Cyd-bwyllgor Corfforedig De-Ddwyrain Cymru | South East Wales Corporate Joint Committee

Report for:	ACTION
Contains Confidential or Exempt Information	NO

For Consideration By	South East Wales Corporate Joint Committee
Report Title	2025/26 Treasury Management Strategy
Report of	Strategic Director of Resources
Contact Details	Liam.Hull@cardiffcapitalregion.gov.uk
Date to be Considered	31 March 2025
Implementation Date	Immediate
Affected Council Areas	All
Keywords / Index	Treasury Management

Report Summary

1. To seek approval of the South East Wales Corporate Joint Committee's (CJC) Treasury Management Strategy Statement (TMSS), along with a range of supplementary statements which also require approval, necessary for effective control of the CJC's borrowings and investments for 2025/26 and compliance with applicable regulations and relevant accounting codes.

2. To provide an update on how the CJC has developed its in-house banking and treasury management capabilities since its transition on the 1 April 2024 and how these have been incorporated into the 2025/26 TMSS.

Recommendations

3. It is recommended that the South East Wales Corporate Joint Committee:

   (1) approves the CJC's 2025/26 Treasury Management Strategy Statement, which incorporates its Capital Strategy, attached at Appendix 1;

   (2) approves the CJC's 2025/26 Treasury Management Policy Statement, attached at Appendix 2;

   (3) approves the CJC's 2025/26 Minimum Revenue Provision Policy Statement, as attached at Appendix 3

Reasons for Recommendations and Options Considered

Background

4. The CJC Statutory Guidance sets out the Accounting & Reporting arrangements applicable to the set-up and operation of CJCs. Furthermore, the Guidance clearly sets-out the relevant legislative frameworks which apply to all CJCs, and these are clearly referenced in this report. In summary, CJCs are seen "as a member of the Local Government family" and, in respect of all financial and accounting matters, are subject to the same regulatory framework provisions.

5. Financial year 2024/25 represented the CJC's first year where it became directly responsible for its own treasury management arrangements, having previously relied on the Accountable Body to manage its cash and investments. To support the CJC with its treasury management activities, it entered into a Service Level Agreement (SLA) with RCT, which included support with these arrangements. The CJC agreed that its surplus cash balances would be 'pooled' with RCT's cash balances and invested in accordance with RCT's approved Treasury Management Strategy Statement, which complimented the CJC's own strategy.

6. As the CJC has now been operating for the best part of a year, it has provided the CJC with sufficient time for its financial systems, processes and controls to bed-down. Furthermore, during this period the CJC completed the recruitment of key roles within its internal finance team, increasing its overall capacity and capability. This has allowed the CJC to build on its banking and treasury management arrangements in preparation for 2025/26 and beyond.

7. On the 4 March 2025, the CJC moved away from the pooled fund arrangements with RCT and became responsible for its day-to-day treasury management activities in line with its own approved Treasury Management documentation. These operational changes have been incorporated into the 2025/26 TMSS and its operational treasury management handbook (Treasury Management Principles, Practices & Schedules Statement).

8. It should be noted that the information contained within this document is exclusively related to the CJC's treasury investments, except for certain sections of the Welsh Investment Guidance included in Appendix 1, which provides commentary on wider investments. Information in relation to the CJC's non-treasury investments is fully set out in its investment framework documentation.

9. The Local Government Act 2003 refers to affordability and the requirement that local authorities in England and Wales determine and keep under review the amount of money they can afford to borrow for capital investment (Prudential Code for capital finance in local authorities (2021 edition)).

10. The Prudential Code plays a key role in capital finance within the CJC. The organisation is free to determine its own programme for capital investment that is central to the delivery of quality public services. The Prudential Code was developed by CIPFA as a professional code of practice to support local decision making. The CJC is required by regulation to have regard to the Prudential Code

when carrying out its duties in England and Wales under Part 1 of the Local Government Act 2003.

11. Linked to the Prudential Code are the requirements of the Treasury Management in Public Services: Code of Practice (CIPFA 2021) (TM Code), which sets out good practice in treasury management and includes the management of investment and borrowing decisions. The CJC formally adopted the TM Code at its meeting of the 18 March 2024 and continues to make investment and borrowing decisions in line with its contents.

Investment Strategy and Risk Appetite

12. The CJC's approved 2025/26 Budget includes the capital component of the City Deal Wider Investment Fund. The capital element of the fund totals £445 million (over a 10-year period) and is a fully funded programme i.e. capital expenditure is fully funded from a combination of the £325 million approved HM Treasury capital grant and £120 million capital contributions approved by the 10 constituent councils.

13. Therefore, the CJC is unlikely to have any immediate borrowing requirements, but a borrowing section has been included within the TMSS for completeness and to enable it to consider future plans as these arise. For example, the CJC has carried out some early work in relation to developing a 'Fund 2' and the delivery of such a fund could require the CJC to undertake borrowings under its own name in the future.

14. Treasury management is the management of the CJC's cash flows, borrowing and investments, and the associated risks. The CJC has the potential to invest 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 risks are therefore central to the CJC's prudent financial management arrangements.

15. Following the unprecedented national and international economic crisis in 2008, some public bodies (including some of the CJC's constituent councils) took the decision that they would only invest in the Debt Management Account Deposit Facility and other Government backed public sector bodies.

16. This approach continues to be central to the CJC's investment strategy and is considered to be a very low risk treasury management strategy. This strategy ensures that the CJC's investments are prioritised on the following basis:

- Security - protecting monies invested;
- Liquidity – readily accessible cashflows; and finally
- Yield - return on investment.

17. The order of these "SLY" priorities are detailed in Investment Guidance produced by the Welsh Government.

18. It is proposed that in 2025/26 the CJC will continue to only invest in the Debt Management Account Deposit Facility and other Government backed public

sector bodies. This low-risk strategy has been determined by balancing both risk and return.

19. It is acknowledged that low risk investment strategies result in lower investment returns. Accordingly, the CJC will keep these arrangements under constant review with a view to considering whether it undertakes market investment activity, in accordance with its detailed Treasury Management Strategy appended to this report, at the appropriate time. Members will be kept informed of any changes as part of the CJC's quarterly treasury management performance update reports.

<u>2025/26 Treasury Management Strategy (incorporating the Capital Strategy)</u>

20. The CJC's draft Treasury Management Strategy Statement (TMSS), which incorporates its Capital Strategy, is attached at Appendix 1 and this covers the following areas:

- borrowing to finance the cash requirements arising from the approved Capital Programme (where applicable);
- treasury investments and determining how short-term cash flows will be safely managed to meet the CJC's financial commitments and objectives.

21. The strategy includes the following key information:

- the CJC's current treasury position;
- economic background and prospects for interest rates;
- investment strategy including:
  i. approved investments;
  ii. approved investment counterparty credit criteria;
  iii. investment strategy.

- Borrowing, including:
  i. policy;
  ii. future borrowing requirement based on the capital expenditure plans and choice between internal and external borrowing; and
  iii. borrowing strategy.

- Treasury management indicators and limits for 2025/26 to 2028/29 based on the CJC's latest approved Capital Programme.

22. Members will note that certain aspects of the TMSS document do not apply to the CJC in 2025/26. However, for completeness, it is necessary to include all aspects of the requirements in order to demonstrate that these have been considered and complied with where applicable.

23. As set-out in the TMSS, the CJC will receive reports on the approach to treasury management at the start of the financial year, at mid-year and at out-turn. The Governance & Audit Sub-Committee's Terms of Reference set out their responsibility to seek assurance that the CJC has complied with its Treasury Management Strategy and Practices by demonstrating effective control of the associated risks and pursuing optimum performance consistent with those risks.

24. The Governance & Audit Sub-Committee's next meeting is scheduled to take place on the 11 April 2025, however, due to the requirement to approve the TMSS no later than the 31 March 2025, it has not been possible for the draft TMSS to be reviewed by the sub-committee in advance. However, a draft of the documents have been shared with the sub-committee's Chair and Vice-Chair and their comments have been considered in preparing the drafts attached to this report. For completeness, these documents will be considered retrospectively by the Governance & Audit Sub-Committee at its next meeting.

25. Incorporating the Capital Strategy within the Treasury Management Strategy Statement (TMSS) aligns with the Prudential Code's requirements, aiming to contextualise borrowing and investing decisions within the CJC's broader financial perspective. This integrated approach ensures governance bodies are well-informed without necessitating a separate report at this stage.

26. Given the CJC's current debt-free status and its capital expenditure plans, which do not foresee borrowing needs in the near future, along with anticipated increases in investments from capital receipts and revenue reserves through loan repayments and equity sales, a consolidated document is both strategic and sufficient for the CJC's current needs. This method streamlines financial governance, adapting to the CJC's unique circumstances and financial outlook.

27. Alongside the TMSS, the CJC must also develop and obtain approval for a number of supplementary statements, which work in conjunction with the TMSS. These include:

    - **Treasury Management Policy Statement** – this sets out the CJC's policies, objectives and approach to risk management of its treasury management activities and is set out at Appendix 2;

    - **Minimum Revenue Provision Policy Statement** - the Welsh Government Guidance requires the CJC to approve an Annual Minimum Revenue Provision (MRP) Statement each year and recommends a number of options for calculating a prudent amount of MRP. As outlined above, the CJC's capital programme is fully funded and therefore has no debt at this time. However, in order to comply with the Regulations, the CJC's MRP Policy Statement is attached at Appendix 3.

    <u>Summary of key changes proposed in 2025/26</u>

28. The key changes proposed for the 2025/26 suite of documents can be summarised as follows:

    - Updates to reflect that the CJC now has full responsibility for its banking and treasury management arrangements, with surplus cash balances being invested in-line with its approved TMSS;

    - It is proposed that the CJC's Counter Party Investment Limits are increased from £5M to £10M, including that of the CJC's principal bank (Barclays),

providing that the bank's credit rating is no lower than -A. This is in line with advice from the CJC's Treasury Management Advisors and provides the CJC with more operational flexibility where required. The proposed limit falls within the range operated by the CJC's Constituent Councils in respect of their principal banks;

- Changes to bring to the document up to date for 2025/26 in respect of:
    - External and Local Context;
    - Treasury Management Prudential Indicators;
    - Economic & Interest Rate Forecasts;
    - Existing Investments & Debt Portfolio Position;

- Updates in respect of the CJC's Responsible Investing Policy and approach to its ESG Scorecard, which reflects the updates the CJC approved earlier in the year and ensures these documents are fully aligned.

Treasury Management Advisors

29. The CJC has appointed Arlingclose as its Treasury Management Advisors, who have supported the CJC in the development of the Statements outlined above. In addition, the CJC's Treasury Management Advisors also provide the CJC with advice, guidance and support in relation to:

- Investments and Borrowing;
- Investment Counterparties and appropriate limits;
- Technical Advice;
- Economic Conditions and Interest Rates;
- Strategies and Reports;
- Treasury Strategy Meetings / Training Events and Seminars.

Comments of the s.151 Officer

31. The report seeks approval of the CJC's Treasury Management Strategy Statement and a range of supplementary statements in respect of financial year 2025/26. As outlined in the report, the CJC became responsible for managing its cash from the 1 April 2024 and the suite of draft documents attached to this report will be central to the CJC's ability to manage these activities in an effective way, ensuring always that the principles of Security, Liquidity and Yield are followed.

32. With that in mind the CJC has developed its own cashflow forecasting tools to allow it to assess the value of surplus cash funds available on a day-to-day basis, throughout the year. Whilst the CJC initially agreed to a cash pooling arrangement with RCT, it has used the past 12 months to develop its own in-house capacity and capability. From the 4 March 2025 the CJC took responsibility for its treasury management investments continuing to invest its surplus cash with the Debt Management Account Deposit Facility and other Government backed public sector bodies. This approach delivers returns (yield) in proportion to the risk profile embedded within the CJC's overall treasury management strategy.

33. Whilst the CJC has benefited from generating significant returns on its balances in previous years, there is no requirement to generate a targeted sum to meet a pre-set 'income target' for budgeting purposes. Therefore, the returns generated in 2025/26 (projected to be in the region of £2.65M at an average yield of 4.00%) will represent surplus resources available to the CJC to meet any unforeseen costs. Where resources are not utilised during the year, they will be carried forward as usable reserves and be available for drawdown in future years.

34. The CJC has appointed a professional firm of experienced public sector treasury management advisors to support it with its cash management activities and documentation. The service specification includes appropriate call-off arrangements to ensure the CJC has access to timely professional advice and support throughout the year.

35. Quarterly reports will be prepared for the CJC and the Governance & Audit Sub-Committee on the CJC's actual treasury management financial performance, results and any financial implications arising.

Comments of the Monitoring Officer

36. Under Part 1 of the Local Government Act 2003 and Regulations 2 and 19 of the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003, local authorities in Wales are required to have regard to the 'Prudential Code for Capital Finance in Local Authorities' and the 'Treasury Management in the Public Services: Code of Practice', both published by CIPFA.

37. Treasury management in this context is defined as "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

38. The Welsh Government has also issued Statutory Guidance on Local Government Investments (the 'Investments Guidance') and the Minimum Revenue Provision (the 'MRP Guidance').

39. The Treasury Management Code requires the CJC to approve an annual strategy report for the year ahead. The Code also recommends that members be updated on treasury management activities regularly.

40. The Prudential Code requires the CJC to set Prudential Indicators for the next three years to ensure that the CJC's capital investment plans are affordable, prudent and sustainable.

Staffing Implications

41. None.

Equality, Human Rights and Community Cohesion

42. No adverse equalities implications have been identified.

Well-being of Future Generations

43. Regard has been had to the well-being duty arising under the Well-Being of Future Generations (Wales) Act 2015.

Welsh Language Implications

44. None.

Background Papers

CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance 2021

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Meeting Date: 31 March 2025

Appendices

Appendix 1 Draft 2025/26 CJC Treasury Management Strategy Statement, incorporating its Capital Strategy

Appendix 2 Draft 2025/26 CJC Treasury Management Policy Statement

Appendix 3 Draft 2025/26 CJC Minimum Revenue Provision Policy Statement

South East Wales Corporate Joint Committee
2025/26 Treasury Management Strategy Statement (incorporating the Capital Strategy)

Introduction

The South East Wales CJC Establishment Regulations came into force on 1 April 2021 and established a corporate legal entity comprising of the 10 South East Wales Local Authorities, which are also members of the Cardiff Capital Region (constituent councils) and, for the purposes of the Strategic Development Plan (SDP), the Bannau Brycheiniog National Park Authority (BBNPA).

It has been a long-held ambition of Regional Cabinet to develop one integrated model of regional public investment, as per the OECD recommendations to Welsh Government in their review of Regional Economic Governance in Wales (2021). This would affect the evolution of Cardiff Capital Region City Deal (CCRCD) from a single funding programme supported through an 'Accountable Body' model to a new corporate entity through which multiple programmes, investments and functions can be developed and delivered on a regional basis. The transition to these new arrangements came into effect on the 1 April 2024.

The CJC Statutory Guidance sets out the Accounting & Reporting arrangements applicable to the set-up and operation of CJCs. Furthermore, the Guidance clearly sets-out the relevant legislative frameworks which apply to all CJCs. In summary, CJCs are seen "as a member of the Local Government family", and in respect of all financial, reporting and accounting matters, are subject to the same regulatory framework provisions.

The South East Wales Corporate Joint Committee (CJC) encompasses ten local authority areas in South East Wales, including Blaenau Gwent, Bridgend, Caerphilly, Cardiff, Merthyr Tydfil, Monmouthshire, Newport, Rhondda Cynon Taf, Torfaen, and the Vale of Glamorgan. Home to 1.5 million people, it represents nearly half of Wales's total population. This diverse region includes the cities of Cardiff and Newport, several market towns, the industrial core of the South Wales Valleys, rural communities, and a coastal area.

The information contained within this document is exclusively related to CJC's treasury investments, except for certain sections of the Welsh Investment Guidance included in the Appendix C. For guidance on non-treasury investments, please refer to the documentation associated with CCR's investment framework.

Financial year 2024/25 represented the CJC's first year where it became directly responsible for its own treasury management arrangements, having previously relied on the Accountable Body to manage its cash and investments. To support the CJC with its treasury management activities, it entered into a Service Level Agreement (SLA) with RCT, which included support with these arrangements. The CJC agreed that its surplus cash balances would be 'pooled' with RCT's cash balances and invested in accordance with RCT's approved Treasury Management Strategy Statement, which complimented the CJC's own strategy.

As the CJC has now been operating for the best part of a year, it has provided the CJC with sufficient for its financial systems, processes and controls to bed-down. Furthermore, during this period the CJC completed its recruitment of key roles to its internal finance team. This has allowed the CJC to make a number of decisions regarding the management and operation of its banking and treasury management arrangements in 2025/26.

On the 4 March 2025, the CJC moved away from the pooled fund arrangements with RCT and became responsible for its day-to-day treasury management activities in line with its approved Treasury Management documentation.

As anticipated, the CJC did not have any borrowing requirements in 2024/25, and this is also likely to be the case in 2025/26. However, the borrowing section has been left in the 2025/26 Treasury Management Strategy Statement for completeness.

Treasury management is the management of the CJC's cash flows, borrowing and investments, and the associated risks. The CJC has the potential to invest 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 CJC's prudent financial management.

Treasury risk management at the CJC 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 CJC 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 CJC to approve an investment strategy before the start of each financial year. This report fulfils the CJC'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 CJC 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 CJC'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.

The Prudential Code requires the approval of a Capital Strategy, the purpose of which is to firmly place decisions around borrowing and investing in the context of the overall longer-term position of the CJC.

The Capital Strategy can be tailored to an organisation's local circumstances at a level that provides sufficient information to those charged with the governance of the organisations overall financial position. Rather than produce a separate report, the following checklist provides details of the areas that would need to be included in a Capital Strategy and will provide information on where this information can be found (as the organisation progresses, consideration will be given to producing a separate, standalone document in future years):

Information Required	Information Source
Link between Capital budget and Corporate Priorities	Corporate Plan, Asset Management Plan
Long-Term forecast of capital spend capital receipts and capital borrowing	MTFP, Capital Programme
Long-term projection of external borrowing	Treasury Strategy
Liability/Asset Benchmark projection	Treasury Strategy
Details of the Authorised Limit and Operational Boundary	Treasury Strategy

Information on Treasury Management decision making and scrutiny	Treasury Strategy
Details of CCR's Treasury Management Investment decision making process	Treasury Strategy
Outline of the CCR's objectives and risk appetite for any investments made purely for commercial return	Investment Strategy
Information on how skills and knowledge of staff and members are monitored against the borrowing and investment activities that take place	Treasury Strategy
Details of any advisors used in complying with the relevant Codes and Guidance	Treasury Strategy

External Context

Economic background: The impact on the UK from the government's Autumn Budget, slower expected interest rate cuts, a short-term boost to but 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 CJC's treasury management strategy for 2025/26.

The Bank of England's Monetary Policy Committee voted by a majority of 7-2 to reduce Bank Rate by 0.25 percentage points to 4.5% in its February 2025 meeting. Two members preferred to reduce Bank Rate by 0.5 percentage points to 4.25%.

The February quarterly Monetary Policy Report (MPR) projected UK GDP to have contracted by 0.1% in Q4 2024, with only modest 0.1% growth expected in Q1 2025, reflecting ongoing economic stagnation. CPI inflation fell to 2.5% in December but is forecast to rise to 3.7% in Q3 2025 due to higher energy prices before easing. The labour market has loosened slightly, and productivity remains weak, with unemployment projected to rise to 4.75%. Market expectations for Bank Rate cuts have moderated, reflecting continued uncertainty over inflation and demand conditions.

ONS figures reported the annual Consumer Price Index (CPI) inflation rate at 2.6% in November 2024, up from 2.3% in the previous month and in line with expectations. Core CPI also rose, but by more than expected, to 3.6% against a forecast of 3.5% and 3.3% in the previous month. 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, but the data still require treating with some caution. The latest figures reported the unemployment rate rose to 4.3% in the three months to October 2024 and economic inactivity fell to 21.7%. Pay growth for the same period was reported at 5.2% for both regular earnings (excluding bonuses) and 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 continued cutting interest rates, bringing down the Fed Funds Rate by 0.25% at its December 2024 monetary policy meeting to a range of 4.25%-4.50%, marking the third consecutive reduction. 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 (upwardly revised) annual rate of 3.1% 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 rose above the European Central Bank (ECB) 2% target in November 2024, hitting 2.2% as was widely expected and a further increase from 2% in the previous month. Despite the rise, the ECB continued its rate cutting cycle and reduced its three key policy rates by 0.25% in December. Inflation is expected to rise further 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 CJC'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 (February 2025): The CJC's treasury management adviser Arlingclose expects the Bank of England's MPC will continue reducing Bank Rate through 2025, taking it 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 treasury investments will be made at an average rate/yield of 4.0%, and that new long-term loans will be borrowed at an average rate of 5.0%.

Local Context

On 31st December 2024, the CJC held £0m of borrowing and £86.39m 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

	31.3.25 Estimate £m	**31.3.26 Forecast £m**	**31.3.27 Forecast £m**	**31.3.28 Forecast £m**	**31.3.29 Forecast £m**
Capital financing requirement	**0**	**0**	**0**	**0**	**0**
Less: External borrowing	0	0	0	0	0
Internal (over) borrowing	**0**	**0**	**0**	**0**	**0**
Less: Balance sheet resources	65.0	67.5	67.8	71.0	82.9
Treasury investments (or New borrowing)	65.0	67.5	67.8	71.0	82.9

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 CJC's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The CJC is currently debt free, and its capital expenditure plans do not currently imply any need to borrow over the forecast period. Investments are forecast to rise as the CJC receives capital receipts and an increase in revenue reserves from loan principal and interest repayments, and equity sales.

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

Liability benchmark: To compare the CJC's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing.

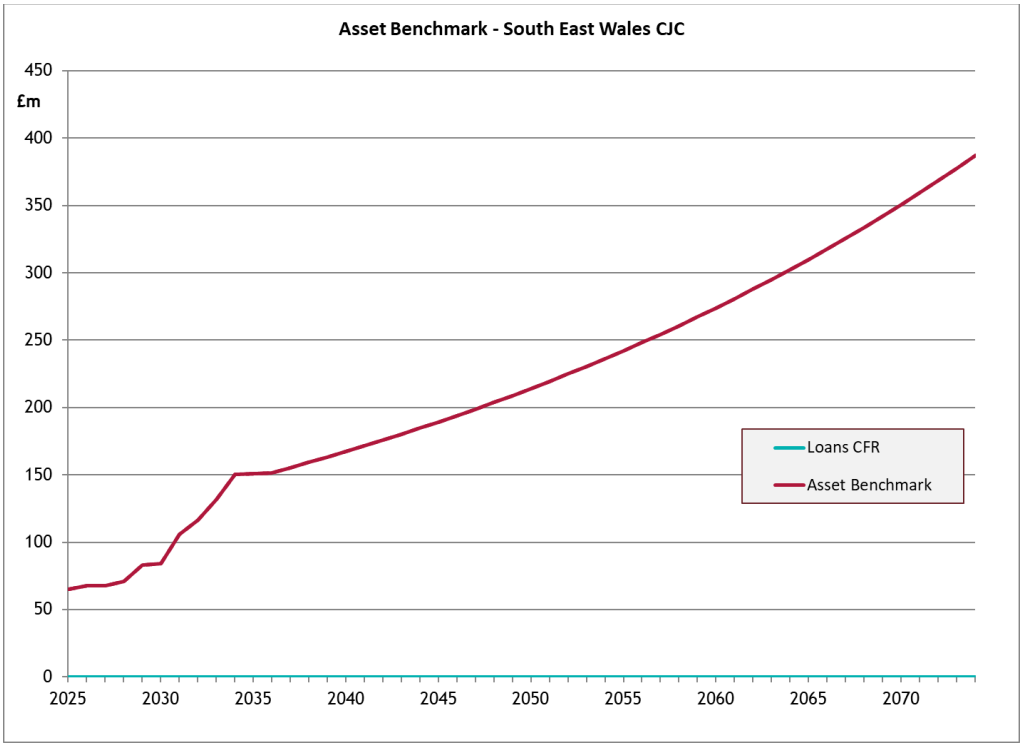
The liability benchmark is an important tool to help establish whether the CJC is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the CJC 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. However, as the CJC is expected to be a long-term investor, it is more appropriate to use an asset benchmark.

Table 2: Prudential Indicator: Asset benchmark

	31.3.25 Estimate £m	**31.3.26 Forecast £m**	**31.3.27 Forecast £m**	**31.3.28 Forecast £m**	**31.3.29 Forecast £m**
Loans CFR	**0**	**0**	**0**	**0**	**0**

Plus: Balance sheet resources	65.0	67.5	67.8	71.0	82.9
Net investments	65.0	67.5	67.8	71.0	82.9
Less: Liquidity allowance	0	**0**	0	0	0
Asset benchmark	65.0	67.5	67.8	71.0	82.9

Following on from the medium-term forecasts in table 2 above, the long-term asset benchmark assumes capital expenditure funded by borrowing of £0m a year and a 2.5% inflation rate on reserves. This is shown in the chart below as an asset benchmark (inverse liability benchmark):



Borrowing Strategy

The CJC currently holds £0 million of loans and does not forecast any borrowing and has no borrowing requirement. This section of the strategy document is included for completeness.

Objectives: The CJC'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 CJC's long-term plans change, is a secondary objective.

Strategy:

PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the CJC intends to avoid this activity in order to retain its access to PWLB loans.

The CJC 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 CJC may borrow 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)
- 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 The Rhondda Cynon Taf Pension Fund)
- capital market bond investors
- 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
- public-private partnership (PPP)
- sale and leaseback
- similar asset-based finance

Short-term and variable rate loans: These loans leave the CJC 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.

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 CJC does not have outstanding PWLB borrowing and does not currently intend to borrow from the PWLB. However, in the unlikely event that the CJC does borrow, the CJC would benefit from being able to 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 CJC holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the next 12 months, the CJC's treasury investment balance is expected to start the financial year at £65.0 million and end the financial year at £67.5 million, and similar levels are expected to be maintained in the forthcoming year.

Objectives: Both the CIPFA Code and the WG Guidance require the CJC 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 CJC'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 CJC 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 CJC aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy: As demonstrated by the asset benchmark above, the CJC 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. However, the CJC is likely to predominately invest on a short-term basis.

ESG policy: Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making. CCR has developed an ESG Scorecard primarily for its non-treasury investments, in line with its Responsible Investment Policy and international best standards. When investing in banks and funds, the CJC 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.

The CJC is committed to ensuring that it makes investment decisions responsibly and with integrity.

For non-treasury investments, the CCR Responsible Investment Policy sets out to determine if a project, business or industry should be considered for investment based upon a set of benchmark criteria and principles of investment. The policy utilises a 'negative screening' approach to protect reputation and avoid conflict with core objectives, alongside a 'positive screening' approach for key principles. It sets out a policy position to avoid investing in projects or businesses that do not meet CJC's social, environmental or ethical criteria. The policy has been developed to allow a responsible investment approach, in line with its strategy of enhancing economic wellbeing while minimising any negative effect on its investment returns - both financial and wider economic outcomes. These principles will be extended to treasury investment decisions, where appropriate, (please see appendix D) and will be aligned to CCR's Strategic Equality Plan, Biodiversity Compliance Plan, and Economic Well-being Objectives.

Business models: Under the IFRS 9 standard, the accounting for certain investments depends on the CJC's "business model" for managing them. The CJC 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 CJC 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	£10m	Unlimited
Building societies (unsecured) *	13 months	£10m	£10m
Registered providers (unsecured) *	5 years	£10m	£10m
Money market funds *	n/a	£10m	Unlimited
Strategic pooled funds	n/a	£10m	£25m

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

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 £10,000,000 per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

Government: Loans to, and bonds and bills issued or guaranteed by, 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. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

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 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.

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 CJC 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 that offer enhanced returns over the longer term but are more volatile in the short term. These allow the CJC 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 are available for withdrawal after a notice period, their performance and continued suitability in meeting the CJC'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 company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the CJC's investment at risk.

Operational bank accounts: The CJC 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 £10,000,000 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 CJC maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the CJC's treasury advisers, Arlingclose, who will notify changes in ratings as they occur. 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 on the next working day 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 CJC 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 CJC 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 CJC'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 CJC's revenue reserves available to cover investment losses are forecast to be £65.0 million on 31st March 2025 and £67.5 million on 31st March 2026. In order that no more than 12% 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 £500,000 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	£12m per manager
Negotiable instruments held in a broker's nominee account	£12m per broker
Foreign countries	£5m per country

Liquidity management: The CJC 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 CJC being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the CJC's medium-term financial plan and cash flow forecast.

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

Security: The CJC has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	**Target**
Portfolio average credit rating	A

Liquidity: The CJC has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Liquidity risk indicator	**Target**
Total cash available within 3 months	£10m

Interest rate exposures: This indicator is set to control the CJC'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	£1,000,000
Upper limit on one-year revenue impact of a 1% fall in interest rates	£1,000,000

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 CJC'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	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	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 CJC'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	£55m	£30m	£20m	£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 CJC to include the following in its treasury management strategy.

Financial derivatives: 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 CJC 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 CJC 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 CJC 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 CJC has not opted up to professional client status with its providers of financial services not allowing it access to a greater range of services without the greater regulatory protections afforded to individuals and small companies.

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

Financial Implications

The forecast for investment income in 2025/26 is £2.65 million, based on an average investment portfolio of £66.3 million at an interest rate of 4.00%. The budget for debt interest paid in 2025/26 is £0 million, based on an average debt portfolio of £0 million. If actual levels of investments and borrowing, or actual interest rates, differ from those forecasts, performance against budget will be correspondingly different.

Where investment income exceeds budget, e.g. from higher risk investments including pooled funds, or debt interest paid falls below budget, e.g. from cheap short-term borrowing, then 50% of the revenue savings will be transferred to a treasury management reserve to cover the risk of capital losses or higher interest rates payable in future years.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Strategic Director of Resources, having consulted the Governance and Audit Sub-Committee 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 A – Arlingclose Economic & Interest Rate Forecast – February 2025

Underlying assumptions:

- The Monetary Policy Committee (MPC) reduced Bank Rate by 0.25% to 4.5% in February, as we had expected. The messaging was a little mixed despite the 7-2 voting split, with the two dissenters wanting a 0.5% reduction. There were a range of views; there is evidently growing concern about the UK's growth trajectory while the inflation picture is not clear enough for policymakers to instigate more rapid monetary loosening.
- UK GDP growth petered out towards the end of 2024 and recent data suggest growth in early 2025 is unlikely to improve much, with the MPC halving their forecast from 1.5% to just 0.75%. While government spending should boost GDP growth in 2025, private sector activity appears to be waning, partly due to Budget measures.
- The MPC expressed uncertainty about whether the slowdown in growth was a result of demand or supply; while demand has slowed, weaker productivity growth suggested that supply capacity has also dropped, limiting the margin of economic slack and the downward pressure on inflation.
- Private sector wage growth and services inflation remain elevated despite a reduction in the services CPI rate for December. We expect the labour market to continue to weaken over the next year, which will place downward pressure on wage growth and services inflation.
- However, CPI inflation rates are expected to rise above 3% in the near term due to unfavourable base effects, particularly for retail energy prices (wholesale gas spot prices are at two-year highs). The MPC revised its inflation forecast upwards significantly, with the CPI rate now expected to peak at 3.7% in mid 2025.
- The MPC emphasised that monetary policy will be eased gradually and carefully. The addition of "careful" may place a greater emphasis on the balance between growth and inflation, a shift away from the focus on current and near-term inflation of recent years.
- US (and UK) government bond yields have fallen back from January peaks, largely because the new US administration has yet to implement significant inflationary policies. US data has also been a little more mixed, suggesting slower growth rates in the quarters ahead. The correlation between UK and US yields remains high, so volatility in UK gilt yields will continue to be strongly influenced by US events.

Forecast:

- In line with our forecast, Bank Rate was cut to 4.5% in February.
- The MPC will reduce Bank Rate in a gradual manner. We see a rate cut in May 2025, followed by a cut alongside the remaining Monetary Policy Report publications of 2025, to 3.75%.
- Long-term gilt yields reflect both UK and US economic, monetary and fiscal policy expectations, and increases in bond supply. Longer-term yields also reflect uncertainty arising from unpredictable US policy.
- The evolution of the UK economy has led us to rebalance the risks around the forecasts. The risks around the forecasts are now balanced over the next 12 months but are weighted to the downside in the medium term.

	Current	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central Case	4.50	4.50	4.25	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Downside risk	0.00	-0.25	-0.25	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central Case	4.90	4.60	4.35	4.10	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Downside risk	0.00	-0.25	-0.25	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.15	4.20	4.20	4.10	4.00	3.90	3.90	3.95	4.00	4.05	4.10	4.10	4.10
Downside risk	0.00	-0.50	-0.55	-0.60	-0.65	-0.70	-0.75	-0.80	-0.85	-0.90	-0.95	-1.00	-1.05
10yr gilt yield													
Upside risk	0.00	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.46	4.50	4.45	4.30	4.25	4.25	4.25	4.25	4.30	4.30	4.35	4.35	4.35
Downside risk	0.00	-0.50	-0.55	-0.60	-0.65	-0.70	-0.75	-0.80	-0.85	-0.90	-0.95	-1.00	-1.05
20yr gilt yield													
Upside risk	0.00	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.98	5.00	4.90	4.80	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.70
Downside risk	0.00	-0.50	-0.55	-0.60	-0.65	-0.70	-0.75	-0.80	-0.85	-0.90	-0.90	-0.90	-0.90
50yr gilt yield													
Upside risk	0.00	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.34	4.70	4.60	4.50	4.40	4.40	4.40	4.40	4.40	4.40	4.40	4.40	4.40
Downside risk	0.00	-0.50	-0.55	-0.60	-0.65	-0.70	-0.75	-0.80	-0.85	-0.90	-0.90	-0.90	-0.90

PWLB Standard Rate = Gilt yield + 1.00%
PWLB Certainty Rate = Gilt yield + 0.80%
PWLB HRA Rate = Gilt yield + 0.40%
UK Infrastructure Bank Rate = Gilt yield + 0.40%

Appendix B – Existing Investment & Debt Portfolio Position

	31/12/2024 **Actual portfolio** **£m**	31/12/2024 **Average rate** **%**
Total external borrowing	**0**	**N/A**
Other long-term liabilities: Private Finance Initiative Leases Transferred Debt **Total other long-term liabilities**		
Total gross external debt	0	N/A
Treasury investments: The UK Government Local authorities Other government entities Secured investments Banks (unsecured) Building societies (unsecured) Registered providers (unsecured) Money market funds Strategic pooled funds Real estate investment trusts Other investments	 86.12 0.27 	 4.07 1.50
Total treasury investments	**86.39**	**4.06**

Appendix C – 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 the 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 CJC's investments contribute to its service delivery objectives and/or to promote wellbeing as follows:

- treasury management investments support effective treasury management activities,

Climate change: The CJC's investment decisions consider long-term climate risks to support a low carbon economy to the extent that it has revised its Responsible Investing Policy to ensure that it is committed to ensuring that it makes investment decisions responsibly and with integrity. The responsible investment policy (2025) prohibits the direct investment in projects or businesses based upon fourteen principles of investment :

- Human Rights and Modern Slavery
- Green Growth
- Fair Work
- Diversity, Equity, and Inclusion
- Animal Welfare
- Tobacco and E-cigarettes
- Gambling
- Pornography
- Fossil Fuels
- Infrastructure
- Resilience and Resources
- Governance
- Financial Crime Prevention and 'Know Your Customer'
- Other excluded companies

CCR's Strategic Equality Plan (2024-2028) lays the foundation of our ESG and EDI framework. In line with the Public Sector Equality Duty, our Strategic Equality Plan provides a clear approach to sustainable and inclusive economic growth and regional wellbeing through key Equality Objectives. The Equality Objectives focuses are twofold, outlining both our regional equality ambitions and our internal, organisational aims. The objectives have been designed to align with our existing values and are proportionate to our role and responsibilities in the region.

CCR has revised its Impact Investment Framework and developed an ESG Scorecard, since its establishment as a Corporate Joint Committee. The ESG scorecard will be completed prior to any investment decision, and progress against these indicators will be monitored annually for the duration of an investment. These frameworks and tools build upon CCR's existing work in this space and ensure all investment decisions are made in line with our mission and purpose.

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 authority, or
  - a body or investment scheme of "high credit quality".

The CJC 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 CJC 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 CJC.

The CJC can demonstrate that its financial exposure to loans to local enterprises, local charities, wholly owned companies and joint ventures is proportionate by setting the limits in table C1. These ensure that the total exposure is no more than 100% of the CJC's usable reserves. The CJC's loan book is currently within these self-assessed limits.

Table C1: Loan limits

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

The CJC 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 CJC 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 CJC 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-	£25m
Shares in real estate investment trusts	£10m
Shares in local organisations	£30m
Total non-specified investments	£300m

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.

The CJC considers that the scale of its commercial investments including property are proportionate to the resources of the CJC.

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. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the CJC does not currently have any borrowing.

Investment advisers: The CJC has appointed Arlingclose Limited as treasury management advisers.

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. When a Welsh local authority decides to deviate from the Welsh Government's WG 50-51 guidance, which advises against borrowing for profit, several key legal and procedural steps must be addressed. Firstly, the CJC must identify and justify the legal powers, such as those under the Local Government Act, that permit such borrowing and investment activities. It is crucial to demonstrate the reasonableness of this decision through a thorough risk assessment and alignment with the long-term financial strategy. The CJC should have clear policies for investing borrowed money, prioritising value for money and ensuring the security of these funds through risk diversification and regular monitoring. Finally, this significant decision requires formal approval from the full council, ensuring transparency and accountability in departing from standard guidance. This comprehensive approach is vital to ensure the decision is legally sound, financially prudent, and in the CJC's best interest.

Capacity and skills: In accordance with Welsh Government Investment Guidance 52, it is essential for local authorities in Wales to ensure that elected members and statutory officers possess the required skills and information for effective investment decision-making. Primarily, this involves providing comprehensive training programmes to acquaint them with the nuances of investment strategies and legal frameworks. Concurrently, it's imperative to facilitate access to their independent financial advisor, Arlingclose, offering expert insights into potential investments and their alignment with the CJC's strategic objectives. Additionally, the establishment of detailed policy documents is crucial, outlining clear procedures and guidelines for investment decisions, thereby establishing the evaluation criteria, decision-making processes, and the roles and responsibilities of the involved parties. These measures collectively aim to equip decision-makers with the tools and knowledge necessary for informed and strategic investment choices.

Commercial deals: In line with Welsh Government Guidance 53, to ensure that negotiators of commercial deals for local authorities in Wales are well-versed in the prudential framework and regulatory regime, three key measures are pivotal. Firstly, providing access to experts in local government law and finance is crucial, as they can offer tailored advice on specific deals, ensuring compliance with the regulatory framework. Secondly, it's important to keep the negotiating team regularly informed of any updates in the framework or regulations, which can be achieved through concise briefings or email updates. Lastly, implementing a system of regular checks or audits is essential to confirm adherence to the required standards and principles, thereby safeguarding the local CJC's interests and promoting prudent financial management. This approach ensures that negotiators are not only knowledgeable but also continually aligned with the evolving regulatory landscape.

Corporate governance: In accordance with Welsh Government Guidance 54, Welsh local authorities are encouraged to adopt comprehensive corporate governance arrangements for investment decision-making that emphasise accountability, responsibility, and adherence to corporate values. These arrangements should include clear structures for decision-making, ensuring roles and responsibilities are well-defined and align with the CJC's strategic goals. Transparency in processes and consistent reporting mechanisms are crucial for maintaining stakeholder trust. Investments should reflect the local CJC's core values, integrating these into policies and decision criteria. A strong focus on risk management, aligning with the CJC's risk appetite, is essential for balanced and informed decisions. Regular reviews and audits of investment activities and governance structures help maintain compliance and identify improvement areas. Moreover, stakeholder engagement, and ongoing training for decision-makers, are vital to ensure

competence and awareness of best practices. These governance measures collectively aim to uphold public trust and reinforce the integrity of investment activities within the local CJC.

Appendix D – CCR Responsible Investing Policy

The Cardiff Capital Region (CCR) is committed to ensuring that it makes non-treasury investment decisions responsibly and with integrity.

The CCR Responsible Investment Policy sets out to determine if a project, business or industry should be considered for investment from the CCR, or its subsidiary funds, based upon a set of benchmark criteria. The Responsible Investment Policy was refreshed to reflect international best standards and CCR's policy framework; it was approved by the Corporate Joint Committee in January 2025. The policy utilises a 'negative screening' approach to protect reputation and avoid conflict with core objectives, alongside a 'positive screening' approach for key principles. It sets out a policy position to avoid investing in projects or businesses that do not meet our social, environmental or ethical criteria.

The policy has been developed to allow the CCR to pursue a responsible investment approach, in line with its strategy of enhancing economic wellbeing while minimising any negative effect on its investment returns – both financial and wider economic outcomes.

The CCR responsible investment policy prohibits the direct investment in projects or businesses based upon fourteen principes of investment:

- **Human rights and Modern Slavery**
    - CCR is committed to respecting human rights in all our activities, in line with the UN Guiding Principles on Business and Human Rights. As such, CCR will exclude investments to any business, organisation, or project that fails in its responsibility to respect human rights and all elements of international human rights and humanitarian law applicable to business.
    - CCR will conduct human rights screening before making any investment. Appropriate investigation and analysis will be carried out throughout CCR's consideration of a business or project and will include assessment of a relevant organisation's human rights record both in the region and worldwide. If deemed necessary following CCR's human rights screening, third-party human rights due diligence will be conducted.
    - CCR will exclude investment for the primary purpose of the manufacture of munitions or weapons.

- Green Growth
    - CCR will exclude investments in businesses and projects whose activities would negatively impact the region's natural environment and biodiversity without proportionate mitigation via sustainable sourcing and/or environmental management guidelines, where appropriate.
    - CCR will review positively companies who have a net zero carbon strategy and encourage those that do not to work towards such a strategy. The strategy should commit to net zero by at least 2050, in line with CCR's regional ambitions towards net zero, and ideally would be validated by a third party.
    - CCR will review positively investment opportunities within the green economy that strengthen the resilience of our natural environment, or investments that enable the enhancement of the green supply chain and the creation of green jobs and skills.
    - CCR will encourage the businesses it invests in to take proactive steps towards improving their sustainability.
    - CCR will encourage the businesses or projects that it invests in to become active members of the South East Wales Business Climate Coalition.

- **Fair Work**
    - CCR will exclude investments in businesses or projects that do not already have fair work practices in place or are unwilling to commit to adopting these.
    - CCR will encourage the adoption of fair work practices in the businesses and projects it invests in; these may include those listed in Welsh Government's Guide to Fair Work.
    - CCR will exclude investment in businesses or projects that will not commit to paying all employees the Real Living Wage, as a minimum.
    - CCR will support all the businesses it directly invests in towards seeking accreditation as Living Wage Employers, recognised by the Living Wage Foundation.

- **Diversity, Equity, and Inclusion**
    - CCR will exclude investment in businesses or projects that do not have in place, or are unwilling to put in place, policies and practices that are aligned with CCR's Equality Objectives.
    - CCR will encourage and support the businesses and projects it invests in to improve diversity and equality in their workforces and boards. This may include taking pro-active steps towards creating an inclusive, fair, and diverse workplace.
    - CCR will require investees and/or projects to complete an ESG scorecard and partake in regular reporting of specific DEI indicators and metrics to monitor progress against the above.

- **Animal Welfare**
    - CCR will exclude investment in any organisation that employs animal research but does not adhere to the 3R's: Replacement, Reduction, and Refinement. All research must be governed by the Animals (Scientific Procedures) Act 1986 Amended Regulations (2012).
    - CCR will exclude investment in any organisation that employs animal research but does not have an Animals in Research, or equivalent, policy.

- **Tobacco and E-cigarettes**
    - CCR will exclude investments for the purposes of the production of tobacco or tobacco products, or to companies who sell such products under their own name. Tobacco products include, but are not limited to, finished products such as combustible cigarettes and cigars, and key materials necessary for their production such as cigarette paper.
    - CCR will exclude investments exclusively for the purpose of the production of e-cigarettes, or to companies who sell such products under their own name.

- **Gambling**
    - CCR will exclude investment for the purposes of the development, production, or sale of gambling products, or for the provision of financial services exclusively for the purpose of gambling.
    - CCR will exclude investment in companies that derive >10% revenue from the management or ownership of gambling facilities.

- **Pornography**
    - CCR will exclude investment in businesses or projects involved with unregulated/illegal sex trade, or in businesses or projects that produce or design pornographic or adult entertainment products or services.

- **Fossil Fuels**

- CCR will exclude investments in activities or organisations that promote the exploration or extraction of fossil fuels.
- CCR may make investments in businesses or projects which operate in energy intensive or fossil fuels industries, where that investment supports a planned transition or diversification of an organisation's activities, or a significant reduction in its emissions consistent with Welsh Government's ambitions for net zero and CCR's Regional Economic and Industrial Plan commitment to net zero by 2050.

- **Infrastructure**
  - CCR will invest in infrastructure projects that meet, and ideally exceed, UK Government and Welsh Government legislation.
  - CCR will review positively infrastructure projects that meet best practice standards.
  - CCR's subsidiary fund managers will be responsible for determining which regulatory standards are most appropriate to their fund. These standards must be aligned to CCR's wider ambitions and recognised as best practice; they would be expected to consider social value, environmental impact, and equalities considerations. CCR must approve the standards selected by subsidiary fund managers.
  - CCR's subsidiary fund managers will be responsible for ensuring all projects and investments comply with the pre-agreed standards.

- **Resilience and Resources**
  - CCR will review positively companies that demonstrate how they actively work on enhancing resilience within the region. Practices that enhance resilience may include supporting local supply chains within the region, guaranteeing local employment, and mitigating, or adapting to, the local impact of the climate crisis.
  - CCR will review positively companies who adopt and apply circular thinking and contribute towards a circular economy. CCR will assist the businesses in which it invests to incorporate circular thinking into its strategy and practices.

- **Governance**
  - CCR will consider the corporate governance standards of a business or project it invests in ahead of its investment as part of its due diligence and will continue to monitor an investment's governance standards throughout the duration of its investment.
  - CCR will review positively business or projects that already have good governance arrangements in place; these may include the principles and actions detailed in The Ten Principles of the UN Global Compact.
  - CCR will require the adoption of, or improvement in, good governance as part of its investment conditions. CCR will assist the businesses in which it invests work towards good corporate governance arrangements and practices, informed by the Ten Principles of the UN Global Compact.

- **Financial Crime Prevention and 'Know Your Customer'**
  - In accordance with relevant financial crime prevention standards, CCR will undertake robust due diligence and 'know your customer' checks in respect of all proposed investments in order to understand the nature of the investment opportunity and identify the ultimate beneficial owners of the business or project being considered.
  - These checks aim to address risks around potential money laundering, bribery and corruption, and fraud. This due diligence includes considering corporate

governance and conduct, as well as the environmental and social standards, of the investee organisation and its affiliates.

- **Excluded companies**
    - CCR will exclude investments in companies listed in RepRisk's Most Controversial Companies Report.
    - CCR will exclude companies delisted in accordance with the Communication on Progress to the UN Global Compact.

Whilst operating within these parameters the CCR, and its appointed Fund Managers for subsidiary funds, will be accountable to the Corporate Joint Committee in terms of performance and adherence to the parameters set out above.

The Responsible Investment Policy is subject to regular review by Regional Cabinet through the Investment Board. The policy supports the CCR's aspiration for the region to set a route to economic self-reliance as set out in the CCR Regional Economic and Industrial Plan.

SOUTH EAST WALES CORPORATE JOINT COMMITTEE

TREASURY MANAGEMENT POLICY STATEMENT

(aligned with CIPFA TM Code 2021)

1. INTRODUCTION AND BACKGROUND

1.1 The South East Wales Corporate Joint Committee adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.

1.2 Accordingly, the CJC will create and maintain, as the cornerstones for effective treasury management:-

- A treasury management policy statement stating the policies, objectives and approach to risk management of its treasury management activities
- Suitable treasury management practices (TMPs), setting out the manner in which the CJC will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities
- Investment management practices (IMPs) for investments that are not for treasury management purposes.

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

1.4 The CJC delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Governance and Audit Sub Committee and for the execution and administration of treasury management decisions to the Strategic Director - Resources, who will act in accordance with the organisation's policy statement and TMPs, IMPs and CIPFA's Standard of Professional Practice on treasury management.

1.5 The CJC nominates the Governance and Audit Sub Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

2.1 The CJC defines its treasury management activities as the management of the CJC's borrowing, investments and cash flows, including its banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.

2.2 The CJC regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

2.3 The CJC acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of

achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

2.4 The CJC's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source of borrowing and the type of borrowing should allow the CJC transparency and control over its debt.

The CJC'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 CJC's long-term plans change is a secondary objective.

2.5 The CJC's priority in relation to its treasury investments is the security of capital and liquidity (or accessibility) of these investments.

The CJC's objective when investing treasury monies 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 CJC will aim to achieve, where appropriate, 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.

SOUTH EAST WALES CORPORATE JOINT COMMITTEE

Minimum Revenue Provision Statement 2025/26

Where the South East Wales Corporate Joint Committee 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 CJC 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 CJC to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

- The CJC expects that its capital financing requirement will be nil on 31 March 2025 and in line with the WG Guidance it will therefore charge no MRP in 2025/26. The CJC is debt free and its capital expenditure plans do not currently imply any need to borrow.

- For unsupported capital expenditure incurred, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset, the CJC will evaluate on a case-by-case basis whether to charge in equal instalments *or* as the principal repayment on an annuity 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. MRP on purchases of freehold land will be charged over 50 years.

- MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction (for example equity investments, REFCUS, etc.) will be charged over the period specified in the Welsh MRP guidance.

- Where former operating leases have been brought onto the balance sheet on 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 annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.

- For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the CJC will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the WG Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred in the loan is fully funded over the life of the assets.

Capital expenditure incurred during 2024/25 will not be subject to a MRP charge until 2025/26 or later.

Based on the CJC's latest estimate of its capital financing requirement (CFR) on 31 March 2025, the budget for MRP has been set as follows:

	31.03.2025 Estimated CFR £m	**2025/26 Estimated MRP £**
Supported capital expenditure	0	Nil
Unsupported capital expenditure	0	Nil
Leases	0	Nil
Loans to other bodies repaid in instalments	0	Nil
Total CJC General Fund	**0**	**Nil**