Comisiynydd Heddlu a Throseddu
Dyfed-Powys
Police and Crime Commissioner

Mae'r ddogfen hon ar gael yn Gymraeg yn ogystal â Saesneg.

This document is available in Welsh as well as English.

Comisiynydd Heddlu a Throseddu Dyfed-Powys
Police and Crime Commissioner

Heddlu Police
DYFED-POWYS

REPORT / SUMMARY DECISION SHEET

PURPOSE: Commissioner DECISION

Timing: Urgent – before the start of the 2022/23 financial year

Title: 2022/23 Treasury Management Strategy

Category of Decision / Business Area Impact: Finance

Executive Summary:

This document sets out the Commissioner's Treasury Management Strategy including Prudential Indicators, Financing Requirement and Minimum Revenue Provision policy for 2022/23 following scrutiny at the Joint Audit Committee meeting of the 23 March 2022.

Police and Crime Commissioner for Dyfed-Powys

I confirm I have considered whether or not I have any personal or prejudicial interest in this matter and take the proposed decision in compliance with the Nolan Principles for Conduct in Public Life.

Signature:

Date: 23 March 2022

Comisiynydd Heddlu a Throseddu Dyfed-Powys
Police and Crime Commissioner

Heddlu Police
DYFED-POWYS

PURPOSE: JOINT AUDIT COMMITTEE SCRUTINY

Timing: Prior to start of 2022/23 Financial Year

Title: Treasury Management Strategy Statement for 2022/23

Category of Decision / Business Area Impact: Finance

Executive Summary:

The Home Office Financial Management Code of Practice states that the Police and Crime Commissioner (Commissioner) is directly responsible for loans, investments and for borrowing money. The Chief Finance Officer of the Commissioner should decide what investments are to be made locally and approve any borrowing. Decisions on Capital Financing and Borrowing also form part of the Commissioner's responsibility.

Through locally agreed financial regulations and a Corporate Governance Framework the daily management of Loans and Investments in compliance with the approved polices are undertaken by the Police Force Director of Finance's staff.

All loans and investment should be arranged in line with best practice as embodied in the CIPFA Code of Practice on Treasury Management and all borrowing undertaken should comply with the CIPFA prudential Code for Capital Finance in Local Authorities.

The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services requires the determination of the Treasury Management Strategy Statement (TMSS) on an annual basis. The TMSS also includes the Annual Investment Strategy that is a requirement of the Welsh Government's Investment Guidance.

This document sets out the policies and procedures the Commissioner has in place for meeting these statutory requirements for the 2022/23 year.

Recommendation:

For consideration and comment by the Joint Audit Committee.

Comisiynydd Heddlu a Throseddu Dyfed-Powys Police and Crime Commissioner

Heddlu Police DYFED-POWYS

Report of Chief Finance Officer of the Commissioner

Treasury Management Strategy and Investment Policy

1. Purpose of Report

The Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services; Code of Practice 2021 edition* (the CIPFA code) requires the Commissioner to approve a treasury management strategy before the start of each financial year.

Treasury management is the management of the Commissioner's cash flows, borrowing and investments, and the associated risks. Currently the Commissioner has substantial sums of money held in cash arising from reserves and for the delivery of other operational services. These sums are invested so that they are held securely, are accessible so to provide liquidity to meet obligations and as far as the parameters of this strategy and codes of practice permit, to earn a return or interest yield.

The Commissioner 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 prudent financial management.

The Commissioner is also permitted to conditionally borrow money to achieve specific strategic goals. Borrowing brings with it a requirement to repay the debt and obligation to pay interest to the lender. There are consequential risks, revenue effects and a requirement for management attention.

Treasury risk management 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 Commissioner 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 Commissioner to approve an investment strategy before the start of each financial year. This report fulfils the Commissioner's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the WG Guidance.

In accordance with the WG Guidance, the Commissioner 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, capital programme or in the level of 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.

It is a requirement that the Commissioner's Chief Financial Officer (CFO) should implement and monitor the treasury management policies and procedures in line with the CIPFA code and other professional guidance.

2. Economic Background

2.1 Current Economic Conditions

The Bank of England's Monetary Policy Committee increased interest rates by 0.25 percentage points to 0.75% on 17th March 2022.

The rise is the second increase in interest rates in 2022 and restores the base rate to its pre-pandemic level. The rate is now back at its joint highest level since March 2009 at the height of the credit crunch.

The move is an attempt by the Bank of England to curb rising inflation to back below its 2% target. In making their decision to raise the Bank of England base rate, the Monetary Policy Committee warned that the ongoing Russian invasion of Ukraine could see inflation rise further. Economic sanctions on Russia are expected to see oil and gas prices continue to rise; Ukraine is also a major exporter of agricultural staples such as wheat and sunflower oil and disruption to their supply is also like to drive prices up further.

The Bank of England welcomed that UK GDP data proved stronger than expected in February, with the economy holding up well in the face of current pressures. However, its economists also warned that as a net energy importer, a protracted period of rising prices could see growth slow, with consumer confidence already down in response to squeezed household incomes.

The Bank of England's rate increase also followed a similar decision by the USA's Federal Reserve, which also opted this week to raise interest rates by 0.25 percentage points, the first rise by the American central bank since 2018.

The small rate rise is unlikely however to have significant impact on interest rates of financial products at this stage unless continued rate increases are sustained throughout the year as high inflation continues.

The Bank of England expects inflation to peak at 7.25% in April, up from its previous expectation of 6% expectation and continue to be further above its 2% target for 2022 and 2023. However, over a 3-year time horizon, it expects inflation to be at 1.6% when basing calculations on market expectations that Bank Rate would rise to 1.5% in mid-2023.

Gross domestic product (GDP) bounced back in January 2022, increasing by 0.8% after falling by 0.2% in December 2021, when the Omicron variant of the coronavirus and Plan B restrictions had a more significant impact; GDP is now 0.8% above its pre-coronavirus level (February 2020).

2.2 Significant risks to the forecasts

- **Mutations** of the coronavirus render current vaccines ineffective, and adapted vaccines to combat these mutations are delayed, or cannot be administered fast enough to prevent further lockdowns.

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity.

- **The Monetary Policy Committee** acts too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- **The Monetary Policy Committee** tightens monetary policy too late to ward off building inflationary pressures.

- **The Government** acts too quickly to cut expenditure to balance the national budget.

- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

- **Longer term US treasury yields** rise strongly and pull gilt yields up higher than forecast.

- **Major stock markets** e.g., in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the "moral hazard" risks of having to buy shares and corporate bonds to reduce the impact of major financial market selloffs on the general economy.

- **Geopolitical risks,** for example the current situation in Ukraine and other persistent tensions across Iran, North Korea and Middle Eastern countries; sanctions on Russia and the price of commodities.

- **UK economy:** The overall balance of risks to economic growth in the UK is now to the downside, including ongoing risks from Covid-19 and the war in Ukraine.

- **Gas Prices:** Rising gas and electricity prices and increases in other prices are impacting consumer spending power

- **Savings:** Consumers are holding over £160bn of excess savings left over from the pandemic and when they spend this sum if at all is unknown

- **Labour**: There continues to be an acute shortage of workers in some sectors which will drive up wages and in turn inform producer prices and the price of services

- **Supply chains**: Interrupted supply chains as a consequence of the war in Ukraine

- **Brexit:** If the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to end up in a no-deal Brexit.

2.3 Other emerging economic factors

- Public Works Loan Board (PWLB) rates are derived from UK gilt yields. Since 2011, there has been on average a 75% correlation between movements in US 10-year treasury yields and UK 10-year gilt yields. As US gilt yields are increasing there is a risk that UK gilt yields will increase which in turn triggers PWLB rates to increase.

- The pandemic has triggered a fundamental rethink of monetary policy by major central banks like the US Federal Bank, the Bank of England and the European Central Bank (ECB) where there is an emergent tendency to tolerate higher inflation than in the previous two decades. The Bank of England has amended its target so that inflation should be 'sustainably over 2%' before raising the Bank Rate. The ECB has a similar policy.

2.4 Investment and borrowing rates

- **Investment returns** are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate increases, actual economic circumstances may see the MPC adopt a more cautious approach.

- **Borrowing interest rates** fell to historically low rates as a consequence of the Covid-19 pandemic and the Bank of England's quantitative easing operations. The long term (10 year+), forecast for Bank Rate is 2.00%. As some PWLB certainty rates are currently below 2.00%, there remains value in considering long-term borrowing from the PWLB where appropriate. Temporary borrowing rates are likely to remain near Bank Rate and may also prove attractive as part of a balanced debt portfolio.

- The current margins over gilt yields are as follows: -.
  - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
  - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

2.5 Local Context

On 31 January 2022, the Commissioner currently held £1.38m of borrowing and £17.00m of investments. This is set out in further detail at ***Appendix A***.

The impact of the Capital Programme on the balance sheet position and year on year changes are shown below.

Table 1: Capital Expenditure and Financing in each year

Capital Expenditure and Financing	2020/21 Actual £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Land & Buildings	2.870	8.412	19.305	14.978	7.349
Vehicles / Boat	0.684	1.114	1.869	1.625	1.380

ICT and Other Schemes	2.686	2.226	6.382	5.717	3.737
Total Expenditure	**6.240**	**11.752**	**27.556**	**22.320**	**12.466**
Borrowing Requirement	2.643	7.782	19.189	17.600	8.832
Capital Grants	0.393	1.080	-	-	-
Contribution from Revenue	1.406	2.092	2.948	2.407	3.134
Capital Receipts	0.024	0.172	0.050	0.400	0.500
Capital Reserve	1.774	0.626	5.369	1.913	-
Total Financing	**6.240**	**11.752**	**27.556**	**22.320**	**12.466**

Table 2: Capital Expenditure and Financing cumulative (Balance Sheet)

Capital Expenditure and Financing	**2020/21 Actual £m**	**2021/22 Estimate £m**	**2022/23 Estimate £m**	**2023/24 Estimate £m**	**2024/25 Estimate £m**
Land & Buildings	2.870	11.282	30.587	45.565	52.914
Vehicles / Boat	0.684	1.798	3.667	5.292	6.672
ICT and Other Schemes	2.686	4.912	11.294	17.011	20.748
Total Expenditure	**6.240**	**17.992**	**45.548**	**67.868**	**80.334**
Borrowing Requirement	2.643	10.425	29.614	47.214	56.046
Capital Grants	0.393	1.473	1.473	1.473	1.473
Contribution from Revenue	1.406	3.498	6.446	8.853	11.987
Capital Receipts	0.024	0.196	0.246	0.646	1.146
Capital Reserve	1.774	2.400	7.769	9.682	9.682
Total Financing	**6.240**	**17.992**	**45.548**	**67.868**	**80.334**

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Commissioner's current strategy is to use its own resources in lieu of external borrowing where possible. This is often known as internal borrowing.

The Commissioner has an increasing CFR due to the planned expenditure described in the Capital Programme. The Commissioner will be required to borrow up to £80.334m over the forecast period.

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Commissioner's debt should be lower than its highest forecast CFR over the next three years.

Repayment premiums on PWLB debts are prohibitive and therefore it is more cost effective to continue to existing loans rather than pay them off early. In addition, the Commissioner receives a grant contribution towards the costs of pre-1990 debt financing at 51% of the costs of the remaining notional interest payments and minimum revenue repayment. The current strategy remains to carry these loans to maturity.

3. Borrowing Strategy

The Commissioner currently holds £1.38 million of external loans, a decrease of £0.13 million on the previous year, as part of its strategy for funding previous years' capital programmes.

Given the significant cuts to public expenditure and in particular to local government funding, the Commissioner's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently lower than 25-year rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow using short-term loans.

By doing so, the Commissioner would be able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal or short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. The Commissioner's Treasury Management Advisors will assist the Commissioner with this 'cost of carry' and breakeven analysis. Its output may determine whether the Commissioner borrows additional sums at long-term fixed rates in 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the Commissioner may arrange forward starting loans during 2022/23, 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 Commissioner may borrow further short-term loans to cover unplanned cash flow shortages.

3.1 Sources

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

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see Section 4)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Dyfed-Powys Pension Fund)

- capital market bond investors
- Special purpose companies created to enable local authority bond issues

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

- operating and finance leases
- hire purchase
- sale and leaseback

The Commissioner has previously raised all of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans, that may be available at more favourable rates.

3.2 Debt rescheduling

The PWLB allows the Commissioner to repay loans before maturity and either pay a premium or receive a discount according to as set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Commissioner may take advantage of this and replace some loans, with new loans, or repay loans without replacement, where this is expected to lead to and overall cost saving or a reduction in risk.

4. Investment Strategy

The Commissioner holds significant invested funds, representing income received in advance of expenditure plus cash arising from held reserves. In the past 12 months, the Commissioner's investment balance has ranged between £8m and £25m. Due to the utilisation of reserves to fund the capital programme investment balances are expected to reduce in 2022/23.

Loans to organisations providing local public services and purchases of investment property are not normally considered to be treasury investments.

Objectives: Both the CIPFA Code and the Welsh Government Guidance require the Commissioner to invest 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 Commissioner'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 Commissioner 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.

Negative interest rates: The Covid-19 pandemic increased the risk that the Bank of England will set its Bank Rate at or below zero, which could feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested. As restrictions are being eased across the UK and the likelihood of this is significantly reduced in 2022/23, especially given recent rate increases.

Strategy: The Commissioner's priorities are Security, Liquidity then Yield. Investments will be made first so that they are secure meaning the risk of capital loss is minimised. Next the Commissioner will maintain Liquidity to meet the demands of the Capital Programme and maintain sufficient working capital to meet operational debts as they fall due. Then, as far as possible the Commissioner aims to invest in the highest yielding asset class available. This is a modification for the strategy first adopted in 2019/20 where investment in highest yielding assets was preferred. This change reflects the reducing capital reserves, minimal availability of capital grants and capital receipts and need to utilise internal borrowing.

4.1 Approved Counterparties

The Commissioner may invest its surplus funds with any of the counterparty types in table 3 below, subject to the cash limits (per counterparty) and the time limits shown.

The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Counterparty limits will be reviewed on a quarterly basis and will be amended if necessary dependent on investment balances.

Table 3: Approved Investment Counterparties and Limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	Unlimited
Local authorities & other government entities	25 years	£3m	Unlimited
Secured investments *	25 years	£3m	Unlimited
Banks (unsecured) *	13 months	£2m	Unlimited
Building societies (unsecured) *	13 months	£2m	£4m
Registered providers (unsecured) *	5 years	£2m	£5m
Money market funds *	n/a	£3m	Unlimited
Strategic pooled funds	n/a	£3m	£15m
Other investments *	5 years	£2m	£3m

Definitions of the above terminology are included in ***Appendix B.***

* 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 considered, as are counterparty credit ratings. 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 £2m per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

4.2 Risk Assessment and Credit Ratings

Credit ratings are obtained and monitored by the Commissioner's treasury advisers, 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 "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn by 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.

4.3 Other Information on the Security of Investments

The Commissioner understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Commissioner 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

Commissioner's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

4.4 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 counterpart is a local authority,
- not defined as capital expenditure by legislation, and
- invested with one of:
    - the UK Government,
    - a UK local authority, parish council or community council, police or fire, or
    - a body or investment scheme of "high credit quality".

The Commissioner 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.

4.5 Non-specified Investments

Any investment not meeting the definition of a specified investment 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 4 below. The Commissioner confirms that its current non-specified investments remain within these limits.

Table 4: Non-Specified Investment Limits

	Current Amounts Invested **£m**	**Cash limit (Proposed 2022/23)** **£m**
Units in pooled funds without credit ratings or rates below A-	-	3.0
Shares in local organisations	-	4.0
Maximum amount to be invested in non-specified investments	-	7.0

4.6 Investment Limits

The Commissioner's revenue reserve available to cover unforeseeable investment losses (the general reserve) is forecast to be £4.032 million on 31 March 2022. The maximum that will be lent to any one organisation (other than the UK Government) will be £3 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 5: Investment Limits

	Cash limit £m
Any single organisation, except the UK Central Government (each)	3.0
Any group of organisations under the same ownership (per group)	3.0
Any group of pooled funds under the same management (per manager)	8.0
Negotiable instruments held in a broker's nominee account (per broker)	8.0
Foreign countries (per country)	3.0

4.7 Liquidity Management

Detailed cash flow forecasting is undertaken to estimated cash flow position. This will be utilised to determine the maximum period for which funds may prudently be committed. This forecast is compiled on a prudent basis, with receipts under-estimated and payments over-estimated to minimise the risk of being required to borrow on unfavourable terms to meet financial commitments.

Limits on long-term investments are set by reference to the Commissioner's Medium Term Financial Plan and cash flow forecast.

Investments are also made in T-bills and Certificates of Deposit which are liquid and can be sold in the secondary market if cash is required at short-term notice.

All investments of over 13 months will require Chief Financial Officer approval in advance of being made.

5. Treasury Management Indicators

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

5.1 Security

The Commissioner has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating / credit score 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.

	Target
Portfolio average credit rating / score	A / 6

5.2 Liquidity

The Commissioner 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.

	Target £m
Minimum within money-market funds	2.0
Total cash available within 3 months	4.0

5.3 Interest Rate Exposures

This indicator is set to control the Commissioner's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the account of net principal borrowed. (Investments count as negative borrowing.)

	2021/22	2022/23	2023/24
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable interest rate exposure	100%	100%	100%

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

5.4 Maturity Structure of Borrowing

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

	Upper	Lower
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.

The limits have been set as wide as possible to ensure opportunities to restructure debt is not lost.

5.5 Principal Sums Invested for Periods Longer than 364 days

The purpose of this indicator is to control the Commissioner's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2022/23 £m	2023/24 £m	2024/25 £m
Limit on principal invested beyond year end	8.0	6.0	4.0
Current investments as at 31.01.22 in excess of 1 year maturing in each year	1.0	-	-

Other Items

There are a number of additional items that the Commissioner is obliged by CIPFA or WG to include in its Treasury Management Strategy.

6.1 Policy on Use of Financial Derivatives

In the absence of any legal power to do so, the Commissioner will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

6.2 Investment Training

CIPFA's Code of Practice requires the Chief Finance Officer to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

Staff who undertake Treasury management duties attend relevant training events provided by Appointed Treasury Advisors and attend a quarterly strategy meeting. Staff also attend other relevant training events provided by recognised bodies.

6.3 Investment Advisers

The Commissioner's treasury management advisors are currently Link who give specific advice on investment, debt and capital finance issues.

6.4 Investment of Money Borrowed in Advance of Need

Welsh Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Commissioner may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Commissioner is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Commissioner's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £70.0 million. The maximum period between borrowing and expenditure is expected to be two years, although Dyfed Powys is not required to link particular loans with particular items of expenditure.

6.5 Financial Implications

The budget for investment income in 2022/23 is £0.07 million, based on an average investment portfolio of £10.5 million at an interest rate of 0.6%. If actual levels of investments and actual interest rates differ from those forecast, performance will be monitored as part of financial management reporting.

6.6 Other Options Considered

The Welsh Government Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, 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

6.7 Future Requirements - CIPFA Treasury Management Code and Prudential Code 2021

After a period of consultation, CIPFA published revised CIPFA Treasury Management Code and Prudential Code in December 2021.

The codes will be fully implemented in the 2023/24 financial year. Authorities therefore do not have to amend or revise any treasury or capital strategies for 2022/23 to incorporate the additional disclosure requirements for investment categories and new indicators. Where possible, local authorities should make their best endeavours to adhere to their provisions and not undertake any new investments which would not be consistent with the changes.

The main changes to the updated **Treasury Management Code** and the accompanying guidance for local authorities are as follows:

- Investment management practices and other recommendations relating to non-treasury investments are included within the Treasury Management Practices (TMPs) alongside existing TMPs.
- The guidance will recommend the introduction of the Liability Benchmark as a treasury management indicator for local government bodies (note that CIPFA has issued a toolkit to assist local authorities with the production of this indicator).

- Environmental, Social and Governance (ESG) risks are incorporated into TMP1 (Risk Management) rather than a separate TMP.

- The purpose and objective of each category of investments should be described within the Treasury Management Strategy.

The updated **Prudential Code** includes the following as the focus of the substantive changes:

- The provisions in the code, which present the approach to borrowing in advance of need in order to profit from additional sums borrowed, have been strengthened. The relevant parts of the code have augmented to be clear that borrowing for debt-for-yield investment is not permissible under the Prudential Code. This recognises that commercial activity is part of regeneration but underlines that such transactions do not include debt-for yield as the primary purpose of the investment or represent an unnecessary risk to public funds.

- Proportionality has been included as an objective in the Prudential Code. New provisions have been added so that an authority incorporates an assessment of risk to levels of resources used for capital purposes.

- A new requirement has been added so that capital strategies are required to report investments under the following headings: service, treasury management and commercial investments.

The Commissioner will formally consider and seek to adopt these changes within the 2023/24 Treasury Management Strategy.

Appendix A – Existing Investment & Debt Portfolio Position

External Borrowing	31 Jan 2022 Actual Portfolio £m	31 Jan 2022 Average Rate %
PWLB – Fixed Rate Long Term	1.38	9.31
Total Gross External Debt	1.38	9.31

Long term debt is dated pre-1990. Balances are calculated on a bi-annual basis (30th September and 31st March).

Investments Managed in-house	31 Jan 2022 Actual Portfolio £m	31 Jan 2022 Average Rate %
Short-term	17.0	0.29
Long-term	-	-
Total Investments	17.0	0.29

Long-term investments mature after more than one year from the reference date.

Appendix B – Investment Definitions

Credit Rating: Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. 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.

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.

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.

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.

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 Commissioner's investment at risk. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

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 Welsh Government. As providers of public services, they retain the likelihood of receiving government support if needed.

Reverse Purchase Agreements (Repo): A repurchase agreement is a financial transaction where one entity (typically a bank) sells investments (bonds) to another entity (the investor) on one date and at the same time agrees to repurchase them at a fixed price on a later date. A repo involves two linked but separate transactions – the sale of bonds by the bank in return for cash, and the later repurchase of the bonds in return for a larger sum of cash.

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 Commissioner 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 Commissionerto 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 Commissioner's investment objectives will be monitored regularly.

Appendix C – Treasury Management Practices (TMP)

TMP1 Risk Management

The Chief Finance Officer (CFO) of the Commissioner will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Commissioner's objectives in this respect, all in accordance with the procedures set out in TMP6 *Reporting requirements and management information arrangements.*

In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out below:-

Credit and Counterparty Risk

Definition

The risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital, project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

Action

"Dyfed-Powys regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counter-party lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 *Approved instruments, methods and techniques*. It also recognises the need to have, and will therefore maintain, a formal counter-party policy in respect of those institutions from which it may borrow, or with whom it may enter into other financing arrangements."

Counterparties are detailed within the Treasury Management Strategy and Policy.

Liquidity Risk

Definition

The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs and that the organisation's business / service objectives will be thereby compromised.

Action

It will be the function of the Director of Finance (DOF) Chief Constable through the treasury management staff employed by the Chief Constable to ensure that it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business / service objectives.

They will ensure that at all times there will be a surplus of cash available which can be called upon (£2m) through its investments in cash on call accounts, which would be available at any time.

Robust weekly, monthly and annual cash flow forecasting processes are in place in line with Financial Regulations and Financial Control Procedures.

Interest Rate Risk

Definition

The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

Action

The CFO will manage the exposure to fluctuations in interest rates with a view to containing interest costs, or securing interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 *Reporting requirements and management information arrangements.*

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be subject to the consideration and, if required, approval of any policy or budgetary implications.

The Commissioner will only undertake borrowing from approved sources such as the PWLB, organisations such as the European Investment Bank and from commercial banks who are on the Commissioner's list of authorised institutions, thereby minimising legal and regulatory risk. All investment of over 13 months will need prior approval by the CFO.

Exchange Rate Risk

Definition

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

Action

Currently Dyfed Powys only invest in sterling products, hence there is no exchange rate risk.

Refinancing Risk

Definition

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancing, both capital and current (revenue) and / or that the terms are inconsistent with prevailing market conditions at the time.

Action

The CFO will ensure that borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing if required, which are competitive and as favourable to the Commissioner as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counter-parties in these transactions in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above."

Legal and Regulatory Risk

Definition

The risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisations suffers losses accordingly.

Action

The CFO will ensure that all treasury management activities comply with its statutory powers and regulatory requirements, demonstrating such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counter-party policy under TMP1 *credit and counter-party risk management,* it will ensure that there is evidence of counter-parties' powers, authority and compliance in respect of the transactions they may effect with the Commissioner, particularly with regard to duty of care and fees charged.

The CFO recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the Commissioner.

Fraud, Error and Corruption Contingency

Definition

The risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as an operational risk.

Action

The CFO and DoF will ensure that the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings are identified. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements to these ends. Internal Audit will regularly review Treasury Management function and report to the Joint Audit Committee.

A clear, well defined reporting structure for fraud etc. is in place in the event of a systems breakdown. The insurance policy incorporates cover for fraud, error and corruption. This is documented within the Counter-fraud and Corruption policy and included within Financial Control Procedure 4.7 “Dealing with Suspected Fraud and deception.”

Market Risk

Definition

The risk that through adverse fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

Action

The CFO will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

It will only place investments with institutions that are included on the most recent counter-party lending list approved by the appointed Treasury Advisors.

TMP2 Performance Measurement

Dyfed Powys is committed to the pursuit of value for money in its treasury management activities and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of on-going analysis of the value it adds in support of the organisation’s stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured by using the criteria set out below:-

The performance measures / benchmarks for treasury management will include the following:

	Performance Measure
1	Achieving the budgeted investment income
2	Ensuring cash balance cover of 31 days
3	Ensuring that investments are only placed with institutions which comply with the annual Treasury Management Strategy.

4	Ensuring approved counter-party limits are adhered to (refer to TMP's 1/ 5)
5	Expected levels of Investments per month compared to actual level of investment
6	Average rate of return of investments per month compared to target rate

TMP3 Decision Making and Analysis

Dyfed Powys will maintain full records of its treasury management decisions and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

Decisions regarding funding, borrowing, lending and new instruments and techniques will only be made if they comply with the Treasury Management Policy and Strategy. All decisions will be open to independent scrutiny.

TMP4 Approved Instruments, Methods and Techniques

Dyfed Powys will undertake its treasury management activities by employing only those instruments, methods and techniques specified in the Financial Regulations and Financial Control Procedures and within the limits and parameters defined in TMP 1 Risk Management.

The Corporate Governance Framework section 7.8F gives instruction on Treasury Management and Banking arrangements and the Financial Control Procedure 2.1 *Treasury Management and Banking arrangements* specify instruments, methods and techniques approved.

TMP5 Organisation, Clarity and Segregation of Responsibilities and Dealing Arrangements

The Commissioner considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is, at all times, clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when Dyfed Powys intends, as a result of lack of resources or other circumstances, to depart from these principles, the DOF will ensure that the reasons are properly reported to the CFO in accordance with TMP6 *Reporting Requirements and Management Information Arrangements,* and the implications properly considered and evaluated.

The DOF will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The DOF will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out and report any deviance from these to the CFO.

The DOF will ensure that there is proper documentation for all deals and transactions and that procedures exist for the effective transmission of funds and provide evidence of this where required to the CFO.

TMP6 Reporting Requirements and Management Information Arrangements

The CFO will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

It is suggested that the following reporting process be presented by the CFO:-

Annual reporting requirements before the start of the year

- Review of the Treasury Management policy statement and strategy,
- Review of the Treasury Management Practices,
- Prudential Indicators.

Mid-year reporting requirements

- Treasury Management Activities undertaken,
- Variations (if any) from agreed policies / practices,
- Performance report,
- Performance against Treasury Management and Prudential Indicators.

Annual reporting requirements after year end

- Performance of Treasury Management Function,
- Report on risk implications of decisions taken and transactions executed,
- Report on any circumstances of non-compliance with the Treasury management Police Statement and TMPs.

TMP7 Budgeting, Accounting and Audit Arrangements

The CFO will prepare and the Commissioner will approve and if necessary from time to time will amend the annual budget for the Treasury Management function, together with associated income. The matters to be included in the budget will be at minimum those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk Management*, TMP2 *Performance Measurement* and TMP4 *Approved Instruments, Methods and Techniques*. The CFO will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with TMP6 *Reporting Requirements and Management Information Arrangements*.

The CFO will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being and in particular the CIPFA Code of Practice and Cross-Sectoral Guidance Notes for Treasury Management in Public Services. The CFO will act in accordance with the Commissioner's policy statement and TMPs and the *CIPFA: Standard of Professional Practice on Treasury Management.*

The Commissioner will ensure that auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

Treasury Management procedures and processes will be audited in accordance with the internal audit risk based audit strategy.

Auditors will as part of their responsibilities in auditing the Statement of Accounts, obtain independent verification from counterparties of investments held by the Commissioner.

TMP8 Cash and Cash Flow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hand of Dyfed Powys will be under the control of the Commissioner, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular basis, and the CFO and DOF will ensure that these are adequate for the purposes of monitoring compliance with TMP1 *Liquidity Risk Management.*

TMP9 Money laundering

The Commissioner is alert to the possibility of becoming the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, procedures for verifying and recording the identity of counter-parties and reporting suspicions will be maintained and staff involved in this will be fully trained.

Only counterparties approved by the Treasury Management consultants will be utilised. Terms and conditions are agreed between the counterparty and the Commissioner prior to the transfer of funds.

The Proceeds of Crime Act 2020 (POCA) and the related Money Laundering Regulations 2007 have also extended the Wales Audit Office auditors responsibilities. The Auditor General and his staff and contractors are required to report to the Serious and Organised Crime Agency (SOCA) where they suspect, as a result of information gained during the course of their work, that there may have been criminal acts that involve financial gain.

If any staff involved in Treasury Management have suspicions of money laundering then this should be brought to the attention of the CFO and DOF.

TMP10 Training and Qualifications

The CFO and DOF recognise the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. The DOF will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The CFO and DOF will recommend and implement the necessary arrangements.

The CFO and DOF will ensure that all staff tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

Staff who undertake Treasury management duties attend relevant training events provided by appointed Treasury Advisors and attend a quarterly strategy meeting. Staff also attend relevant training events that are held by CIPFA.

Frequent bulletin e-mails are sent out by treasury advisors which provide advice on any economic developments and suggested revisions to counterparty limits.

TMP11 Use of External Service Providers

The CFO and DOF recognises that responsibility for treasury management decisions remains with the Commissioner at all times. The Commissioner recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subject to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the CFO.

Dyfed Powys has a contract with external Treasury Management Advisors for the provision of advice/assistance as follows:

- Strategic advice
- Capital finance advice
- Treasury Management Policy and Strategy
- Interest Rate Forecasting and Economic Advice
- Investment Policy Advice
- Debt Advice
- Counterparty Assistance

- Seminars and training
- Website and client meetings.

TMP12 Corporate Governance

The Commissioner has adopted and implemented the key recommendations of the CIPFA Code of Practice. This is considered vital to the achievement of proper corporate governance in treasury management, and the CFO and DOF will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

The Code recommends that public service organisations state their commitment to embracing the principles of corporate governance in their Treasury Management activities, notably openness and transparency.

The Commissioner is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Therefore, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability reflected in the Joint Corporate Governance Framework and Financial Control Procedures.

The organisation’s Treasury Management policies and practices will be published on the internet.

The CFO has primacy over Treasury Management functions and will ensure that adequate separation of duties exist between staff charged with undertaking Treasury Management Functions.

Appendix D Prudential Indicators and MRP Statement 2022/23

The Local Government Act 2003 requires the Commissioner to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Commissioner has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure

The Commissioner's planned capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	2020/21 Actual £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Land & Buildings	2.870	8.412	19.305	14.978	7.349
Vehicles / Boat	0.684	1.114	1.869	1.625	1.380
ICT and Other Schemes	2.686	2.226	6.382	5.717	3.737
Total Expenditure	**6.240**	**11.752**	**27.556**	**22.320**	**12.466**
Borrowing Requirement	2.643	7.782	19.189	17.600	8.832
Capital Grants	0.393	1.080	-	-	-
Contribution from Revenue	1.406	2.092	2.948	2.407	3.134
Capital Receipts	0.024	0.172	0.050	0.400	0.500
Capital Reserve	1.774	0.626	5.369	1.913	-
Total Financing	**6.240**	**11.752**	**27.556**	**22.320**	**12.466**

Estimate of Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Commissioner's underlying need to borrow for a capital purpose.

Cumulative Capital Financing Requirement	31.03.21 Actual £m	31.03.22 Estimate £m	31.03.23 Estimate £m	31.03.24 Estimate £m	31.03.25 Estimate £m	31.03.26 Estimate £m
Total	2.6	10.6	29.6	46.8	54.8	60.3

The CFR is forecast to increase considerably over the next few years as capital expenditure financed by debt outweighs resources previously put aside for debt repayment.

Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium term debt will only be for a capital purpose, the Commissioner should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	31.03.21 Actual £m	31.03.22 Estimate £m	31.03.23 Estimate £m	31.03.24 Estimate £m	31.03.25 Estimate £m	31.03.26 Estimate £m
Estimated External Borrowing	1.3	9.1	28.3	46.0	54.8	60.7
CFR & 2 Years Borrowing	27.0	47.5	56.1	61.5	62.0	63.6

The table above shows the Commissioner will not breach this prudential indicator.

Operational Boundary for External Debt

The operational boundary is based on the Commissioner's estimate of most likely i.e. prudent but not worst case scenario for external debt. It links to the Commissioner's estimates of capital expenditure, the CFR and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities which are not borrowing but form part of the Commissioner's debt.

Operational Boundary	31.03.22 Estimate £m	31.03.23 Estimate £m	31.03.24 Estimate £m	31.03.25 Estimate £m	31.03.26 Estimate £m
Borrowing	12.0	30.0	50.0	60.0	65.0
Other long-term liabilities	1.0	1.0	1.0	1.0	1.0
Total Debt	13.0	31.0	51.0	61.0	66.0

Authorised Limit for External Debt

The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Commissioner can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2021/22 Limit £m	2022/23 Limit £m	2023/24 Limit £m	2024/25 Limit £m	2025/26 Limit £m
Borrowing	60.0	60.0	60.0	65.0	70.0
Other long-term liabilities	1.0	1.0	1.0	1.0	1.0
Total Debt	61.0	61.0	61.0	66.0	71.0

Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income. This indicator shows financing costs in the context of the entire budget.

This is scheduled to increase over the period due to the requirement to undertake borrowing to support the investment required as a result of the Capital Programme. The impact of borrowing to fund the capital programme can be seen in later years.

	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Financing Costs	0.12	0.12	0.44	0.96	1.56
Net Revenue Stream	121.8	129.8	134.3	149.50	155.1
Ratio	0.10%	0.09%	0.33%	0.64%	1.01%

Annual Minimum Revenue Provision Statement 2022/23

Where the Commissioner 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 Commissioner to have regard to the Welsh Government's Guidance on Minimum Revenue Provision.

The broad aim of the WG guidance is to ensure that debt is repaid 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 Commissioner to approve an annual MRP statement each year, and recommends a number of options for calculating a prudent amount of MRP.

The policy will still be used to estimate future MRP charges to the revenue account for future years which will be reflected within the Medium Term Financial Plan and capital programme.

ANNUAL MINIMUM REVENUE PROVISION (MRP) STATEMENT

The following policy has been set by the Commissioner in relation to MRP for 2022/23.

Prudential Borrowing - Depreciation Method

MRP is to be equal to the provision required in accordance with depreciation accounting in respect of the asset on which expenditure has been financed by prudential borrowing or unsupported credit arrangements. This reflects the useful life of the asset which has been estimated at 50 years in respect of Estates assets, 10 years in respect of IT infrastructure assets (e.g. Control Room, RMS) and 5 years for other IT assets.

(a) MRP will continue to be made annually until the cumulative amount of such provision is equal to the expenditure originally financed.

(b) On disposal of the asset, the amount of the capital receipt will not be taken to the revenue account and the Commissioner will comply with the normal requirements of the 2003 Act on the use of capital receipts.

(c) Where the percentage of the expenditure on the asset financed by prudential borrowing or unsupported credit arrangements is less than 100%, MRP will be equal to the same percentage of the provision required under depreciation accounting.

Finance Leases and PFI

In the case of finance leases and on balance-sheet PFI contracts, the MRP requirement will be regarded as met by a charge equal to the element of the rent/charge that goes to write down the balance sheet liability.