being projected to the 2025/26 financial year. However, the Council's preferred strategy is to maximise the level of internal borrowing, facilitated by the level of cash-backed earmarked reserves held. Therefore, whilst the overall Capital Financing Requirement is set to increase, the need to undertake new borrowing will be deferred for as long as possible.

24. However, the capacity to internally borrow is planned to reduce over the medium to long term, and faster than assumed in previous strategies, based on the latest forecasts. In addition, some existing sizeable loans are due to mature within the short term. These two factors, will mean that some new borrowing will be required simply to maintain the status quo, before considering any overall increase in the CFR. In light of the Council's position as a committed long-term borrower, the decision was taken with the 2024/25 financial year to undertake borrowing in advance of need, to cover the need to refinance some existing loans that are due to mature in March 2025, as there was a short window where interest rates temporarily reduced. The Council may do this again, but this would only be done in consultation with the Council's treasury advisors and where it was felt to be appropriate, and affordable, in order to mitigate against future interest rate rises.

25. When the need to undertake borrowing arises, the Council will need to give consideration as to the time period over which to borrow. The guiding principle will be to achieve a low, but certain cost of finance. This will generally mean long term borrowing, as this can provide certainty for periods of more than 50 years, if desired. However, with there being potential for long-term borrowing interest rates to reduce over the medium term, the Council could decide to undertake a degree of short-term borrowing as a way of buying time before rates reduce. Also, this would achieve a more balanced borrowing portfolio, but also assist with mitigating the risk of locking into high long-term borrowing rates prior to rates dropping. Again, individual borrowing decisions would only be taken in consultation with the Council's treasury advisors, but also whilst considering the maturity profile of the current borrowing portfolio, as well as overall affordability.

Investment Strategy

26. Both the CIPFA Code and the WG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal to or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

27. In line with the intention originally outlined in the 2021/22 Capital Strategy, the Council has recently diversified its investment portfolio by investing £10m into a product known as covered bonds. These bonds have been committed to for periods of up to six years and, in doing so, has secured a reasonable yield, when compared to current interest rates, whilst ensuring the highest level of security available. By investing in these bonds, the Council has also ensured that it meets its MIFID II requirements and retains it professional client status for the purpose of accessing external finance. Over and above the minimum £10m investment requirement, the Council will continue to invest any surplus cash balances with secure investors, such as the Debt Management Office and other local authorities, both of which are currently providing competitive rates of return. The detail regarding the approved counterparty list and limits is shown in Appendix 3.

28. As discussed above within the report, the Capital and treasury strategies are based on the below key assumptions:

    - The current approved programme including any slippage forecast for 2024/25
    - The use of the reserves is based on the latest forecasts from service areas / finance. This information is available for three years including the 2024/25 financial year. Drawdown from reserves have been assumed as £3m from 2027/28, which is for the PFI schemes.
    - An overall revenue budget underspend for 2024/25 has been assumed in line with November monitoring, with no assumptions for underspends in future years
    - The Sustainable Communities for Learning rolling programme has been included within the capital programme at the profile within the Strategic Outline Programme business case submitted by the Council and approved by Welsh Government in 2024, updated for known spend in 2024/25.

29. Council is required to approve the Capital and Treasury Management Strategies, including the prudential indicators and limits contained within.

30. The projected Capital Financing Requirement and the Liability benchmark is different from what was reported in last year's strategy, and this is due to the increased use of reserves (in line with their intended use) and additional capital expenditure above what was assumed in the 2024/25 strategy as a result of the current forecast profile of the SCfL programme. This will lead to new borrowing requirement, as well as refinancing existing loans as they fall due. If actual costs are in line with the current assumptions, there will be the need to invest in the capital financing budgets.

31. The Council's borrowing needs also needs to be limited to the extent that it meets the objective of stabilising, and ideally reducing, the Council's Capital Financing Requirement, as reserves are used quicker than forecast 12 months ago, the capacity to internal borrowing will reduce until the borrowing requirement will be equal / close to the CFR.

Risks

Risk Title / Description	**Risk Impact score of Risk if it occurs* (H/M/L)**	**Risk Probability of risk occurring (H/M/L)**	**Risk Mitigation Action(s)** What is the Council doing or what has it done to avoid the risk or reduce its effect?	**Risk Owner** Officer(s) responsible for dealing with the risk?
Increased need to borrow beyond currently assumed levels.	High*	Medium	Regular monitoring and reporting of available headroom should identify any issues at an early stage and keep Cabinet / Council updated. A mechanism exists for increasing borrowing limits and this should only be done where affordable, prudent and sustainable.	Members, Executive Board, Heads of Service and Head of Finance.
Undertaking borrowing that is not ultimately required.	High	Low	Regular monitoring of schemes, and strengthened governance arrangements, means that potential for slippage should be identified at an early stage. Continued reprofiling to be undertaken to guard against slippage not being identified. Regular contact with WG regarding potential grant funding, which could negate the need to undertake borrowing.	Executive Board, Heads of Service and Head of Finance.
Investment counterparty not repaying investments.	High*	Low	The Council only invests with institutions with very high credit scores. It employs advisors to monitor money market movements and changes to credit scores and acts immediately should things change adversely. The lower levels of funds/duration available for relatively higher risk investment as measured by credit ratings will also alleviate the risk.	Members, Head of Finance, Treasury staff, based on advice from treasury advisors.
Interest Rates moving adversely against expectations.	Medium*	Medium	The interest rate climate has stabilised compared with the volatility shown over the last 12 months. Interest rate forecasts are regularly received from external treasury advisors and the Council is prudent when forecasting future interest payable. In addition, the Treasury Strategy provides for a balance between short and long-term borrowing as a	Head of Finance, Treasury staff, based on advice from treasury advisors.

Risk Title / Description	Risk Impact score of Risk if it occurs* (H/M/L)	Risk Probability of risk occurring (H/M/L)	**Risk Mitigation Action(s)** What is the Council doing or what has it done to avoid the risk or reduce its effect?	**Risk Owner** Officer(s) responsible for dealing with the risk?
			means of managing this particular risk.	

** Impact is ultimately determined by the values involved, with the impact reducing as the values decrease.*

Links to Council Policies and Priorities

The Capital Strategy sets out the Capital Programme over a long-term context and demonstrates that the Capital Programme supports a number of the Council's aims and objectives.

It is the Council's policy to ensure that the security of the capital sums invested is fully recognised and has absolute priority. The Council follows the advice of the Welsh Government that any investment decisions take account of security, liquidity and yield in that order.

Options Available and considered

To approve both the Capital Strategy and the Treasury Management Strategy for 2024/25 including the prudential indicators contained within both documents.

Preferred Option and Why

The Prudential Code places a requirement upon local authorities to determine a long-term Capital Strategy. The Prudential Code and statute also require that, before the end of the financial year, reports on Treasury Management matters are presented to Cabinet/Council for approval. Therefore, Council is required to approve both the Capital Strategy and the Treasury Management Strategy.

Comments of Chief Financial Officer

This report, and the Capital and Treasury Management Strategies appended, both highlight the revenue implications from capital expenditure, and the need for the capital plans of the authority to be affordable, prudent and sustainable. The main financial implications are captured within the report and all appendices.

The Capital Strategy highlights the anticipated increase in borrowing and the revenue costs resulting from the proposed Capital Programme, which is largely comprised of annual sums, ongoing schemes from the current programme and with the addition of the education sustainable communities for learning programme / projects and the use of the current c£12m of capital resources spent over the next three years on other new/existing schemes. Whilst the very short-term increase in borrowing is currently affordable from within the capital financing budget, the position changes and investment will be needed for the capital financing revenue budget to ensure the capital programme is affordable from 2028/29. The Council's MTFP will need to be updated to include these, and this will be regularly reviewed and updated as the key assumptions and forecasts around the capital programme itself are also reviewed.

In addition to the capital programme itself, the Council is utilising its reserves faster than was previously forecast, for their intended uses. This also puts further pressure to borrow as cash backed reserves reduce and the Councils capacity to be 'internally borrowed' reduces. This is a natural consequence of reducing reserves. As above, this will be regularly reviewed and updated, as needed.

The Treasury Management Strategy confirms that there is a long-term net borrowing commitment and therefore all current loan repaid will need to be re-financed as well as additional borrowing being taken out to meet a higher and growing need.

The Council will need to be vigilant in only ensuring borrowing is used where there is no other choice and where possible, reduce its CFR (need to borrow) over the short to medium term. This will limit borrowing requirements as the level converges with the CFR over time.

Where borrowing is needed and taken out; as ever, such decisions will be taken considering advice received from the Council's treasury advisors and with the aim of securing a low but certain cost of finance.

Comments of Monitoring Officer

The Capital Strategy will provide a framework for future capital and investment decisions, having regard to principles of affordability, prudence, sustainability and risk/reward. The Treasury Management Strategy sets out the financial management principles that will underpin the Capital Strategy. As such, both strategies will form part of the Council's overall budget framework and are required to be formally approved and adopted by full Council.

Comments of Head of People, Policy & Transformation

The Capital Strategy and Treasury Management Strategy align with the Wellbeing of Future Generations Act, focusing on long-term planning and sustainability. The Fairness and Equality Assessment highlights impacts on protected groups.

Financial governance supports sustainable development and Council objectives, providing a framework for financial decisions. This report also aligns with the Council's Corporate Plan, emphasising collaboration to improve service delivery. While there are no direct HR implications, workforce requirements will be considered as needed.

Scrutiny Committees

N/A

Fairness and Equality Impact Assessment:

- **Wellbeing of Future Generation (Wales) Act**
- **Equality Act 2010**
- **Socio-economic Duty**
- **Welsh Language (Wales) Measure 2011**

The Council has a number of legislative responsibilities to assess the impact of any strategic decision, proposal or policy on people that may experience disadvantage or inequality. In relation to this strategy document, a Fairness and Equality Impact Assessment has been undertaken. The FEIA has been undertaken in light of this strategy being an overarching financial strategy, rather than a policy decision relating to one specific initiative or service. Therefore, there are elements to the assessment that don't lend themselves to this particular strategy. It should also be noted that there is a clear link between this strategy and the Council's revenue budget setting process, with the ultimate impact of debt-funded capital expenditure being felt within the revenue budget. Therefore, any consultation required will have been undertaken as part of the revenue budget setting process. Also, specific schemes within the Capital Programme will have been subject to an FEIA, where relevant.

The main conclusions to be drawn from the FEIA undertaken is that there is a clear link between the long-term nature of the Capital Strategy and the sustainable development principle of the Wellbeing of Future Generations Act. This is evidenced through the focus on ensuring affordability, prudence and, most relevantly, sustainability. Therefore, there is potentially a positive impact from the perspective of the younger age groups. In the case of the other protected characteristics, it is not felt that there is a specific impact, however this may not necessarily be the case for the individual schemes within the programme, which should have been subject to separate FEIAs. However, there are a variety of schemes within the

programme that will, collectively, have had a positive impact upon groups with protected characteristics such as disability, language preference and socio-economic background.

Consultation

Consultation was undertaken with senior management, as part of drafting the strategy, and Governance & Audit Committee, who, under the terms of the committee, were provided an opportunity to provide comment on the draft strategy.

Background Papers

Report on Treasury Management for the period to 30 September 2024
Capital Monitoring and Additions Report – November 2024

Dated: 18 February 2025

Appendix 1 – Detailed breakdown of the proposed Capital Programme (£000)

Project / Scheme	Budget 2025/26	Indicative Budget 2026/27	Indicative Budget 2027/28	Indicative Budget 2028/29	Indicative Budget 2029/30	Total
Annual Sums:						
People, Policy & Transformation:						
Asset Maintenance (including schools)	1,700	1,700	1,700	1,700	1,700	8,500
IT Replacement Schemes	470	150	150	150	150	1,070
Prevention & Inclusion:						
Disabled Facilities Grants	1,000	1,000	1,000	1,000	1,000	5,000
Safety at Home	300	300	300	300	300	1,500
Social Services:						
Disabled Equipment (GWICES)	165	165	165	165	165	825
Telecare	32	30	30	30	30	152
Infrastructure:						
Fleet Replacement	1,594	2,141	2,141	2,141	2,141	10,158
Highways Asset Maintenance	2,183	1,000	1,000	1,000	1,000	6,183
Annual Sums Total	**7,444**	**6,486**	**6,486**	**6,486**	**6,486**	**33,388**
Ongoing and Previously Approved Schemes :						
Education:						
Sustainable Communities for Learning - Band B	3,293	1,059	0	0	0	4,352
Band C Rolling Programme	3,702	21,593	31,011	34,868	2,250	93,424
Welsh Medium Primary School (Pillgwenlly / Nant Gwenlli)	2,972	0	0	0	0	2,972
Ysgol Gwent Is Coed Sports Hall	571	0	0	0	0	571
St Mary's Primary School	5,804	0	0	0	0	5,804
Charles Williams Renovations	590	0	0	0	0	590
Education Maintenance Grant 2020/21	6	0	0	0	0	6
Education Maintenance Grant 2024/25	49	0	0	0	0	49
Education Accessibility Works - Phase 2	525	0	0	0	0	525
Open Schools Outside Hours	222	0	0	0	0	222
ALN Grant Funding	347	0	0	0	0	347
Lliswerry Demountables	670	0	0	0	0	670
Education Total	**18,751**	**22,652**	**31,011**	**34,868**	**2,250**	**109,532**
Environment & Public Protection:						
Tredegar Park Cycle Improvements	16	0	0	0	0	16
Park Improvements	219	0	0	0	0	219
TT City Centre Green Infra	50	0	0	0	0	50
Low Carbon Heat Grant 257	6,098	0	0	0	0	6,098
Gwent Crematorium replacement FTIII Cremator	75	0	0	0	0	75
Lliswerry Ward Play Area Improvement 106	64	0	0	0	0	64
Environment & Public Protection Total	**6,522**	**0**	**0**	**0**	**0**	**6,522**

Housing & Communities:						
Gypsy/Traveller Site Development	33	0	0	0	0	33
Housing & Communities Total	**33**	**0**	**0**	**0**	**0**	**33**
Infrastructure:						
Placemaking Capital Projects (Hostile Vehicle Mitigation)	175	0	0	0	0	175
Herbert Road Highway Works	83	0	0	0	0	83
Infrastructure Total	**258**	**0**	**0**	**0**	**0**	**258**
People, Policy & Transformation:						
Library (infostation move)	104	0	0	0	0	104
Central Library Structural Works	16	0	0	0	0	16
Civic Centre Emergency Works	2,275	0	0	0	0	2,275
People, Policy & Transformation Total	**2,395**	**0**	**0**	**0**	**0**	**2,395**
Regeneration & Economic Development:						
TRI Thematic Funding	832	0	0	0	0	832
Transforming Towns [Placemaking]	143	0	0	0	0	143
Transporter Bridge	1,857	0	0	0	0	1,857
New Leisure Centre	12,558	8456	0	0	0	21,014
						0
Regeneration & Economic Development Total	**15,390**	**8,456**	**0**	**0**	**0**	**23,846**
Social Services:						
	0	0	0	0	0	0
Social Services Total	**0**	**0**	**0**	**0**	**0**	**0**
Non Service						
Cardiff City Region Deal	182	500	730	3,900	2,830	8,142
Non Service Total	**182**	**500**	**730**	**3,900**	**2,830**	**8,142**
Existing and New borrowing Headroom	4,257	4,257	4,257	0	0	12,771
Total Capital Programme	**55,232**	**42,351**	**42,484**	**45,254**	**11,566**	**196,887**
Leasing	11,636	11,678	11,219	11,080	11,443	57,056
Total Capital Programme	**66,868**	**54,029**	**53,703**	**56,334**	**23,009**	**253,943**

Financed by:	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**Total**
General Capital Grant	4,286	4,286	4,286	4,286	4,286	**21,430**
Supported Borrowing	4,231	4,231	4,231	4,231	2,250	**19,174**
Unsupported Borrowing	4,073	12,747	11,610	11,873	2,830	**43,132**
External Grants	25,417	18,886	20,157	22,664	0	**87,125**
S106	1,087	0	0	0	0	**1,087**
Other Contribution	89	0	0	0	0	**89**
Capital Receipts	1,260	0	0	0	0	**1,260**
Revenue Contribution	2,810	2,200	2,200	2,200	2,200	**11,610**

Reserves	11,982	0	0	0	0	**11,982**
Finance Lease	11,636	11,678	11,219	11,080	11,443	**57,056**
Total Financing	**66,871**	**54,028**	**53,703**	**56,334**	**23,009**	**253,945**

Appendix 2

NEWPORT CITY COUNCIL CAPITAL STRATEGY 2025/26 TO 2034/35

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EXECUTIVE SUMMARY

This Capital Strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services, along with an overview of how associated risk is managed and a summary of the implications for future financial sustainability.

Decisions made this year on capital and treasury management will have financial consequences for the Council for many years into the future. They are therefore subject to both a national regulatory framework and local policy framework, summarised in this report.

The report highlights that expenditure on capital needs to remain within affordable, prudent and sustainable limits. Demand for capital resources remains high and therefore, inevitably, prioritisation of projects, leveraging in other sources of funding and working with partners are required to address this.

The strategy highlights the key risks and recommendations:

- The Council's new rolling capital programme, a large proportion of which relates to ongoing and previously approved schemes, requires a substantial amount of borrowing to 2025/26; in particular. In order for this to remain affordable, it is necessary to exercise caution in introducing new borrowing capacity, especially given the current economic climate and pressures upon the Council's revenue budget.

- As per the agreed framework (detailed in the report), the programme needs to be maintained within the agreed limits and not result in a medium-term increase in the Capital Financing Requirement. This is to be achieved by limiting new borrowing capacity to that affordable from within existing revenue resources. Any required increase in the level of capital expenditure to be specifically funded by borrowing would need approval by full Council.

- Due to the pressure for additional capital resources, partly driven by the need for investment in existing assets (e.g. buildings and highways), there is a requirement to supplement the capital headroom with one-off resources, wherever possible. To achieve this, consideration should be given to using any revenue underspends over the medium term for increasing the capital headroom wherever possible, as well as focussing on generating additional capital receipts, via the Council's Asset Programme.

- The pressure upon the Capital Programme and the historic challenges in relation to programme delivery and slippage, necessitates the need for clear, robust, governance structures around the programme. This requirement has been addressed by the introduction of the Capital Assurance Group, which is responsible for holding Heads of Service and their project managers to account for capital project delivery, as well as acting as a gateway for all new capital bids.

- The prudential indicators, including borrowing limits, are in line with the Council's agreed Medium Term Financial Plan.

The strategy will be reviewed and updated on an annual basis alongside the Treasury Management Strategy.

OVERVIEW OF THE STRATEGY

1.1. INTRODUCTION

Capital expenditure can be defined as expenditure on assets, such as property or vehicles, that will be used for more than one year. In local government, this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to acquire assets. It is the Council's policy not to treat any expenditure under £10,000 as capital, and therefore anything under this value will be charged as revenue in the year of expenditure.

The Prudential Code for Capital Finance in Local Authorities (2017) placed a requirement on local authorities to determine a Capital Strategy, in order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives, and properly takes account of stewardship, value for money, prudence, sustainability and affordability.

This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services, along with an overview of how associated risk is managed and the implications for future financial sustainability.

Decisions made this year on capital and treasury management will have financial consequences for the Council for many years into the future. They are therefore subject to both a national regulatory framework and a local policy framework, summarised in this report.

The report sets out:

- The key objectives outlined in the Prudential Code and the governance arrangements for the Capital Strategy and programme, including the rolling approach to programme development and management (Section 2)

- The proposed capital programme to 2029/30, its financing, and the revenue implications arising from demands on capital expenditure (Section 3)

- The long-term (10 year) projection for the capital financing costs of the Council and where future demands arise from the various strategic plans across the Council for further capital resources. (Section 4)

- Links between the Capital Strategy and Treasury Management strategy, and treasury decision making. (Section 5)

- The commercial activity of the Council and the strategy going forward. (Section 6)

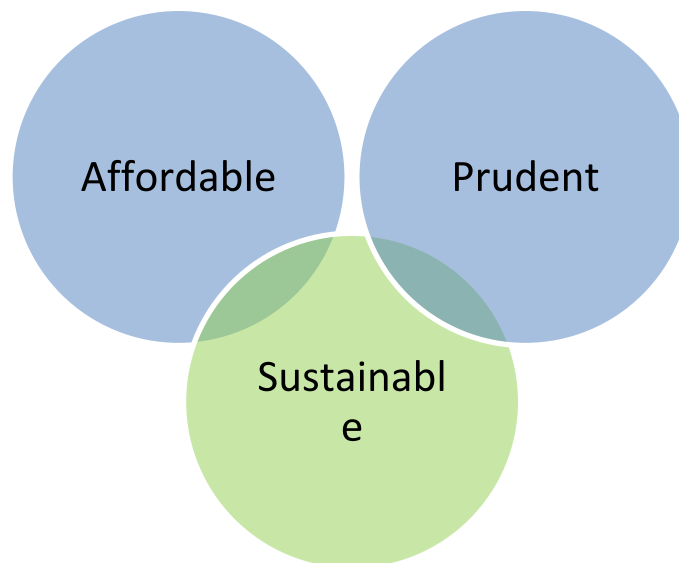
- Overview of other long-term liabilities the Council has, which members need to be aware of when looking at the Capital Strategy. (Section 7)

- Summary of the skills and knowledge the Council holds for it to carry out its duties for capital and treasury matters. (Section 8)

2. PRUDENTIAL CODE & GOVERNANCE

2.1. PRUDENTIAL CODE – KEY OBJECTIVES

The objective of the Prudential Code is to ensure, within a clear framework, that the Council's capital expenditure is affordable and prudent. In terms of both affordability and prudence, it is important that sustainability is considered and can be demonstrated;



AFFORDABLE

It is important that the Council's capital investment remains within **sustainable** limits. The Code requires authorities to consider the resources currently available to them and those estimated to be available in the future, together with the totality of the capital plans and income and expenditure forecasts. As well as capital expenditure plans, authorities should consider the cost of past borrowing, ongoing and future maintenance requirements, planned asset disposals and the MRP policy, which all impact upon affordability.

PRUDENT

The Council must ensure that its capital and investment plans are prudent and **sustainable**. As required by the Code, consideration should be given to the arrangements for the repayment of debt and the risk and impact on overall financial **sustainability**. The operational boundary for external debt should align with capital expenditure plans and provide for the most likely, not worse case, scenario. The authorised limit should provide sufficient borrowing headroom to enable day to day cash management. It is important that there is alignment with the treasury management policy statement and practices, and that risk management and analysis is taken into account. Borrowing in advance of need should only be undertaken where appropriate and affordable, and treasury management activities should find a balance between security, liquidity and yield reflecting the Council's risk appetite, but not prioritising yield over security and liquidity.

SUSTAINABLE

As highlighted above, the Council has to ensure sustainability when considering both affordability and prudence. In line with the long-term impact of decisions made in relation to capital investment plans, sustainability is considered over a minimum 10-year period.

In addition, the Council ensures that treasury management decisions are taken in accordance with good professional practice and with the full understanding of the risks involved and how these risks will be

managed to levels that are acceptable to the organisation. As part of this, all local authorities are required to have regard to CIPFA's Prudential Code and Treasury Management Code when setting their strategies for the coming financial year.

2.2. GOVERNANCE FOR APPROVAL AND MONITORING OF CAPITAL EXPENDITURE

Member responsibility for strategic finance rests with Leader of the Council. The main governance and approval process for capital expenditure is summarised as follows:

- Council approves the Capital Strategy and overall revenue and capital budgets following recommendations from the Cabinet. As part of this, Council approves the external borrowing limits, which place a cap on the level of borrowing the Council can undertake during the year. These limits are based around the level of unfunded capital expenditure, including uncommitted expenditure, within the capital programme. The limits will not include expenditure on any schemes where borrowing is required, but which finance themselves through the savings generated. These limits are a key performance indicator for treasury management and ensure that capital expenditure is limited and borrowing remains affordable. Any changes required to the borrowing limits must be approved by full Council.
- Council approves the Treasury Management Strategy, which is intrinsically linked to capital expenditure and the Capital Strategy. Further details of this are provided in section 5.
- The detailed capital programme, contained within the overall budget, is approved by Cabinet following individual project appraisals by officers, and the Capital Assurance Group.
- Items of capital nature are discussed at the Strategic Asset Management Group (SAMG), which is made up of senior officers from all service areas and the Council's property advisors, Newport Norse. Discussions centre on the asset management agenda and asset disposals. Other boards with capital considerations include the Education Service Capital Board.
- The Capital Assurance Group maintains oversight of the overall programme and holds individual services to account for the delivery of their schemes. In addition, the group acts as a gateway for all new capital bids, prior to formal approval being sought from Cabinet.
- Cabinet approves any new capital expenditure to be added to the capital programme, including that funded from external resources, such as specific grants, within limits approved by Council. This will follow an initial review by the Capital Assurance Group of any new bids or requests for capital resources. Cabinet also approves any utilisation of the Council's capital headroom.
- Monitoring of Capital Expenditure is reported to Cabinet, including updates on capital receipts and the impact on the revenue budget of decisions made. Cabinet also approves the transfer of slippage from one financial year to the next.

Affordability and sustainability are key considerations when approving capital expenditure, and therefore the agreed framework detailed in section 3.1 is used. Included within Appendix 2a is the process map used for the approval of capital expenditure.

3. <u>CAPITAL EXPENDITURE AND FINANCING</u>

3.1. CURRENT CAPITAL PROGRAMME

The current capital programme covers the five-year period between 2024/25 and 2028/29. As previously agreed, the Council now has a rolling approach to programme development and, therefore, the new iteration of the programme will cover a new five-year period between 2025/26 and 2029/30. This includes the current approved headroom of £12.770m, which has been shown as indicatively as being spent equally over the next three years.

Given the financial constraints that the Council has faced in recent years, and continues to face, Cabinet and Council established a framework for managing the programme, aimed at maximising capital expenditure but keeping new borrowing at a level that could be afforded within a sustainable revenue budget and, in doing so, not adding unnecessary pressure to the medium-term outlook. This framework is as follows:

a. Funding from sources other than borrowing needs to be maximised; for example, by securing grant funding whenever possible and maximising capital receipts;

b. Any change and efficiency schemes requiring capital expenditure, and generating savings as a consequence, would be funded by offsetting the capital financing costs against the savings achieved;

c. Schemes and projects which generate new sources of income would need to fund any capital expenditure associated with those schemes.

This framework ensures that the programme can be maximised but those schemes which cannot fund any resulting borrowing costs can be afforded and maximised within any capital headroom available. This available headroom is made up of residual borrowing headroom agreed within the previous programme and identified uncommitted capital reserves and capital receipts. At the point of agreeing the strategy, this stands at £12.770m of uncommitted headroom which is funded by both new borrowing and reserves.

As the proposed programme will be made up of recurring annual sums, ongoing schemes and the Sustainable Communities for learning programme, any new schemes required will need to be financed in line with the above framework, or via the capital headroom. The current level of headroom is relatively limited and, as a consequence, it will be necessary to top-up the capital headroom whenever possible, using one-off resources. These one-off resources may include repurposing of existing earmarked reserves, future capital receipts and any underspends against the Council's revenue budget.

The proposed new capital programme is summarised in the table below. For 2025/26, the programme contains approved capital schemes of £55.2m, plus leasing costs which are now classed as capital expenditure under IFRS 16 of £11.6m, and the overall programme to 2029/30, including uncommitted borrowing, is £253.9m. This total figure includes £12.770m of uncommitted headroom which is formally part of the capital headroom.

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions (excluding PFI / Leases)

	5-YEAR CAPITAL PROGRAMME					
	2025/26 Budget £m	**2026/27 Indicative £m**	**2027/28 Indicative £m**	**2028/29 Indicative £m**	**2029/30 Indicative £m**	**Total Programme £m**
Annual Sums	7.4	6.5	6.5	6.5	6.5	**33.4**
Ongoing Schemes	43.5	31.6	31.7	38.8	5.1	**150.7**
Uncommitted headroom	4.3	4.3	4.3			**12.8**
Total Capital Programme	**55.2**	**42.3**	**42.5**	**45.3**	**11.6**	**196.9**
Leasing Arrangements*	11.6	11.7	11.2	11.1	11.4	**57.1**
TOTAL EXPENDITURE	**66.9**	**54.0**	**53.7**	**56.3**	**23.0**	**253.9**

**This includes the impact of adopting IFRS 16*

The proposed capital programme, including previously approved schemes, is large and leads to a sizeable increase in the Capital Financing Requirement (CFR) over the medium term. As a result, there is a consequential increase in capital financing costs. Based on previous assumptions, it was expected that capital financing costs would rise until 2030/31 and would be affordable within the current available capital financing budget. Based on the current, updated assumptions, the increase in the CFR and therefore the increase in the capital financing costs means that in 2028/29, the costs will exceed the budget. In order for this to remain affordable, the Council will need to consider options to ensure that the costs remain within the available budget or make future provision to increase the capital financing budget within the Council's Medium Term Finance plan i.e. the revenue budget in order to ensure that the Capital programme remains affordable.

In terms of funding, the WG General Fund Capital Grant in 2025/26 has been provisionally set at £5.299m, which is a £1m increase on the figure from 2024/25. This grant is used to fund the Council's annual sums allocations, which covers activities such as asset maintenance and fleet renewal.

The overall programme contains a number of key capital schemes, some of which will continue beyond the forthcoming 2025/26 financial year. These include:

- Sustainable Communities for Learning rolling Programme
- Cardiff Capital Region City Deal (CCRCD)
- New Leisure & Wellbeing provision

There may be other requirements for capital funding for schemes that are not yet contained within the overall programme. Any new schemes that arise during the year will either need to be funded via specific funding sources (e.g. external grant) or will represent a call upon the residual headroom available. It is important that capital expenditure remains at an affordable level within the framework agreed and, therefore, prioritisation of capital expenditure is essential so that only the most critical schemes are taken forward.

Regular reviews of assumptions used within this strategy will occur throughout the 2025/26 financial year to ensure that the capital programme remains affordable. This will be detailed in the regular monitoring updates that are given to Cabinet as part of the normal Capital monitoring and additions reporting.

3.2. MEDIUM-TERM REVENUE IMPLICATIONS OF CAPITAL (CAPITAL FINANCING)

All capital expenditure must be financed, either from external sources, the Council's own available resources or debt (borrowing, leasing and Private Finance Initiative). All debt has to be repaid and this includes both the actual debt principal plus interest costs. The planned financing of the expenditure shown in Table 1 is as follows:

Table 2: Capital financing in £ millions

	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m	2028/29 Budget £m	2029/30 Budget £m	Total 5-year programme £m
TOTAL EXPENDITURE	66.9	54.0	53.7	56.3	23.0	**253.94**
Financed by:						
Committed Grants and contributions	30.9	23.2	24.4	27	4.3	**109.8**
Committed Reserves, capital receipts, revenue	11.8	2.2	2.2	2.2	2.2	**20.6**
Committed new borrowing	8.3	12.7	11.6	16.1	5.1	**53.8**
TOTAL COMMITTED (Appendix 1)	**51**	**38.1**	**38.2**	**45.3**	**11.6**	**184.2**
Uncommitted borrowing	0	4.3	4.3			**8.6**
Uncommitted reserves	4.2					**4.2**
TOTAL UNCOMMITTED*	**4.2**	**4.3**	**4.3**	**0**	**0**	**12.8**
TOTAL FINANCING	**55.2**	**42.4**	**42.5**	**45.3**	**11.6**	**197.0**
Leasing arrangements	11.6	11.7	11.2	11.1	11.4	57.1
Total	**66.8**	**54.1**	**53.7**	**56.4**	**23.0**	**253.9**

As outlined previously, when capital expenditure is initially financed by debt/borrowing, the Council is locked into a long-term revenue commitment to finance that expenditure over time. This financing is done via a mechanism known as the Minimum Revenue Provision (MRP). The available budget for MRP payments over the medium term (excluding PFI and leases and including where service areas are making contributions towards the capital financing costs of invest to save schemes) are as follows:

Table 3: Replacement of debt finance (MRP) in £ millions

	2025/26 budget	2026/27 budget	2027/28 budget	2028/29 budget	2029/30 budget
MRP	10.8	11.1	11.1	11.1	11.0
MRP - other Long term Liabilities (PFI / Leases)	4.1	4.4	4.0	4.5	4.5
Total MRP	**14.9**	**15.5**	**15.1**	**15.6**	**15.5**

**There are planned transfers of budget from service area budgets to the MRP budget, in 2026/27 in relation to the Council's new Leisure and Wellbeing provision.*

The Council's full MRP Policy is included within the Treasury Management Strategy, which will be approved alongside this Capital Strategy.

Although capital expenditure is not charged directly to the revenue budget, as discussed above, interest payable on loans and MRP (the "financing costs") are charged to revenue. The table below shows the financing costs as a percentage of the Council's net budget, which is one of the required prudential indicators.

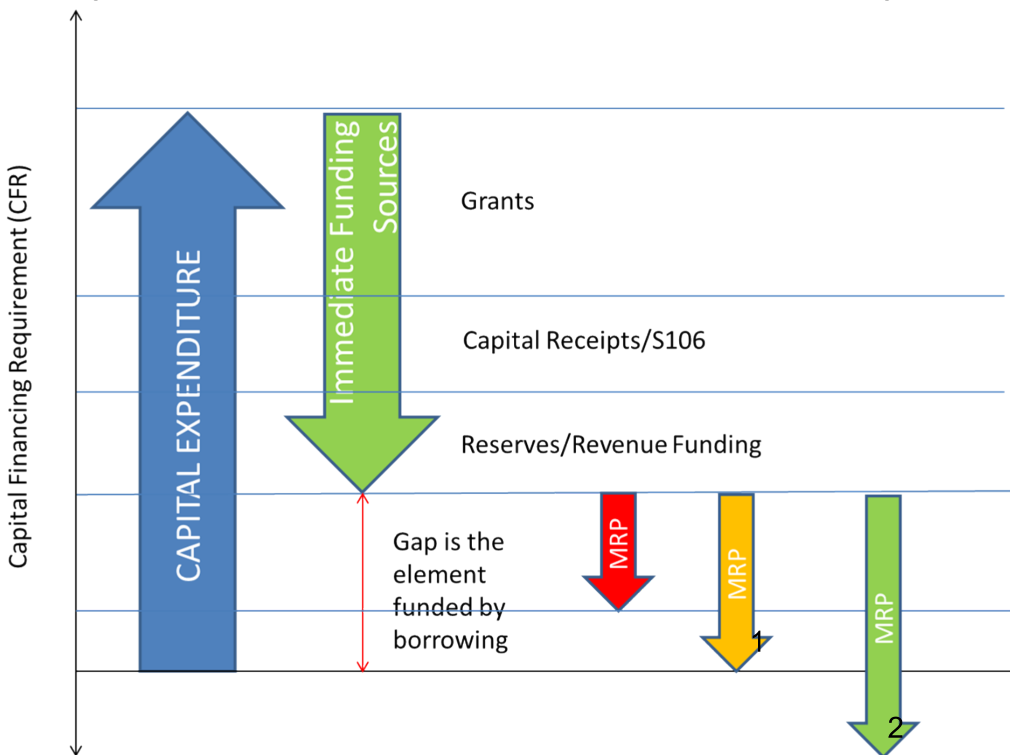
Table 4: Prudential Indicator: Proportion of financing costs to net revenue stream

	2025 / 26 budget	2026 / 27 budget	2027 / 28 budget	2028 / 29 budget

Provision for repayment of debt (MRP)*	9.8	10.1	10.1	10.1
Net interest cost	7.2	7.3	7.3	7.3
Total capital financing (exc PFI)	**17.0**	**17.4**	**17.4**	**17.4**
PFI /Leases	6.8	6.6	5.8	5.5
Total Financing costs* (£m)	**23.8**	**24.0**	**23.2**	**22.9**
Proportion of net revenue stream	5.6%	5.5%	5.2%	7.0%

From the table above it is evident that the proportion of the budget set aside to finance capital expenditure is set to stay broadly level over the medium-term. Information on the revenue implications of capital expenditure is also included in the 2025/26 revenue budget report.
It is expected that the prudential indicator for the replacement of debt finance and the prudential indicator for the proportion of financing costs to net revenue stream will need to be reviewed in the 2025/26. The PFI models will need to be reviewed and updated next year which will potentially have an impact on the capital financing budgets. This will be reported to Council as part of the usual monitoring reports.

Capital Financing Requirement (the underlying need to borrow)
The Council's cumulative outstanding amount of debt finance is measured by CFR. This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The diagram below shows the impact of capital expenditure, financing and MRP on the CFR:



The diagram above shows the following:

- CFR **increases** when capital expenditure is incurred.
- CFR **decreases** when capital expenditure is immediately financed - i.e., through grants, capital receipts, revenue funding, reserves, S106 income.
- If the MRP charge is **less than** the capital expenditure funded by borrowing in any given year (Red [1]) the net CFR increases
- If the MRP charge is **equal to** the capital expenditure funded by borrowing in any given year (Amber [2]) the net CFR stays the same
- If the MRP charge is **more than** the capital expenditure funded by borrowing in any given year (Green [3]) the net CFR decreases

This is an important concept, as it demonstrates how decisions on the level of capital expenditure and MRP budget impact upon the Council's long-term borrowing requirements and consequent capital financing implications. However, it is important to note that the CFR is only an indicator as to the need to undertake borrowing, with the actual need to borrow ultimately being driven by the overall short and long term cashflow requirements of the organisation.
The table below provides the medium-term outlook for the Council's CFR, inclusive of the impact of PFI and leases arrangements. This is based on the proposed programme, including the indicative SCfL programme profile and the uncommitted headroom. As can be seen, the CFR is expected to remain fairly stable until 2029/30 before decreasing to £319.0m. It should be noted that below figures include the impact of IFRS 16, whereas the liability benchmark only includes the loans CFR.
This significant increase in capital expenditure, including that funded via other sources, will be a challenge to achieve, evidenced by the significant levels of slippage incurred during the 2022/23 and 2023/24 financial years. Therefore, it is important to recognise the likelihood that the actual CFR may turn out lower by the end of the 2024/25 financial year, in turn reducing the actual need to undertake external borrowing. This is a significant challenge for the Council, as it is important that ambitions for capital expenditure are not unrealistic, as this can result in unnecessarily committing resources towards the capital financing budget, which may result in other budget priorities not being able to be pursued.
Table 5: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	2024/25 Forecast	**2025/26 Budget**	**2026/27 Budget**	**2027/28 Budget**	**2028/29 Budget**	**2029/30 Budget**
Loans CFR	245.3	243.8	250.9	256.3	261.5	255.1
PFI / Leases CFR	85.4	81.3	76.9	72.9	68.4	63.9
TOTAL CFR	**330.7**	**325.0**	**327.7**	**329.2**	**329.9**	**319.0**

With the introduction of the accounting requirements of IFRS 16 Leases, the CFR and debt identified as relating to leases has increased, due to the change in the way that finance leases for lessees are treated. The introduction of this new accounting standard had been deferred by CIPFA/LASAAC for a number of years, however it was introduced from 1st April 2024. Work has been undertaken across the Council, including schools, to gather the relevant information and fully understand the impact upon the Council.

Put simply, the greater the CFR, the larger the impact will be on the revenue budget, with that impact being exacerbated by an ongoing reduction in the availability of internal borrowing. Therefore, in the long-term, there will be a need to keep annual capital expenditure funded by borrowing at a level below the annual MRP budget and the interest payable budget in order to maintain the capital financing revenue budget at a broadly sustainable level.

4. LONG-TERM VIEW OF CAPITAL EXPENDITURE

Expenditure on capital assets/projects are often for assets which have a long-term life i.e. buildings may have an asset life in excess of 40 years. The financing of these assets could also be over a long-term period. Therefore, it is important to take a long-term view of capital expenditure plans and the impact that may have on the affordability and sustainability of capital expenditure. Once a decision has been made to initially fund capital expenditure from borrowing, the Council is locked into the revenue implications arising from that decision (i.e. the annual cost of MRP) for a long-term period.

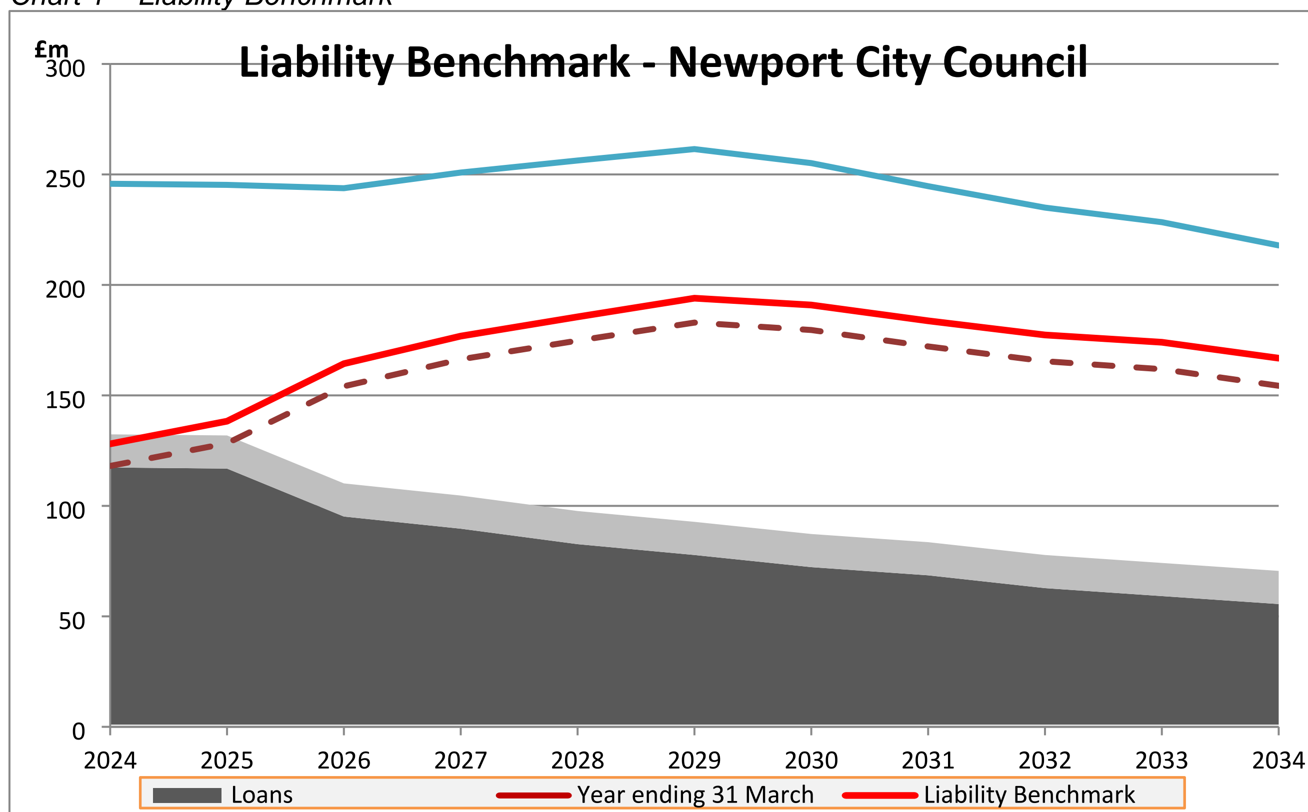
Due to the financial constraints that the Council continues to face, it is anticipated that revenue to fund capital financing will remain restricted over the long term. The capacity to use internal borrowing is also reducing, which means that the authority will face a challenge in relation to its medium to long term capital aspirations, particularly if there is a need or desire to incur a certain level of capital expenditure funded via borrowing. This comes at a time when the authority is facing challenges in relation to its existing asset base, in terms of maintenance backlogs, as well as demand pressures (e.g. increasing pupil numbers) adding to the need to invest in new and existing assets.

It is important to note that the Council will be required to make further CCRCD contributions beyond the current programme. These contributions have been previously agreed and, therefore, represent an unavoidable commitment and the first call upon any new headroom.

The impact of this modelling is outlined in the chart below, in terms of the overall level of the CFR and the actual requirement to undertake external borrowing.

The liability benchmark is the net borrowing requirement of the Council, which also includes a liquidity allowance. In its simplest form, it is calculated by deducting the amount of resources available for investment on the balance sheet, our internal borrowing, which is reserves and cashflow balances from the amount of outstanding external debt and then adding in the £10m minimum level of investment which is required as part of MIFID II. Therefore, the below chart will only include any debt which is in relation to external borrowing and does not include the impact of IFRS 16.

Chart 1 – Liability Benchmark



Charts 1, known as the Liability Benchmark, demonstrates the following, in terms of the impact of the proposed capital programme and the modelled scenario:

- The impact the current capital programme has in terms of the increasing CFR and consequent need for external borrowing, denoted by the steepness of the solid and dashed red lines (liability benchmark – loan requirement) over the first few years.
- An increase until the year ending 2030, before reducing, in the overall level of CFR, as shown by the trajectory of the solid blue line (CFR).
- An increase to the need to undertake actual external borrowing, as shown by the trajectory of the dashed red line (Loan requirement).
- The impact of the reducing capacity for internal borrowing, demonstrated by the convergence of the red (Liability benchmark) and blue lines (CFR) over the course of the 10-year period.
- The fact that a level of existing borrowing is scheduled for repayment (denoted by the shaded grey area) over the medium to long term, although the underlying need to borrow actually grows during that time, meaning that the repaid borrowing will need to be replenished.

The modelled scenario demonstrates that it would be possible to reduce the CFR and actual need to borrow over the medium to long term, but that assumes no further borrowing other than what is within

the proposed programme. This is critical if the increase in consequent capital financing costs is to be minimised and remain at a level which is prudent, affordable and sustainable over the medium term. However, as the following paragraphs and Chart 2 demonstrate, there are other factors which also impact upon the overall level of capital financing costs incurred. The below graph does not include the Capital financing budgets in relation to PFI and leases as they are separate budgets which are held within each of the service area revenue budgets.

Chart 2 – Capital Financing Cost Forecast (excluding PFI and Leases)

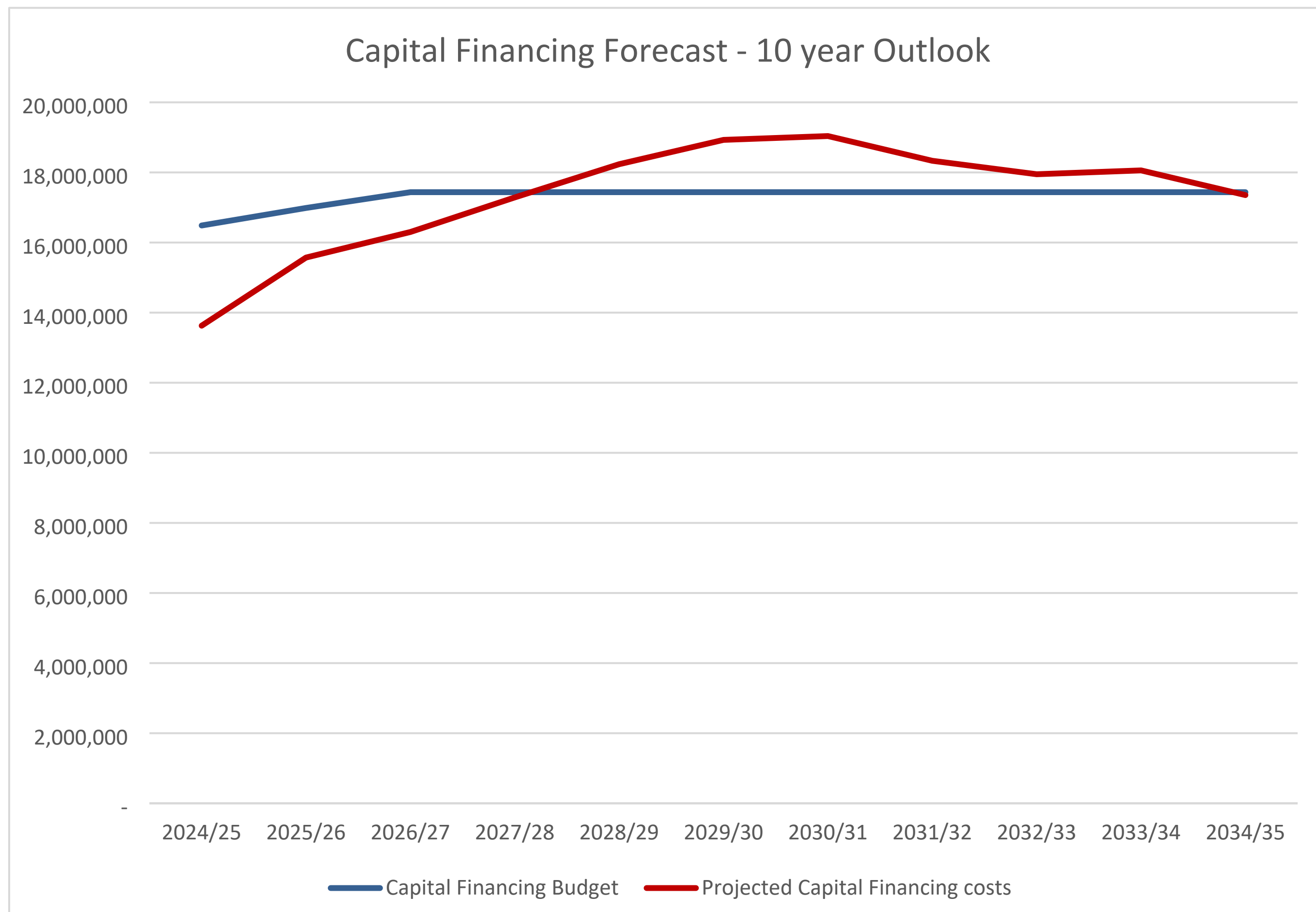


Chart 2 shows the projected capital financing costs over the next 10 years, based on the proposed programme. The increase is driven by the capital programme that is proposed, which includes the Sustainable Communities for Learning Programme and the use of cash-backed reserves. Based on current assumptions and the suggested profile, the capital financing costs of the programme would, in the 2028/29 financial year, go above the current capital financing budget, as demonstrated in the graph above. As the expected budget pressure is not expected to occur until 2028/29, this can be reviewed in future capital strategies. But the Council will need to consider options to ensure that the costs remain within the available budget or make future provision to increase the capital financing budget within the Council's Medium Term Finance plan i.e. the revenue budget in order to ensure that the Capital programme remains affordable. The drop-off in costs from 2030/31 is due to the fallout of MRP charges for historic schemes that will be fully paid off by that point. As the expected budget pressure is not expected to occur until 2028/29, this can be reviewed in future capital strategies. But the Council will need to consider options to ensure that the costs remain within the available budget or make future provision to increase the capital financing budget within the Council's Medium Term Finance plan i.e. the revenue budget in order to ensure that the Capital programme remains affordable.

Whilst the proposed programme shows that the revenue budget will be sufficient until the 2028/29 financial year, it is important to note the risks that the revenue budget could be insufficient, should, for example, interest rates increase or the Council's internal borrowing capacity diminish more quickly than

anticipated. What this means, in effect, is that additional external borrowing will need to be undertaken to replace the internal borrowing, just to maintain the status quo. The impact of this is that additional interest costs will be incurred and these will be borne by the capital financing budget. In the case of MRP, the annuity methodology for unsupported borrowing that the Council has adopted means that MRP charges are lower in earlier years and increase as assets move through their useful life. Therefore, there will be an annual increase in MRP charges, and consequent impact upon the revenue budget, even if no additional unfunded capital expenditure was undertaken.

It should be noted that the scenario above is for modelling and forward planning purposes only, with assumptions included on the deliverability of the programme. In saying that, it is a good representation of the financial impact on Council finances given the potential levels of capital spend funded from borrowing.

The actual position will of course be impacted by a number of factors that will ultimately determine the level of borrowing and associated capital financing costs. These factors, which require regular review, include:

- (i) availability of capital grant funding from Welsh Government and other bodies, (i.e. will there be the capacity or need to include those levels of capital expenditure funded by borrowing?)
- (ii) the delivery of capital receipts (i.e. as above)
- (iii) the utilisation and overall level of earmarked reserves (i.e. as above)
- (iv) the general level of slippage within the capital programme (i.e. will the Council spend at the rates modelled)

Sustainability and Ongoing Capital Programme Development

As already outlined, the long-term nature of the impacts arising from short to medium term capital expenditure and financing need to be understood in terms of its prudence, affordability and sustainability. If the proposed capital programme and the trajectory of use of reserves continue as forecast, there will be a need to invest in the capital financing budget from 2028/29. This will in turn put pressure on the revenue budget.

However, this does not take into account one of the key challenge facing the Council, in relation to capital, is the continuing pressure relating to the existing estate, in terms of maintenance backlogs and ensuring no expensive asset failures occur. The current annual sums allocations are not as high as would be ideal, meaning that it can be challenging enough to maintain the status quo in terms of backlogs, before considering reducing them. In addition, there is the potential for demand for new schemes to emerge over the medium term, especially in relation to pupil number increases, for example. If there is a need to invest in the Capital financing budget within the medium term, this will impact on the revenue budget. Whether or not the challenge over the medium term will ease will largely depend upon the rates of inflation being experienced, the demand for services and the position in relation to core funding via UK and Welsh governments, especially with a general election on the horizon. Therefore, in light of this, each scheme within the proposed programme will need to be reviewed before commencement, even if it has already been previously approved to ensure that it can remain affordable, whether that is reducing or reprofiling the programme so that it stays within current budget levels or whether there will be the opportunity for the Councils to increase the capital financing budget. However, this is reliant upon core assumptions, such as interest rates and the rate of earmarked reserve usage. It is also inherently dependent upon the Medium Term Financial Plan and whether there is a need to identify savings from all budgets in order to balance the Council's overall budget.

This potential scope for new borrowing will be of great benefit to the Council in that it would assist with addressing a number of likely capital pressures, whether new pressures or increases in existing pressures. However, clear prioritisation of schemes will still be required, in order to ensure that the limited resources available are used for only the most critical issues.

In light of this challenge, it is important that the authority understands the key drivers and risks associated with delivering an annually refreshed capital programme. These drivers are captured through various plans across the authority and are outlined in the diagram that follows. These plans will be subject to ongoing revision and it will be necessary for the authority to develop its understanding of the cost of key priorities arising from each plan, to inform what will potentially be a constrained programme in terms of the overall financial envelope.

There will be a range of priorities originating from these plans, particularly the Corporate Plan. As well as the priorities contained within the Corporate Plan, there is the aforementioned requirement to maintain the current asset base. This is something that has been severely impacted by constrained funding levels in previous years and has resulted in the maintenance backlog developing, which gives rise to the potential for major asset failures to occur where issues have developed over time. There is a particular risk surrounding highways and school buildings, although there are other asset bases that hold maintenance backlogs as well.

Therefore, whilst annual allocations are provided for asset maintenance, they are generally insufficient in value. The challenging revenue budget position does not provide an easy solution in increasing these allocations to a level that would, in the first instance, stop the backlogs from increasing. Because of this, it will be critical that opportunities to augment the annual sums, such as those outlined earlier in the strategy, are taken wherever possible. If it doesn't prove possible to increase the annual sums, they should, as a minimum, ensure the highest priority backlog issues are addressed, first and foremost. However, they would, in most cases, be insufficient to address any asset failures.

In addition to the annual sums, other approaches need to be pursued in order to reduce the maintenance backlog. The Council already has a project in progress which is looking at asset rationalisation. Rationalisation through the review programme could be achieved in a number of ways, such as closure or disposal of assets, asset transfers or schemes to refurbish/redevelop existing assets. Furthermore, it will be necessary to target external grant funding, such as Sustainable Communities for Learning funding, which will enable wholesale upgrade or replacement of existing assets, including those with significant maintenance backlogs.

Therefore, when developing future iterations of the capital programme, it will be necessary for decision-makers to ensure that the ongoing maintenance of existing assets is sufficiently addressed. However, there will be other priorities to be included within the programme at a point in the future, such as the need to address the climate emergency via a pursuit of carbon neutral assets, the next phase of WG's Sustainable Communities for Learning Programme and further regeneration schemes for the city. As already outlined, the pressure to support such initiatives will need to be carefully balanced against other competing priorities for revenue resources.

Although members will ultimately decide upon both the overall size of the new programme, and the schemes contained within it, it will be important that there continues to be appropriate governance surrounding the development of the programme. This will be especially important given the constrained funding outlook and the need to be absolutely clear as to where the highest priorities lie. To achieve this, the Capital Assurance Group will need to act as a gateway and ensure that only those schemes with a

clear plan for delivery and where the necessary due diligence has been undertaken are recommended for addition to the programme. The group should also ensure that there is enhanced oversight and management of the programme on an ongoing basis and reduce the likelihood of slippage or grant funding being foregone in future years. As an outcome, a more realistic, deliverable and achievable programme should result.

5. TREASURY MANAGEMENT

The Treasury Management Strategy (detailed in Appendix 3) and Capital Strategy are inextricably linked, with both strategies being considered for approval by Council as part of the same meeting. The figures within the Treasury Management Strategy align with the level of borrowing resulting from this Capital Strategy. The Council will need to approve both the prudential indicators detailed below and the borrowing limits recommended.

5.1. TREASURY MANAGEMENT

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, whilst 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 bank current account. The Council limits the need to take out actual borrowing by using positive cashflow, largely underpinned by earmarked reserve balances, to fund capital expenditure funded by borrowing, known as internal borrowing.

As a result of decisions taken in the past, the Council as at 30th November 2024, has £155m borrowing at a weighted average interest rate of 3.6% and £63.7m treasury investments, producing interest income at a weighted average rate of 5.2%.

5.2. BORROWING STRATEGY

Whilst the current outlook is for the Council to have significant long-term borrowing requirements, the current strategy is to fund capital expenditure through reducing investments rather than undertaking new borrowing. To clarify, this means deferring new long-term borrowing and funding capital expenditure from day-to-day positive cashflows for as long as possible. By using this strategy, the Council can also minimise cash holding at a time when counterparty risk remains high.

Whilst investment counterparty risk is minimised through this strategy, the risk of interest rate exposure is increased, as the current longer term borrowing rates may rise in the future. However, long-term borrowing interest rates are broadly similar to short-term borrowing interest rates at present. Therefore, should there be a need to undertake borrowing at short notice, the current similarity in interest rates mitigates the risk to some extent and also ensures the Council is no worse off in the short term. The market position is being constantly monitored in order to manage this risk.

The Council's overall main objective when borrowing is to achieve a low but certain cost of finance, whilst retaining flexibility should plans change in the future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between short-term loans (which have traditionally been available at a lower cost) and long-term fixed rate loans where the future cost is known but higher. In the current economic context, short-term borrowing is not much cheaper than long-term borrowing, however this may revert to a more typical scenario in the medium term. The current availability of positive cashflow has meant that the Council has not been required to undertake any significant short-term borrowing recently, although this can change at relatively short notice.

Projected levels of the Council's total outstanding debt (which comprises borrowing, PFI liabilities and leases) are shown below, compared with the CFR (which has been detailed in earlier sections). It should be noted that the estimated projected debt is broadly in line with the Operational Boundary, which acts as a borrowing limit for delivering the Capital Programme, as highlighted in the paragraphs that follow.

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.2025 Forecast	**31.3.2026 Budget**	**31.3.2027 Budget**	**31.3.2028 Budget**	**31.3.2029 Budget**
Debt (incl PFI & Leases and ST & LT borrowing)	217	192	182	171	161
Capital Financing Requirement	282	331	325	328	329

As outlined earlier, the introduction of IFRS 16 Leases has resulted in the CFR and debt identified as relating to leases increasing the CFR in future years. The impact of this is reflected in the figures

contained within this strategy, although as mentioned previously, there are separate budgets within service areas which will cover the capital financing costs of PFI and lease arrangements which now have to be reported on under IFRS 16 as it is a form of debt to the Council.

Statutory guidance is that debt should remain below the CFR, except in the short-term. As can be seen from Table 6, the Council expects to comply with this in the medium term.

Operational Boundary: The Council is obliged to approve an operational borrowing limit. This boundary has been set in line with the expected borrowing required to finance the current Capital Programme until 2029/30, taking account of likely levels of internal borrowing and the indicative new borrowing previously outlined. If any increase to the operational boundary is required, this will need to be brought to Council for approval.

Authorised Limit: The Council is legally obliged to approve an affordable borrowing limit for external debt each year. This is the absolute limit for external borrowing and is set in line with the CFR. The authorised limit is greater than the Operational Boundary and provides a buffer for managing day to day cash requirements and undertaking borrowing in advance of need, where appropriate and affordable.

Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2024/25 limit	**2025/26 limit**	**2026/27 limit**	**2027/28 limit**
Authorised limit – borrowing	259	270	286	297
Authorised limit – PFI and leases	92	92	89	86
Authorised limit – total external debt	**351**	**362**	**375**	**383**
Operational boundary – borrowing	165	185	201	212
Operational boundary – PFI and leases	92	89	86	86
Operational boundary – total external debt	**257**	**274**	**287**	**298**

Whilst the above indicators place a theoretical limit upon the level of borrowing that a council can undertake, they do not, for example, make an allowance for any amount of slippage that may be incurred whilst delivering the Capital Programme, which is likely with such a large programme to deliver. Therefore, to ensure that the level of expenditure to be funded via borrowing is controlled, a local indicator exists which restricts any unfunded expenditure being added to the existing Capital Programme over and above the headroom that is already in place. This indicator is in line with Table 1 of this report and limits additional borrowing for new capital expenditure to £4.3m in 2026/27 and 2027/28 (the majority of the uncommitted headroom in 2025/26 is assumed to be financed by reserves). Should borrowing above this overall limit of £8.7m be required, it will need to be approved by full Council.

Table 8: Local Prudential Indicator: New capital expenditure to be funded via borrowing (£m)

	2025/26 limit	**2026/27 limit**	**2027/28 Limit**
Borrowing headroom	0	4.3	4.3

5.3. INVESTMENT STRATEGY

Treasury investments arise from receiving, and then holding, cash before there is a need to pay it out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management. The Council’s strategies in this area of Treasury Management are (i) to be a short term and relatively low value investor and (ii) investment priorities should follow the priorities of security, liquidity and yield, in that order.

Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares (although this is not something that the Council currently do) and property, to balance the risk of loss against the risk of receiving returns

below inflation. Currently, the Council is holding a £10m long-term investment in covered bonds, in order to secure its professional client status as part of the MIFID II directive.

Table 9: Treasury management investments in £millions

	31.3.2025 Budget	**31.3.2026 Budget**	**31.3.2027 Budget**	**31.3.2028 Budget**	**31.3.2029 Budget**	**31.3.2030 Budget**
Near-term investments	0	0	0	0	0	0
Longer-term investments	10	10	10	10	10	10
TOTAL	**10**	**10**	**10**	**10**	**10**	**10**

Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Head of Finance and relevant staff, who must act in line with the Treasury Management Strategy approved by Council. Half-year and end of year reports on treasury management activity are presented Council, with an update on compliance with prudential indicators reported quarterly. The Governance & Audit Committee is responsible for scrutinising treasury management decisions.

Loans to other organisations

The Council can and does make investments to assist local public services, including making loans to businesses to promote economic growth. The Council will assess these opportunities and will only plan that such investments at least break even after all costs. Loans to such organisations will be approved following a due diligence process and formal governance arrangements.

The Council will also use other methods of assisting businesses to promote economic regeneration by providing grants or by allowing rent free periods where the Council is the owner of the freehold.

Decisions on service investments are made by the relevant service manager in consultation with the Head of Finance and Monitoring Officer and must meet the criteria and limits laid down in the investment strategy.

6. COMMERCIALISATION

The 2019/20 Capital Strategy contained details of the Council's Commercialisation Strategy, which was agreed by Council during 2019. A feature of this commercial approach was to explore three areas of activity, all aimed at increasing income generation and contributing towards addressing the medium-term budget gap faced by the Council. The three areas of activity were:

1) Current services that could be provided on a more commercial basis - e.g. trade waste
2) New services that could be provided - e.g. energy services

The above elements of the strategy are still areas that the Council will consider and potentially pursue, subject to affordability, risk acceptability and the ability to contribute towards the medium-term financial challenges.

7. OTHER LONG-TERM LIABILITIES

In addition to borrowing debt of £155m outlined above, the Council has a number of other long-term liabilities, which represent potential future calls on Council resources, as follows:

Private Finance Initiative (PFI)

The Council has two PFI arrangements. These are for the provision of the Southern Distributor Road (20 years remaining) and for Glan Usk Primary School (10 years remaining). As at 31st March 2024, the combined value of the liabilities was £36.2m. The Council holds base budget and specific earmarked reserves to cover the future costs of the PFIs.

Pension Liability

The Council is committed to making future payments to cover its pension fund deficit (valued at £76.4m) as at 31st March 2024.

Provisions

The Council has set aside long-term provisions for risks in relation to landfill capping and aftercare, for example.

Contingent Liabilities

The Council also has a number of contingent liabilities, which may or may not ultimately materialise as a call on Council resources. These liabilities are detailed in the annual Statement of Accounts and include potential insurance claims and risks attached to loans extended to external developers. As well as this, the Council has also entered into a number of financial guarantees to act as a guarantor, in particular for the safeguarding of former employee pension rights when their employment is transferred to third party organisations.

8. KNOWLEDGE AND SKILLS

In-house expertise

The overall Capital Programme, Capital Strategy and Treasury Management Strategy are overviewed by the Head of Finance and Assistant Head of Finance, who are both professionally qualified accountants with extensive Local Government / similar finance experience. There is a Capital Accounting team consisting of experienced qualified and part-qualified accountants who maintain Continuous Professional Development and attend courses on an ongoing basis to keep abreast of new developments and obtain relevant skills. In addition, there is a Treasury Management team who manage the day-to-day cash-flow activities and banking arrangements of the authority. Members of this team, again, attend the necessary courses and training and have an extensive amount of experience.

External expertise

All of the Council's main capital projects are overseen by project teams comprising the relevant professional disciplines from across the Council. When required, external professional advice is taken, primarily from the Council's property advisors, Newport Norse. The Council also engages with external treasury advisors for advice in relation to treasury management matters.

Members

Training is offered to members to ensure they have up to date skills to make capital and treasury decisions. Training was provided in December 2023. A register is also kept on member attendance. The Council also involves members at an early stage of a project's life cycle. In addition, the members of the Governance & Audit Committee have received specific treasury management training, delivered by the Council's external treasury advisors.

9. SUMMARY

- Capital expenditure plans for the Council need to be affordable, prudent and sustainable.

- The revenue budget includes the estimated revenue costs for the entire proposed capital programme, which includes a small level of approved headroom, and indicative borrowing headroom, for additional capital projects to be added without impacting further on the MRP budget, as per the agreed framework.

- There are a number of demands on the capital programme and there is the continual need to link the capital strategy with a number of strategic plans across the organisation. This is to ensure that the pressures on the capital programme are known and the risks are assessed and prioritised within an affordable framework. This will include clear visibility and assessment of demand for schools, highways and other operational assets.

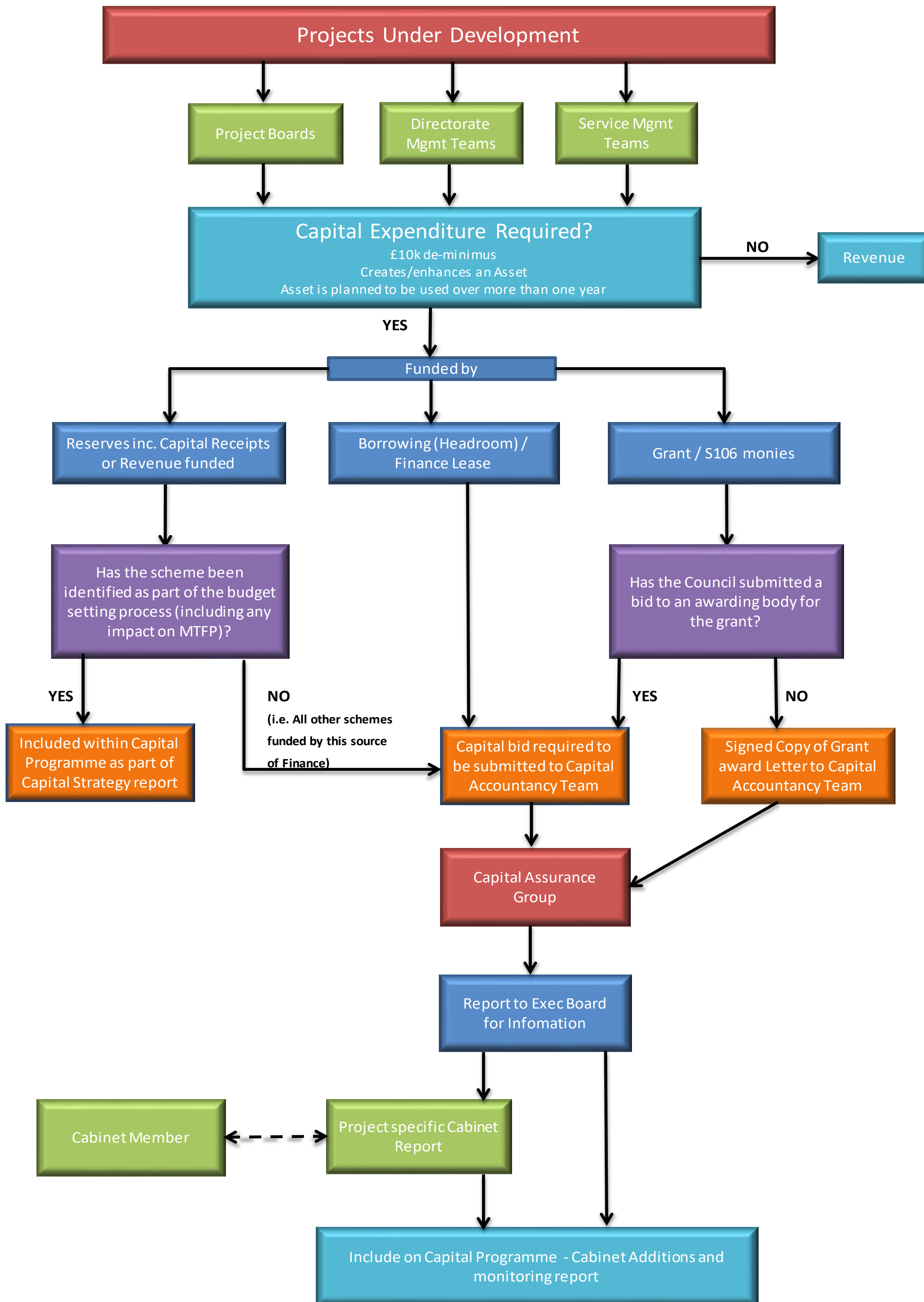
- Decisions on funding capital expenditure through borrowing locks the Council into committing revenue funding over a very long period (as long as 40 years +). With the capital financing costs increasing over the long-term, as shown in Chart 2, the Council will need to take careful decisions when developing the Capital Programme, and prioritise accordingly, to ensure the capital plans remain affordable, prudent and sustainable.

- The Treasury Management Strategy, detailed in Appendix 3, highlights the Council's approach to managing its borrowing and investments. The proposed strategy for 2025/26 is in line with previous years and is based upon a low-risk approach to both investments and borrowing. This means that investments held are generally low in value and the approach to borrowing is to look for security of

costs, resulting in a generally high proportion of long-term borrowing compared to short term borrowing.

APPENDIX 2a – Capital Additions Process Map

NO CABINET MEMBER/CABINET REPORT SHOULD BE SUBMITTED UNTIL THIS PROCESS IS COMPLETE



Appendix 3

Treasury Management Strategy Statement 2025/26

Introduction

Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. In addition, the Welsh Government (WG) issued revised Guidance on Local Authority Investments in November 2019 that requires the Authority to approve an investment strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the WG Guidance.

Revised strategy: In accordance with the WG Guidance, the Authority will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, in the Authority's capital programme or in the level of its investment balance, or a material loss in the fair value of a non-financial investment identified as part of the year end accounts preparation and audit process.

Economic background: The impact on the UK from the government's Autumn Budget, slower interest rate cuts, modestly weaker economic growth over the medium term, together with the impact from President-elect Trump's second term in office and uncertainties around US domestic and foreign policy, will be major influences on the Authority's treasury management strategy for 2025/26.

The Bank of England's (BoE) Monetary Policy Committee (MPC) reduced Bank Rate to 4.75% at its meeting in November 2024, having previously cut by 25bp from the 5.25% peak at the August MPC meeting. At the November meeting, eight Committee members voted for the cut while one member preferred to keep Bank Rate on hold at 5%.

The November quarterly Monetary Policy Report (MPR) is forecasting Gross Domestic Product (GDP) growth to pick up to around 1.75% (four-quarter GDP) in the early period of the BoE's forecast horizon before falling back. The impact from the Budget pushes GDP higher in 2025 than was expected in the previous MPR, before becoming weaker. Current GDP growth was shown to be 0.5% between April and June 2024, a downward revision from the 0.6% rate previously reported by the Office for National Statistics (ONS).

ONS figures reported the annual Consumer Price Index (CPI) inflation rate at 1.7% in September 2024, down from 2.2% in the previous month and lower than the 1.9% expected. Core CPI also declined further than expected to 3.2% against a forecast of 3.4% and the previous month's 3.6%. The outlook for CPI inflation in the November MPR showed it rising above the MPC's 2% target from 2024 into 2025 and reaching around 2.75% by the middle of calendar 2025. This represents a modest near-term increase due to the ongoing impacts from higher interest rates, the Autumn Budget, and a projected margin of economic slack. Over the medium-term, once these pressures ease, inflation is expected to stabilise around the 2% target.

The labour market appears to be easing slowly however, but the data still requires treating with some caution. The latest figures reported the unemployment rate fell to 4.0% in the three months to August 2024, while economic inactivity also declined. Pay growth for the same period was reported at 4.9% for regular earnings (excluding bonuses) and 3.8% for total earnings. Looking ahead, the BoE MPR showed

the unemployment rate is expected to increase modestly, rising to around 4.5%, the assumed medium-term equilibrium unemployment rate, by the end of the forecast horizon.

The US Federal Reserve has also been cutting interest rates, bringing down the Fed Funds Rate by 0.25% at its November 2024 monetary policy meeting to a range of 4.5%-4.75%. Further interest rate cuts are expected, but uncertainties around the potential inflationary impact of incoming President Trump's policies may muddy the waters in terms of the pace and magnitude of further rate reductions. Moreover, the US economy continues to expand at a decent pace, rising at an annual rate of 2.8% in the third quarter of 2024, and inflation remains elevated suggesting that monetary policy may need to remain more restrictive in the coming months than had previously been anticipated.

Euro zone inflation fell below the European Central Bank (ECB) 2% target in September 2024, the first time in over three years. This allowed the ECB to continue its rate cutting cycle and reduce its three key policy rates by 0.25% in October. Inflation is expected to rise again in the short term, but then fall back towards the 2% target during 2025, with the ECB remaining committed to maintaining rates at levels consistent with bringing inflation to target, but without suggesting a specific path.

Credit outlook: Credit Default Swap (CDS) prices have typically followed a general trend downwards during 2024, reflecting a relatively more stable financial period compared to the previous year. Improved credit conditions in 2024 have also led to greater convergence in CDS prices between ringfenced (retail) and non-ringfenced (investment) banking entities again.

Higher interest rates can lead to a deterioration in banks' asset quality through increased loan defaults and volatility in the value of capital investments. Fortunately, the rapid interest rate hikes during this monetary tightening cycle, while putting some strain on households and corporate borrowers, has not caused a rise in defaults, and banks have fared better than expected to date, buoyed by strong capital positions. Low unemployment and robust wage growth have also limited the number of problem loans, all of which are positive in terms of creditworthiness.

Moreover, while a potential easing of US financial regulations under a Donald Trump Presidency may aid their banks' competitiveness compared to institutions in the UK and other regions, it is unlikely there will be any material impact on the underlying creditworthiness of the institutions on the counterparty list maintained by Arlingclose, the authority's treasury adviser.

Overall, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast (November 2024): The Authority's treasury management adviser Arlingclose forecasts that The Bank of England's Monetary Policy Committee will continue reducing rates during 2024 and through 2025, taking Bank Rate to around 3.75% by the end of the 2025/26 financial year. The effect from the Autumn Budget on economic growth and inflation has reduced previous expectations in terms of the pace of rate cuts as well as pushing up the rate at the end of the loosening cycle.

Arlingclose expects long-term gilt yields to remain broadly at current levels on average (amid continued volatility), but to end the forecast period modestly lower compared to now. Yields will continue remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will be short-term volatility due to economic and (geo)political uncertainty and events.

A more detailed economic and interest rate forecast provided by Arlingclose is in Appendix A.

For the purpose of setting the budget, it has been assumed that new long-term loans will be borrowed at an average rate of 4.8% for 2025/26 and then 4.5% thereafter.

Local Context

On 30th November 2024, the Authority held £155m of borrowing and £63.7m of treasury investments. This is set out in further detail at Appendix B. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.24 Actual £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m	31.3.28 Forecast £m
Capital financing requirement	**282.0**	**330.0**	**324.6**	**327.3**	**328.8**
Less: Other debt liabilities *	-36.2	-84.7	-80.8	-76.5	-72.5
Loans CFR	**245.8**	**245.3**	**243.8**	**250.9**	**256.3**
Less: External borrowing **	-132.5	-131.9	-110.2	-104.7	-97.7
Internal (over) borrowing	**113.3**	**113.4**	**133.6**	**146.2**	**158.6**
Less: Balance sheet resources	-120.7	-97.0	-77.0	-70.7	-66.6
Treasury investments (or New borrowing)	**-7.4**	**16.4**	**56.6**	**75.5**	**92.0**

* leases and PFI liabilities that form part of the Authority's total debt
** shows only loans to which the Authority is committed and excludes optional refinancing

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Authority has an increasing CFR due to the capital programme, but minimal investments and will therefore be required to borrow up to £92m over the forecast period.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2025/26.

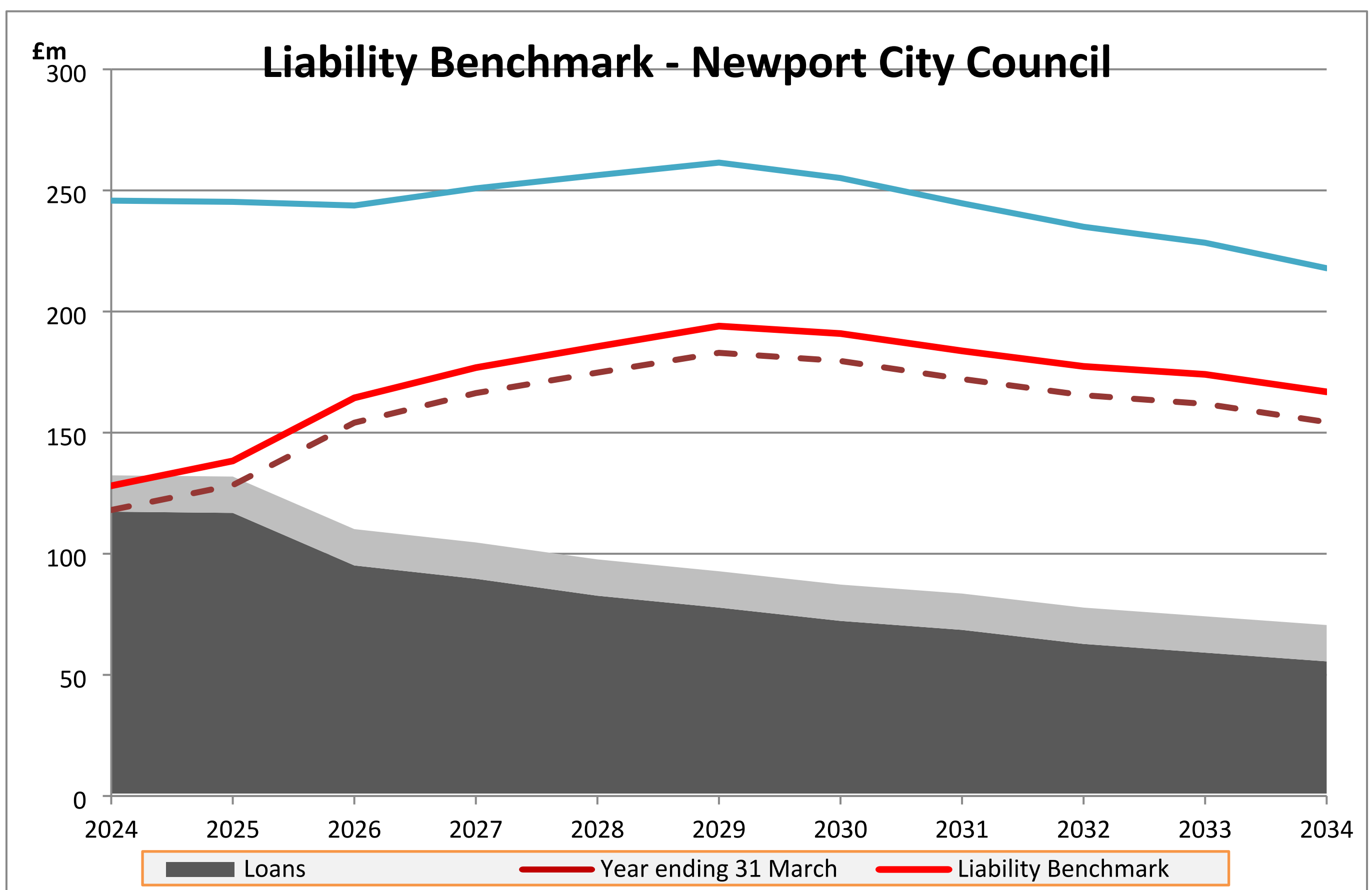
Liability benchmark: To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 1 above, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 2: Prudential Indicator: Liability benchmark

	31.3.24 Estimate £m	**31.3.25 Forecast £m**	**31.3.26 Forecast £m**	**31.3.27 Forecast £m**	**31.3.28 Forecast £m**
Loans CFR	245.8	245.3	243.8	250.9	256.3
Less: Balance sheet resources	-120.7	-97.0	-77.0	-70.7	-66.6
Net loans requirement	125.1	148.3	166.8	180.2	189.7
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0
Liability benchmark	**135.1**	**158.3**	**176.8**	**190.2**	**199.7**

Following on from the medium-term forecasts in Table 2 above, the long-term liability benchmark assumes that the only new borrowing in relation to capital expenditure will be any previously approved schemes as part of the current profile, and the SCfL programme that was agreed as part of the SOP minimum revenue provision on new capital expenditure based on an average 30 year asset life. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing:



The chart above shows actual borrowing maturing over 10 years (grey area reducing), however the need to borrow (the blue CFR line) is increasing sharply over the short term due to the proposed capital programme. Over the long-term, to ensure a sustainable position, the CFR needs to stop increasing and ideally come down in order for the liability benchmark to stabilise. This, in turn, reduces the need to borrow and consequent pressure on the capital financing budget. The chart is demonstrating the following important points/assumptions:

- To be sustainable, the CFR cannot continue increasing at the rate it is currently, and a prudent limit should be placed on the future capital programme to reduce the CFR over the long-term (set out further in the Capital Strategy)
- The ability to use further internal borrowing will diminish, with internal borrowing reducing over

time as reserves are utilised.
- As existing borrowing matures (grey area reducing) there will be the need to refinance this debt over the long-term.
- The liability benchmark is increasing significantly in the short term, meaning that the Council will be required to undertake new borrowing over time, although the revenue impact of this is already funded, assuming interest rates don't increase significantly from the current position.
- The only way to reduce this need to borrow is to reduce the level of capital expenditure funded by borrowing.

Borrowing Strategy

The Authority currently holds £155 million of loans, an increase of £17.8 million on the previous year, as part of its strategy for funding previous years' capital programmes. Part of the increase is due to the fact that the authority has already taken out three short term loans and one loan term loan totalling £25m in 2024/25 to cover its refinancing requirements of some large loans which are due to be repaid at the end of 2024/25. The balance sheet forecast in Table 1 shows that the Authority expects to borrow up to £56.6m in 2025/26. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £362 million.

Objectives: The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term interest rates are currently higher than in the recent past, but are expected to fall in the coming year and it is therefore likely to be more cost effective over the medium-term to either use internal resources, or to borrow short-term loans instead. The risks of this approach will be managed by keeping the Authority's interest rate exposure within the limit set in the treasury management prudential indicators, see below.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of [internal / short-term] borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2025/26 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Authority has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.

Alternatively, the Authority may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow further short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)

- National Wealth Fund Ltd (formerly UK Infrastructure Bank Ltd)
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except [your local] Local Government Pension Scheme)
- capital market bond investors
- retail investors via a regulated peer-to-peer platform
  UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- Sale and leaseback
- Similar asset based finance

UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

LOBOs: The Authority holds £15m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. £15m of these LOBOs have options during 2025/26, and with interest rates having risen recently, there is now a good chance that lenders will exercise their options. If they do, the Authority will seek to take the option to repay LOBO loans to reduce refinancing risk in later years. Total borrowing via LOBO loans will be limited to the £15m already in existence.

Short-term and variable rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

Treasury Investment Strategy

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's treasury investment balance has ranged between £11.5m and £68.2m, although it is expected that investment levels will average little over £10m during the 2025/26, as the Council's internal borrowing capacity is reduced.

Objectives: Both the CIPFA Code and the WG Guidance require the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy: As demonstrated by the liability benchmark above, the Authority expects to be a long-term investor and treasury investments will therefore include both short-term low risk instruments to manage day-to-day cash flows and longer-term instruments where limited additional risk is accepted in return for higher investment income to support local public services.

The CIPFA Code does not permit local authorities to both borrow and invest long-term for cash flow management. But the Authority may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by adding diversification in the form of a strategic pooled fund portfolio.

ESG policy: Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Authority's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Authority will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code

Business models: Under the IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the limits shown.

Table 3: Treasury investment counterparties and limits

Sector	**Time limit**	**Counterparty limit**	**Sector limit**
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£10m	Unlimited
Secured investments *	25 years	£10m	Unlimited
Banks (unsecured) *	13 months	£5m	Unlimited
Building societies (unsecured) *	13 months	£5m	£10m
Registered providers (unsecured) *	5 years	£5m	£25m
Money market funds *	n/a	£10m	Unlimited
Strategic pooled funds	n/a	£10m	£25m

Real estate investment trusts	n/a	£10m	£25m
Other investments *	5 years	£5m	£5m

This table must be read in conjunction with the notes below

*** Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or 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.

For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £20m per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

UK Government: Sterling-denominated investments with or explicitly guaranteed by the UK Government, including the Debt Management Account Deposit Facility, treasury bills and gilts. These are deemed to be zero credit risk due to the government's ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Local authorities and other government entities: Loans to, and bonds and bills issued or guaranteed by, other national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds, secured deposits and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured): Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds: Bond, equity and property funds, including exchange traded funds, that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but can be either withdrawn after a

notice period or sold on an exchange, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and unsecured loans to companies and universities. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

Operational bank accounts: The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £1m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Reputational aspects: The Authority is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Investment limits: The Authority's revenue reserves available to cover investment losses are forecast to be £102.2m million on 31st March 2025 and £84.2 million on 31st March 2026. In order that no more than 15% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £10 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £1 million in operational bank accounts count against the relevant investment limits.

Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Additional investment limits

	Cash limit
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£10m per country

Liquidity management: The Authority uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium-term financial plan and cash flow forecast.

The Authority will spread its liquid cash over at least two providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

Treasury Management Prudential Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Interest rate exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	**Limit**
Upper limit on one-year revenue impact of a 1% rise in interest rates	£700,000
Upper limit on one-year revenue impact of a 1% fall in interest rates	£600,000

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

Maturity structure of borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	**Upper limit**	**Lower limit**
Under 12 months	60%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	40%	0%
10 years and within 20 years	40%	0%
20 years and within 30 years	30%	0%
30 years and within 40 years	30%	0%

40 years and within 50 years	20%	0%
50 years and above	20%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Long-term treasury management investments: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management investments will be:

Price risk indicator	2025/26	2026/27	2027/28	No fixed date
Limit on principal invested beyond year end	£10m	£10m	£10m	£10m

Long-term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Related Matters

The CIPFA Code requires the Authority to include the following in its treasury management strategy.

Financial derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 24 of the Local Government and Elections (Wales) Act 2021 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Markets in Financial Instruments Directive: The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Head of Finance believes this to be the most appropriate status.

Government Guidance: Further matters required by the WG Guidance are included in Appendix 3c.

Financial Implications

The budget for investment income in 2024/25 is £0.4 million, based on an average investment portfolio of £10 million at an interest rate of 4%. The budget for debt interest paid in 2025/26 is £7.2 million, however expected costs based on the known annual cost of existing borrowing plus assumed new

borrowing at a rate of 4.8% are £7.3 million which will be covered by the minimum revenue payment budget. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Head of Finance believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix 3a – Arlingclose Economic & Interest Rate Forecast – December 2024

Underlying assumptions:

- As expected, the Bank of England Monetary Policy Committee (MPC) cut Bank Rate to 4.75% in November in an 8-1 vote. However, the outlook for monetary policy has changed following the new government's fiscal plans, as delivered in the recent Budget.
- The Budget contained measures that will boost demand, in a constrained supply environment, while pushing up direct costs for employers. The short to medium-term inflationary effects of the Budget require a change to our Interest Rate Forecast.
- UK GDP recovered well in H1 2024 from technical recession, but underlying growth appears relatively subdued. However, the Budget will significantly boost government spending over the short-term, with few offsetting measures to subdue household demand, so GDP growth is likely to rise relatively steeply.
- Private sector wage growth has eased to 4.8% yet remains high, while services inflation continues to hold above pre-pandemic levels. The increase in employers' NICs, minimum and public sector wage levels could have wide ranging impacts on private sector employment demand and costs, but the near-term impact will likely be inflationary as these additional costs get passed to consumers.
- CPI inflation was below the 2% target in September but will rise a little by year-end as energy price declines from the previous year fall out of the annual comparison. The Bank of England (BoE) estimates the Budget impact will see the CPI rate at 2.7% by year end 2025 and remain over target in 2026, as opposed to the prior projection of inflation easing back to and then below target by this point.
- The MPC re-emphasised the gradual move to easing monetary policy, and we now believe the Budget measures have both reduced the pace of Bank Rate cuts and increased the low for this loosening cycle (although downside risks remain in the medium term).
- The increase in borrowing, rise in inflation and shallower path for Bank Rate projected by the Office for Budget Responsibility (OBR) raised gilt yields. The material change in rate expectations means that yields will be generally higher in the post-Budget world.
- US government yields have risen following Donald Trump's and Republican victories in the US elections. Trump has run on a platform of policies that appear inflationary, calling into question the extent of policy loosening required from the Federal Reserve (which was already uncertain given continued solid US growth data). Higher US yields could also support higher UK yields.

Forecast:

- In line with our forecast, Bank Rate was cut to 4.75% in November 2024.
- The MPC will continue to lower Bank Rate to reduce the restrictiveness of monetary policy, but more slowly and to a higher level. We see another rate cut in February 2025, followed by one cut per quarter, in line with Monetary Policy Report publication, to a low of 3.75%.
- Long-term gilt yields have risen to reflect both UK and US economic, monetary and fiscal policy expectations, and increases in bond supply. Volatility is likely to remain elevated as the market digests incoming data for clues around the impact of policy changes.
- This uncertainty may also necessitate more frequent changes to our forecast than has been the case recently.
- Upside risks to inflation over the next 12 months could limit the extent of monetary easing, but we see the risks as broadly balanced over the medium term.

	Current	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.75	4.75	4.50	4.25	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Downside risk	0.00	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
3-month money market rate													
Upside risk	0.00	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.95	4.80	4.60	4.35	4.10	3.90	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Downside risk	0.00	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
5yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.30	4.20	4.10	4.05	3.95	3.90	3.90	3.90	3.95	4.00	4.05	4.05	4.05
Downside risk	0.00	-0.40	-0.50	-0.60	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65
10yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.41	4.40	4.35	4.35	4.35	4.30	4.30	4.30	4.35	4.35	4.35	4.35	4.35
Downside risk	0.00	-0.40	-0.50	-0.60	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65
20yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.84	4.80	4.75	4.70	4.65	4.65	4.65	4.65	4.65	4.65	4.65	4.65	4.65
Downside risk	0.00	-0.40	-0.50	-0.60	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65
50yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.35	4.50	4.45	4.40	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Downside risk	0.00	-0.40	-0.50	-0.60	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65

PWLB Standard Rate = Gilt yield + 1.00%
PWLB Certainty Rate = Gilt yield + 0.80%
PWLB HRA Rate = Gilt yield + 0.40%
National Wealth Fund (NWF) Rate = Gilt yield + 0.40%

Appendix 3b – Existing Investment & Debt Portfolio Position

	30/11/2024 Actual Portfolio £m	30/11/2024 Average Rate %
External borrowing:		
Public Works Loan Board	111.1	4.53
Local authorities	15.0	4.73
LOBO loans from banks	15.0	4.40
Other loans	13.9	3.77
Total external borrowing	**155.0**	**4.36**
Other long-term liabilities:		
Private Finance Initiative	77	
Finance Leases	8	
Total other long-term liabilities	**85**	
Total gross external debt	**234.95**	
Treasury investments:		
Banks (Unsecured)	1.20	0
Government	47.50	4.7
Secured Investments	10.00	5.2
Local authorities	5.00	4.7
Total treasury investments	63.70	3.7
Net debt	**171.25**	

Appendix 3c – Additional requirements of Welsh Government Investment Guidance

The Welsh Government (WG) published revised Investment Guidance in November 2019 which places additional reporting requirements upon local authorities that are not integral to this Authority's treasury management processes. The guidance also covers investments that are not part of treasury management, for example investment property and loans to local organisations.

Contribution: The Authority's investments contribute to its service delivery objectives and/or to promote wellbeing as follows:

- treasury management investments support effective treasury management activities,
- loans to local organisations provide financial support to those organisations to enable them to deliver local public services that would otherwise be provided directly by the Authority, and
- investment property provides a net financial surplus that is reinvested into local public services.

Climate change: The Authority's investment decisions consider long-term climate risks to support a low carbon economy to the extent that the Council has invested in, as part of the overall capital programme, a number of energy efficiency related schemes, including LED projects and Solar PV, as well as ultra-low emission vehicles. In addition, new schools are now being constructed on a net carbon zero basis.

Specified investments: The WG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement unless the counterparty is a local authority,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of "high credit quality".

The Authority defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

Loans: The WG Guidance defines a loan as a written or oral agreement where the 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, except where the third party is another local authority.

The Council currently has loans totalling £10.3m as at 31st December 2024. These are all developer loans issued to local enterprises and are secured. The current value of loans issued represent approximately 9% of the useable reserve balance held as at 31st March 2024. The authority's aim when issuing loans is to ensure that they do not exceed 15% of total useable reserves as at the end of each financial year and, therefore, the current value of loans is within that self-assessed limit. The authority is also working to the loan limits set out below.

Table C1: Loan limits

Borrower	**Cash limit**
Local enterprises	£15m
Local charities	£5m
Wholly owned companies	£5m
Joint ventures	£5m
Treasury management investments meeting the definition of a loan	Unlimited

The Authority uses an allowed 'expected credit loss' model for loans and receivables as set out in *International Financial Reporting Standard 9 Financial Instruments* as adopted by proper practices to measure the credit risk of its loan portfolio. Appropriate consideration is given to state aid rules and competition law. The Authority has appropriate credit control arrangements to recover overdue repayments in place.

Non-specified investments: Any financial investment not meeting the definition of a specified investment or a loan is classed as non-specified. Given the wide definition of a loan, this category only applies to units in pooled funds

and shares in companies. Limits on non-specified investments are shown in table C2; the Authority confirms that its current non-specified investments remain within these limits.

Table C2: Non-specified investment limits

	Cash limit
Units in pooled funds without credit ratings or rated below A-	£10m
Shares in real estate investment trusts	£10m
Shares in local organisations	£10m
Total non-specified investments	£15m

Non-financial investments: This category covers non-financial assets held primarily or partially to generate a profit, primarily investment property. Security is determined by comparing each asset's purchase price to its fair value using the model in International Accounting Standard 40: Investment Property as adapted by proper practices. On an assessment as at 31st March 2024, the Authority's investment property portfolio is anticipated to provide security for capital investment, since its fair value totals £19.217m and is likely to exceed the original purchase price (as in a number of cases, the purchases took place a significant amount of time ago). The authority will undertake further work to confirm, wherever possible, that the necessary security exists.

The Authority consider that the scale of its commercial investments including property are proportionate to the resources of the authority since such investments represent just 17% of its £112m useable reserves.

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. However, the Council is not actively pursuing a strategy of acquiring investment properties. Therefore, the current level of investment properties, which represents a relatively low proportion of useable reserves, is not likely to increase in the near future. As a result, it is not anticipated that these investments will need to be liquidated in the medium term.

Because the invested funds, if required, would potentially take time to be liquidated, the authority ensures that it holds adequate available cash balances to be able to, for example, repay capital borrowed. In addition, the authority holds a minimum £10m in investments (to meet Mifid II requirements) which could, if needed, be liquidated at relatively short notice, although this would be avoided if possible to ensure that the professional client status could be retained.

Investment advisers: The Authority has appointed Arlingclose Limited as treasury management advisers and Newport Norse as property investment advisers. The quality of these services is controlled by regular review of the services provided by both advisers and regular strategy meetings with them.

Borrowing in advance of need: Welsh Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Authority, after having regard to the guidance, will only borrow in advance of need as part of a strategy for reducing risk of future interest rate rises and would not undertake such activity purely in order to profit from an investment.

Capacity and skills: The authority ensures that members and statutory officers involved in investment decisions have the appropriate skills, capacity and information to take informed decisions, assess individual investments in the context of strategic objectives and risk profile, and how the quantum of decisions impact upon the overall risk exposure of the authority. Steps taken include relevant training for elected members and a minimum level of qualification for statutory officers, as well as ensuring continuing professional development, via attendance at relevant training courses. Officers will always take advise from its independent advisers regarding investing and borrowing activity.

Commercial deals: Any commercial deals that the Council would be involved in would involve statutory officers in those discussions and any final decisions. This ensures that the core principles of the prudential framework and the regulatory regime of the local authority is adhered to when making such decisions.

Corporate governance: The Council has a clear corporate governance framework set out within its constitution, scheme of delegations and Annual Governance Statement. This ensures that decisions regarding investment are taken at the appropriate level. For example, the overarching treasury strategy and framework is approved by full

Council. Operational decisions, such as day to day cashflow management, including borrowing, are delegated to the Head of Finance.

Appendix 3d – Minimum Revenue Provision Policy

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to Welsh Government's Guidance on Minimum Revenue Provision (the WG Guidance) most recently issued in 2018.
The broad aim of the WG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.
The WG Guidance requires the Authority to approve an Annual MRP Statement each year and provides a number of options for calculating a prudent amount of MRP, but does not preclude the use of other appropriate methods. The following statement only incorporates options recommended in the Guidance.
MRP is calculated by reference to the capital financing requirement (CFR) which is the total amount of past capital expenditure that has yet to be permanently financed, noting that debt must be repaid and therefore can only be a temporary form of funding. The CFR is calculated from the Authority's balance sheet in accordance with the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Expenditure in Local Authorities, 2021 edition. For supported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments. This is currently deemed to be an average of 40 years.

- For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in on an annuity basis with an annual interest rate equal to the average relevant PWLB rate for the year of expenditure, starting in the year after the asset becomes operational.

- For capital expenditure loans to third parties that are repaid over a short time period (less than 12 months) or frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement. The only other scenario whereby MRP would not be charged is where there is unencumbered first charge security, held against separate assets, upon which the loan is secured. For all other capital expenditure loans to third parties, MRP will be charged in accordance with the MRP policy for the assets funded by the loan.

- The MRP policy and charges in relation to the Cardiff Capital Region 'City Deal' will reflect those within the Joint Working Agreement.

- For assets acquired by leases or the Private Finance MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

- Where former operating leases have been brought onto the balance sheet due to the adoption of the *IFRS 16 Leases* accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the MRP charges will be adjusted so that the overall charge for MRP over the life of the lease reflects the value of the right-of-use asset recognised on transition rather than the liability.

Capital expenditure incurred during 2025/26 will not be subject to an MRP charge until 2026/27.
Based on the authority's latest estimate of its Capital Financing Requirement as at 31st March 2025, the estimated cost of MRP in 2025/26, including finance leases and PFI, is as follows:

	31.03.2025 Estimated CFR £m	**2025/2026 Estimated MRP £m**
Supported capital expenditure	159	5
Unsupported capital expenditure	85	5
Finance leases* and Private Finance Initiative	81	4
Total General Fund	**325**	**14**