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	2026/27 Treasury Management Strategy
Report of	Strategic Director of Resources
Contact Details	james.howse@cardiffcapitalregion.gov.uk
Date to be Considered	16 March 2026
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 2026/27 and compliance with applicable regulations and relevant accounting codes.

Recommendations

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

   (1) approves the CJC's 2026/27 Treasury Management Strategy Statement, which incorporates its Capital Strategy, attached at Appendix 1;

   (2) approves the CJC's 2026/27 Treasury Management Policy Statement, attached at Appendix 2;

   (3) approves the CJC's 2026/27 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. Treasury management is the management of the CJC's cash flows, borrowing and investments, and the associated risks. It should be noted that the term "investment" as set out in 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 being fully set out in its investment framework documentation.

Investments and Borrowings

6. The CJC has the potential to invest surplus cash balances (which can and do arise as a result of the timing of CJC cashflows) and can therefore be 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.

7. Statutory Guidance on Local Government Investments (issued under section 15(1)(a) of the Local Government Act 2003) requires local authorities to consider security, liquidity and yield (and in that order of importance) when making investment decisions.

8. With regards to borrowing, the Local Government Act 2003 refers to affordability and requires that local authorities (in England and Wales) determine and keep under review the amount of money they can afford to borrow.

9. The Prudential Code for capital finance in local authorities (Prudential Code) plays a key role in considering (affordable) borrowing for capital investment purposes. 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.

10. 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.

11. The CJC's approved 2026/27 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.

12. The CJC therefore currently has no borrowing (other than a £10m interest free loan from Welsh Government which cannot be utilised until a scheme has been agreed and which is therefore akin to a 'receipt in advance' on the balance sheet of the CJC) and there are no immediate requirements to borrow. That said, a borrowing section has been included within the Treasury Management Strategy Statement (TMSS) as an important framework for any future considerations in this regard.

Investment Strategy and Risk Appetite

13. As in previous years, this Treasury Management Strategy has applied a relatively risk averse approach to (treasury) investments underpinned by a commitment to only invest in the Debt Management Account Deposit Facility and other Government backed public sector bodies.

14. This strategy ensures that the CJC's investments (in line with Statutory Guidance) are prioritised on the following basis:

- Security (1st) – ie protecting monies invested;
- Liquidity (2nd) – ie readily accessible cashflows; and
- Yield (3rd) – ie return on investment.

For 2026/27 the CJC will continue to only invest in the Debt Management Account Deposit Facility and other Government backed public sector bodies.

2026/27 Treasury Management Strategy (incorporating the Capital Strategy)

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

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

16. The strategy includes the following key information:

    a. the CJC's current treasury position;
    b. economic background and prospects for interest rates;
    c. investment strategy including:

- approved investment counterparty credit criteria;
- approved investments;
- investment strategy.

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

e. Treasury management indicators and limits for 2026/27 to 2028/29 based on the CJC's latest approved Capital Programme.

17. Members will note that certain aspects of the TMSS document do not apply to the CJC in 2026/27. 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.

18. 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.

19. The regulations require that the CJC approves it's 2026/27 TMSS no later than the 31 March 2025. For this reason it has not been possible for the draft TMSS to be reviewed by the sub-committee in advance of consideration by the CJC.

20. A draft of the document was shared with the sub-committee's Chair and Vice-Chair. It should be noted that, subject to finalisation and approval of the draft proposed Committee Calendar for 2026/27, it is anticipated that the future draft (2027/28) TMSS will first be reviewed by the Governance and Audit sub-committee in advance of consideration by the CJC.

21. 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.

22. 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.

23. 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:

a. **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;

b. **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.

24. There are no significant changes to the 2026/27 Treasury Management Strategy and associated suite of documents compared to the previous year.

Treasury Management Advisors

25. Arlingclose are the current CJC appointed Treasury Management Advisors, and have supported the CJC in the development of the Statements outlined above. In addition they have provided 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.

26. It is anticipated that a procurement exercise will be undertaken during the coming year to appoint / reappoint our advisors for a period of three years.

Comments of the s.151 Officer

27. The report provides the Governance & Audit Sub-Committee with detail of the CJC's Treasury Management Strategy Statement and a range of supplementary statements in respect of financial year 2026/27.

28. 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 2026/27 (projected to be in the region of £1.9M at an average yield of 3.40%) 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.

29. 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.

30. 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

31. 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.

32. 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."

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

34. 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.

35. 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

36. None.

Equality, Human Rights and Community Cohesion

37. No adverse equalities implications have been identified.

Well-being of Future Generations

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

Welsh Language Implications

39. None.

Background Papers

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

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Meeting Date: 16 March 2026

Appendices

Appendix 1 2026/27 CJC Treasury Management Strategy Statement, incorporating its Capital Strategy

Appendix 2 2026/27 CJC Treasury Management Policy Statement

Appendix 3 2026/27 CJC Minimum Revenue Provision Policy Statement

Treasury Management Strategy Statement 2026/27

Introduction

Treasury management is the management of the CJC's cash flows, borrowing and investments, and the associated risks. The CJC has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the 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 CJC 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 most significant impacts on the CJC's treasury management strategy for 2026/27 are expected to include: the influence of the government's 2025 Autumn Budget, lower short-term interest rates alongside higher medium- and longer-term rates, slower economic growth, together with ongoing uncertainties around the global economy, stock market sentiment, and geopolitical issues.

The Bank of England's Monetary Policy Committee (MPC) cut Bank Rate to 3.75% in December 2025, as expected. The vote to cut was 5-4, with the minority instead favouring holding rates at 4.0%. Those members wanting a cut judged that disinflation was established while those preferring to hold Bank Rate argued that inflation risks remained sufficiently material to leave rates untouched at this stage.

Figures from the Office for National Statistics showed that the UK economy expanded by 0.1% in the third quarter of the calendar year, this was unrevised from the initial estimate. The most recent Monetary Policy Report (November) projected modest economic growth, with GDP expected to rise by 0.2% in the final calendar quarter of 2025. Annual growth is forecast to ease from 1.4% before improving again later, reflecting the delayed effects of lower interest rates, looser monetary conditions, stronger global activity, and higher consumer spending. The view of modest economic growth going forward was echoed by the Office for Budget Responsibility in its Economic and fiscal outlook published in line with the Autumn Statement which revised down its estimate of annual real GDP to around 1.5% on average between 2025 and 2030.

CPI inflation was 3.2% in November 2025, down from 3.6% in the previous month and below the 3.5% expected. Core CPI eased to 3.2% from 3.4%, contrary to forecasts of remaining at 3.6%. Looking forward, the MPC continues to expect inflation to fall, to around 3% in calendar Q1 2026, before steadily returning to the 2% target by late 2026 or early 2027.

The labour market continues to ease with rising unemployment, falling vacancies and flat inactivity. In the three months to October 2025, the unemployment rate increased to 5.1%, higher than the level previously expected by the BoE, while the employment rate slipped to 74.9%. Pay growth for the same period eased modestly, with total earnings (including bonuses) growth at 4.7% and while regular pay was 4.6%.

The US Federal Reserve also continued to cut rates, including reducing the target range for the Federal Funds Rate by 0.25% at its December 2025 meeting, to 3.50%-3.75%, in line with expectations. The minutes of the meeting noted that most Fed policymakers judged that further rate cuts would be likely

in 2026 if inflation continues to ease, however they were still divided in their assessment of the risks between inflation and unemployment.

The European Central Bank (ECB) kept its key interest rates unchanged in December for a fourth consecutive meeting, maintaining the deposit rate at 2.0% and the main refinancing rate at 2.15%. The ECB maintained that future policy decisions will remain data-dependent, that inflation is close to its 2% target and that the euro area economy continues to expand despite a challenging global environment, including heightened geopolitical risks and trade tensions.

Credit outlook: Credit Default Swap (CDS) prices, which spiked in April 2025 following President Trump's 'Liberation Day' tariff announcements, have since trended lower, returning to levels broadly consistent with their 2024 averages. Although CDS prices rose modestly during October and November, the overall credit outlook remains stable, and credit conditions are expected to remain close to the range seen over the past two years.

While lower interest rates may weigh on banks' profitability, strong capital positions, easing inflation, steady economic growth, low unemployment, and reduced borrowing costs for households and businesses all support a favourable outlook for the creditworthiness of institutions on (the CJC's treasury management advisor) Arlingclose's counterparty list. Arlingclose's advice on approved counterparties and recommended investment durations is kept under continuous review and will continue to reflect prevailing economic and credit conditions.

Interest rate forecast (22nd December 2025): Arlingclose, the CJC's treasury management adviser, currently forecasts that the Bank of England's Monetary Policy Committee will continue to reduce Bank Rate in 2026, reaching around 3.25%. This forecast reflects amendments made following the Autumn Budget and an assessment of the fiscal measures and their market implications, and following the BoE MPC meeting held on 18th December.

Long-term gilt yields, and therefore interest rates payable on long-term borrowing, are expected to remain broadly stable on average, though with continued volatility, and to end the forecast period marginally lower than current levels. Yields are likely to stay higher than in the pre-quantitative tightening era, reflecting ongoing balance sheet reduction and elevated bond issuance. Short-term fluctuations are expected to persist in response to economic data releases and geopolitical developments.

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 3.4%

Local Context

On 31st December 2025, the CJC held no borrowing and £11.8m 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 Actual £m	**31.3.26 Estimate £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	62.8	62.8	51.2
Treasury investments (or New borrowing)	65.0	67.5	62.8	62.8	51.2

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.

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 2026/27.

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 Actual £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	62.8	62.8	51.2
Net investments	**65.0**	**67.5**	**62.8**	**62.8**	**51.2**
Less: Liquidity allowance	0	0	0	0	0
Asset benchmark	65.0	67.5	62.8	62.8	51.2

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.

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.

<u>Treasury Investment Strategy</u>

The CJC holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the CJC's treasury investment balance has ranged between £10.2m and £66.9 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 £50 million on 31st March 2026 and £38 million on 31st March 2027. 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	2026/27	2027/28	2028/29	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: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 24 of the *Local Government and Elections (Wales) Act 2021* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The 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.

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

Financial Implications

The budget for investment income in 2026/27 is £1.9 million, based on an average investment portfolio of circa £44 million at an interest rate of 3.4%. The budget for debt interest paid in 2026/27 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 forecast, performance against budget will be correspondingly different.

Where investment income exceeds budget, 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 – 22nd December 2025

Underlying assumptions:

- The Bank of England duly delivered on expectations for a December rate cut, but, despite softer economic data over the past two weeks, the minutes highlighted increased caution surrounding both the inflation outlook and the speed of future easing. With a close vote of 5-4 in favour of a rate reduction, this suggests that the bar for further monetary easing may be higher than previously thought despite the possibility of the CPI rate falling to target in 2026.
- Budget policies and base effects will mechanically reduce the CPI rate in 2026, on top of the downward pressure arising from soft economic growth and the looser labour market. However, many policymakers appear concerned that household and business inflation and pricing expectations are proving sticky following recent bouts of high price and wage growth, which may allow underlying inflationary pressure to remain elevated. While, the Bank's measure of household expectations ticked lower in December, it remains above levels consistent with the 2% target at 3.5%.
- While policymakers hold valid concerns, these appear somewhat out of line with current conditions; CPI inflation fell to 3.2% in November, private sector wage growth continued to ease amid the highest unemployment rate since the pandemic, and the economy contracted in October after barely growing in Q3. Business surveys pointed to marginally stronger activity and pricing intentions in December but also suggested that the pre-Budget malaise was not temporary. These data are the latest in a trend suggesting challenging economic conditions are feeding into price and wage setting.
- Risks to the growth and inflation outlook lie to the downside, which may ultimately deliver lower Bank Rate than our central case. However, the minutes suggest that the bar to further rate cuts beyond 3.25% is higher and the near-term upside risks to our Bank Rate forecast have increased. Having said that, we believe inflation expectations will naturally decline alongside headline inflation rates.
- Investors appear to have given the UK government some breathing space following the Budget, with long-term yields continuing to trade at slightly lower levels than in late summer/early autumn. Even so, sustained heavy borrowing across advanced economies, the DMO's move towards issuing more short-dated gilts and lingering doubts about the government's fiscal plans will keep short to medium yields above the levels implied by interest rate expectations alone.

Forecast:

- In line with our long-held forecast, Bank Rate was cut to 3.75% in December.
- Continuing disinflation, rising unemployment, softening wage growth and low confidence suggests that monetary policy will continue to be loosened.
- Arlingclose expects Bank Rate to be cut to 3.25% by middle of 2026. However, near-term upside risks to the forecast have increased.

- Medium and long-term gilt yields continue to incorporate premia for UK government credibility, global uncertainty and significant issuance. These issues may not be resolved quickly and we expect yields to remain higher
-

	Current	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central Case	**3.75**	**3.50**	**3.25**	**3.25**	**3.25**	**3.25**	**3.25**	**3.25**	**3.25**	**3.25**	**3.25**	**3.25**	**3.25**
Downside risk	0.00	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central Case	**3.82**	**3.55**	**3.30**	**3.30**	**3.30**	**3.30**	**3.30**	**3.30**	**3.30**	**3.30**	**3.35**	**3.35**	**3.35**
Downside risk	0.00	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5yr gilt yield													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	**3.96**	**3.85**	**3.80**	**3.75**	**3.75**	**3.75**	**3.75**	**3.75**	**3.75**	**3.75**	**3.80**	**3.80**	**3.80**
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
10yr gilt yield													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	**4.52**	**4.40**	**4.35**	**4.30**	**4.30**	**4.30**	**4.30**	**4.30**	**4.30**	**4.30**	**4.35**	**4.35**	**4.35**
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
20yr gilt yield													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	**5.16**	**5.00**	**4.95**	**4.90**	**4.90**	**4.90**	**4.90**	**4.90**	**4.90**	**4.90**	**4.95**	**4.95**	**4.95**
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
50yr gilt yield													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	**4.74**	**4.65**	**4.60**	**4.60**	**4.60**	**4.60**	**4.60**	**4.60**	**4.60**	**4.60**	**4.65**	**4.65**	**4.65**
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85

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

Appendix B – Existing Investment & Debt Portfolio Position

	31.12.25 **Actual portfolio** **£m**	31.12.25 **Average rate** **%**
Total external borrowing	**0**	**n/a**
Total other long-term liabilities	0	n/a
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 **Total treasury investments**	11.8	3.39%
Net debt / investment	11.8	

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 this CJC's treasury management processes. The guidance also covers investments that are not part of treasury management, for example investment property and loans to local organisations.

Contribution: The 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.

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.

2.5 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.

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

2.7 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 2026/27

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.

MRP is calculated by reference to the capital financing requirement (CFR) which is the total amount of past capital expenditure that has yet to be permanently financed, noting that debt must be repaid and therefore can only be a temporary form of funding. The CFR is calculated from the CJC balance sheet in accordance with the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Expenditure in Local Authorities, 2021 edition.

- The CJC expects that its capital financing requirement will be nil on 31 March 2026 and in line with the WG Guidance it will therefore charge no MRP in 2026/27. 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 2026/27 will not be subject to a MRP charge until 2027/28 or later.

Based on the CJC's latest estimate of its capital financing requirement (CFR) on 31 March 2026, the budget for MRP has been set as follows:

	31.03.2026 Estimated CFR £m	**2026/27 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**