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Neuadd y Cyngor
Y Rhadyr
Brynbuga
NP15 1GA

Dydd Mercher, 12 Chwefror 2025

Hysbysiad a Gyfarfod

Pwyllgor Llywodraethu ac Awdit

Dydd Iau, 20fed Chwefror, 2025 am 2.00 pm,
Neuadd Y Sir, Y Rhadyr, Brynbuga, NP15 1GA

Sylwch y cynhelir rhag-gyfarfod 30 munud am 1.30pm ar gyfer Aelodau'r Pwyllgor a Swyddogion Archwilio.

AGENDA

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1.	Ymddiheuriadau am absenoldeb	
2.	Datganiadau o Fuddiant	
3.	Fforwm Agored i'r Cyhoedd Canllawiau Fforwm Agored Cyhoeddus y Pwyllgor Llywodraethu ac Archwilio Mae ein cyfarfodydd Pwyllgor Llywodraethu ac Archwilio yn cael eu ffrydio'n fyw a bydd dolen i'r ffrwd fyw ar gael ar dudalen gyfarfod <u>gwefan</u> Cyngor Sir Fynwy. Os hoffech rannu eich barn ar unrhyw faterion sy'n cael eu trafod gan y Pwyllgor Llywodraethu ac Archwilio, gallwch fynychu'r cyfarfod yn bersonol (neu ymuno o bell trwy Microsoft Teams), neu gyflwyno sylwadau ysgrifenedig. (defnyddiwch Microsoft Word, a hyd at 500 gair). Y dyddiad cau ar gyfer cyflwyno sylwadau i'r Cyngor yw 5pm dri diwrnod gwaith clir cyn y cyfarfod. Bydd yr holl sylwadau a dderbynnir ar gael i aelodau'r pwyllgor cyn y cyfarfod. Mae faint o amser a roddir i bob aelod o'r cyhoedd i siarad yn ôl disgrisiwn Cadeirydd y Pwyllgor. Gofynnwn nad yw'r cyfraniadau yn hwy na 4 munud. Os hoffech fynychu un o'n cyfarfodydd i siarad o dan y Fforwm Agored i'r Cyhoedd yn y cyfarfod, bydd angen i chi roi tri diwrnod gwaith o rybudd drwy	

	gysylltu â GACRegistertoSpeak@monmouthshire.gov Os hoffech awgrymu pynciau yn y dyfodol i'w hystyried gan y Pwyllgor Llywodraethu ac Archwilio, gwnewch hynny drwy e-bostio GACRegistertoSpeak@monmouthshire.gov	
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12.	Ystyried a ddylid gwahardd y wasg a'r cyhoedd o'r cyfarfod wrth ystyried yr eitemau busnes canlynol yn unol ag Adran 100A Deddf Llywodraeth Leol 1972, fel y'i diwygiwyd, ar y sail ei bod yn cynnwys gwybodaeth fel y'i diffinnir ym Mharagraff 14 o Ran 4 o Atodlen 12A i'r Ddeddf (Barn y Swyddog Priodol ynghlwm).	169 - 170
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Paul Matthews
Chief Executive

MONMOUTHSHIRE COUNTY COUNCIL
CYNGOR SIR FYNWY

THE CONSTITUTION OF THE COMMITTEE IS AS FOLLOWS:

Andrew Blackmore

Colin Prosser

Martin Veale

Rhodri Guest

County Councillor Sara Burch

County Councillor John Crook

County Councillor Tony Easson

County Councillor David Jones

County Councillor Malcolm Lane

County Councillor Phil Murphy

County Councillor Peter Strong

County Councillor Ann Webb

***Cantref; Labour and Co-Operative
Party***

***Magor East Welsh Labour/Llafur Cymru
with Undy;***

***Dewstow; Welsh Labour/Llafur Cymru
Crucorney; Independent Group***

Mardy; Welsh Conservative Party

Caerwent; Welsh Conservative Party

Rogiet; Welsh Labour/Llafur Cymru

St Arvans; Welsh Conservative Party

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Watch this meeting online

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Welsh Language

The Council welcomes contributions from members of the public through the medium of Welsh or English. We respectfully ask that you provide us with 5 days notice prior to the meeting should you wish to speak in Welsh so we can accommodate your needs.

Aims and Values of Monmouthshire County Council

Our purpose

- to become a zero-carbon county, supporting well-being, health and dignity for everyone at every stage of life.

Objectives we are working towards

- Fair place to live where the effects of inequality and poverty have been reduced;
- Green place to live and work with reduced carbon emissions and making a positive contribution to addressing the climate and nature emergency;
- Thriving and ambitious place, where there are vibrant town centres and where businesses can grow and develop
- Safe place to live where people have a home where they feel secure in;
- Connected place where people feel part of a community and are valued;
- Learning place where everybody has the opportunity to reach their potential

Our Values

Openness. We are open and honest. People have the chance to get involved in decisions that affect them, tell us what matters and do things for themselves/their communities. If we cannot do something to help, we'll say so; if it will take a while to get the answer we'll explain why; if we can't answer immediately we'll try to connect you to the people who can help – building trust and engagement is a key foundation.

Fairness. We provide fair chances, to help people and communities thrive. If something does not seem fair, we will listen and help explain why. We will always try to treat everyone fairly and consistently. We cannot always make everyone happy, but will commit to listening and explaining why we did what we did.

Flexibility. We will continue to change and be flexible to enable delivery of the most effective and efficient services. This means a genuine commitment to working with everyone to embrace new ways of working.

Teamwork. We will work with you and our partners to support and inspire everyone to get involved so we can achieve great things together. We don't see ourselves as the 'fixers' or problem-solvers, but we will make the best of the ideas, assets and resources available to make sure we do the things that most positively impact our people and places.

Kindness: We will show kindness to all those we work with putting the importance of relationships and the connections we have with one another at the heart of all interactions.

Monmouthshire Governance & Audit Committee Question/Consideration Guide

Role of the Pre-meeting
1. Why is the Committee considering this agenda item? (relevance and materiality) 2. What is the Committee's role and what outcome do Members want to achieve? 3. Is there sufficient information to achieve this? If not, who could provide this? 4. What are the confidential views of the auditors on relevant matters? - Discuss members' views/ key concerns with the papers and agree priorities
Potential Questions/Considerations for the Meeting

Internal Audit (IA)

1. What is the IA functional model and is it fit for purpose?
2. Does IA have sufficient authority and influence across the Authority?
3. Is IA suitably resourced and empowered? Is the annual IA plan appropriate? On what do we make this judgement?
4. Do Chief Officers demonstrably accept and champion the role of IA? How do they do this?
5. Are IA findings acted upon energetically by Officers? How is this demonstrated? Do we effectively challenge and hold officers to account for implementing IA findings?
6. How can we be confident that the internal control environment remains appropriate?
7. Do we have confidence in overall IA effectiveness? On what do we base this?
8. Is the annual/ periodic IA opinion plausible?
9. Do we have sufficient visibility over the work, output and effectiveness of allied IA teams, e.g. TCBC?

Governance

1. Is there a codified and cohesive description of MCC's overall governance arrangements? Is it fit for purpose?
2. Is there clarity over the governance of the various oversight and scrutiny arrangements for (and effectiveness

External Audit (EA)

1. Is the EA team (financial and performance) credible?
2. Are we confident over the arrangements for developing the EA annual work plan/ timetable and is it aligned to our understanding of key risks?
3. Do Chief/ senior officers engage appropriately with EA? How is this demonstrated?
4. Is there a constructive relationship between IA, EA (and other inspectorates)? How is this evidenced?
5. Have relevant officers demonstrably considered the results/ conclusions of EA national and specific reports?
6. Do we have good visibility over emerging issues identified by EA?
7. In respect of ISA260 and equivalent EA financial reports, do officers clearly demonstrate understanding of issues raised and have a credible plan to resolve issues for next financial year?
8. Does EA have confidence in MCC's Officers and governance arrangements?

Budgeting/ Financial Risk/ Reserves

1. Is there a clearly defined, governed and checkpointed process and timetable for developing the Authority's budget?
2. Is there an appropriate suite of financial risk related policies? Are they suitable?
3. Are the key financial/ operational

of) material partnerships and collaborations? - Is there clarity over the apportionment of responsibilities and decision making authorities? - How are governance/ control breaches identified and reported? - Are we confident that the arrangements for material expenditure (tendering, contracting and capital procurement) are robust? - Do we have confidence in whistleblowing (and similar arrangements) for raising concerns? <u>Corporate Risks</u> - Have key accountabilities for the identification, assessment, monitoring and management of risks been adequately defined and implemented? - Has the approach to risk management been designed and implemented effectively? - How can the Committee be confident that the Corporate Risk Register captures all significant risks facing the Authority? - Are the risk mitigation action plans credible and sufficient so as to achieve the desired outcomes?	assumptions understood, credible, documented and stress tested? - Does the Finance function have suitable capabilities and capacity to manage financial risk/ meet statutory requirements and obligations to the Council? - Do we have confidence that the budgetary process is likely to produce a plausible budget/ MTFP? - Are there suitable arrangements in place to manage and report on overall financial performance? <u>Financial Statements/ Misstatement Risk</u> - Is there a shared understanding as to the purpose of the Committee in reviewing draft financial statements? - Are the Notes to the Accounts reasonable? - Are the narrative reports, including the Annual Governance Statement reasonable and accord with the committee's view? - Are we comfortable with EA's work and audit opinion?
Questions for the Committee to conclude...	
Do we have the necessary information to form conclusions/make recommendations/ escalate matters to the executive, council, relevant scrutiny committee? Do we need to follow up? If so, how?	

Governance and Audit Committee Action List
16th January 2025

Action	Subject/ Meeting	Officer	Outcome	Due date	Action Status	Recommended to close Action Yes/No
1	Date of Next Meeting	John Pearson	Lay Members to have sight of meeting dates proposed for 2025/26 before the Council Calendar is considered by Council on 23rd January 2025.	Before 23rd January 2025	OPEN	Yes

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SUBJECT: UPDATED CONTRACT PROCEDURE RULES

MEETING: GOVERNANCE & AUDIT COMMITTEE

DATE: 20th FEBRUARY 2025

DIVISION/WARDS AFFECTED: ALL

1. PURPOSE:

- 1.1 This report has been prepared to provide Governance and Audit Committee with an opportunity to consider proposed changes to the Council's Contract Procedure Rules (CPR's). Such updates have been made to incorporate the requirements of the following forthcoming legislation:
- The new Procurement Act 2023 and the Procurement (Wales) Regulations due to come into force on 24 February 2025 and
 - The Social Partnership and Public Procurement (Wales) Act due to come into force late 2025

2. RECOMMENDATIONS:

- 2.1 Committee to note and consider the draft Contract Procedure Rules, and to raise relevant comments or queries during the Committee meeting.
- 2.2 Committee note that the CPR's are subject to subsequent approval by full Council at its meeting on 6th March 2025.

3. KEY ISSUES:

- 3.1 The CPR's provide a corporate framework for the procurement of all Goods, Services and Works for the Council, including concession contracts.
- 3.2 The purpose of the CPR's is to ensure that the Council:
- Obtains value for money and conducts its procurement activity openly and transparently.
 - Complies with all, English and Welsh law that governs and/ or relates to the procurement of goods, services and works and the letting of contracts.
 - Supports the achievement of the seven well-being goals for Wales as set out in the Well-being of Future Generations (Wales) Act (2015).
 - Has procurement procedures which, when followed, protect members and officers of the Council from any allegation of acting unfairly or unlawfully in connection with any procurement by the Council.

3.3 The CPR's have required an update to align to the legislation referred to in paragraph 1.1. The rules provide guidance on the transparency requirements under the legislation and introduce amendments to the thresholds, procedures and procurement routes for quotations and tenders. These changes have been subject to internal audit, legal services and Senior Leadership Team (SLT) engagement and review. There have also been a series of knowledge drop sessions with officers across the Council to raise awareness of the new legislation and requirements.

3.4 Following discussions between the Procurement Team, Internal Audit and Legal Services the key changes to the CPRs include:

- Amended procurement thresholds and procurement routes to comply with legislation and to standardise across Ardal partners and align tender thresholds with Councils across Wales which will provide consistency to our suppliers and contractors.
- The Thresholds and requirements for each Procurement Route set out in the table below are included in the Updated CPR's (Appendix 1), which in summary include:

Value (*excluding VAT)	Route	Recommended	Minimum Requirements	Notice Publication Requirement (PA2023)	Management of the Process
£0-£25K*	1 – Written Quotes	3 written quotations	1 written quotation where value for money can be demonstrated	None	Managed by the Service Area. With the support of Buying Responsibly Guidance & Training aids
£25K-£75K*	2 – S2W RFQ	Advertise opportunity through S2W	Invite 4 quotes through S2W	BTTN where advertised CDN for all awards including without competition	Managed by the Service Area and processed through Sell2Wales. With the support of Buying Responsibly Guidance & Training aids
£75K*-PA2023 thresholds	3 – Below Threshold Tender	Advertise through S2W	Invite 4 Tenders via Proactis	BTTN where advertised CDN for all awards including without competition	Service Area must liaise with Procurement Team

PA2023 thresholds and above	4 – Above Threshold Tender	Preliminary Market Engagement encouraged	Advertise through S2W	Various in accordance with PA2023	Service Area must liaise with Procurement Team
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BTTN Below Threshold Tender Notice
CDN Contract Details Notice
S2W Sell2Wales

3.5 In addition and as part of the legislative requirements:

- More detailed publication of notices has been mandated at key stages through the procurement process in an attempt to generate greater transparency.
- This point has been further reinforced with the requirement to publish a Contracts Register and Contract Forward Plan and the additional process being developed to reflect the changes required when modifying Public Contracts (formerly referred to as Contract Variations).
- Strengthened guidance has also been added to reflect the changes in the requirements with regards to Conflicts of Interest.
- As well as clarification around the CPR's being exclusive of VAT, unless the procurement is above *Procurement Act Thresholds* (PAT).

3.6 To ensure the Council has the required audit trail throughout the procurement process, the following four key governance documents will be introduced:

Doc No.	Name	Value	Purpose
1	Procurement Quotation Record (PQR)	£10K - £75K	This will capture the contract details, value, procedure followed and evidence of value for money. Due diligence checks such as Health & Safety, technical capacity etc and must be signed by appropriate officer within the Service Area. (This form will be new to Council staff)
2	Pre-Tender Report (PTR)	£75K+	This must be completed for all procurements above £75K including direct awards. There is a section contained within the PTR 'Exceptions' which must capture the detail and rationale for the Direct Award in accordance with CPR guidelines. (Already being used across the Council)
3	Contract Award Report (CAR)	£75K+	Report produced to capture the outcome of the procurement exercise and recommendation for award. (Already being used across the Council)

4	Contract Modification Form (CMF)	£75K+	This form captures: Contract extension – allowed for within the scope of the contract. Contract extension – outside of the scope of the contract Variation to scope of service – in accordance with CPRs (This form will be new to Council staff)
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3.7 These Forms will be completed digitally to provide improved quality and management information for the Procurement Team and improved assurance to Internal Audit. The Council's other procurement processes, procedures and guidance will also be updated to reflect the requirements of the new legislation and the CPRs.

3.8 Once the rules are approved, there will be a clear communication strategy and a programme of training and support will be established for officers to access, including:

- The publication of staff information articles.
- Refreshed buying responsibly training and guidance.
- Support for Sell2Wales and guidance
- Targeted training sessions
- Short animation videos

4 EQUALITY AND FUTURE GENERATIONS EVALUATION (INCLUDES SOCIAL JUSTICE, SAFEGUARDING AND CORPORATE PARENTING):

4.1 The updated Contract Procedure Rules have been developed to align with the Procurement Act 2023 and the Procurement (Wales) Regulations as well as The Social Partnership and Public Procurement (Wales) Act, which builds upon the "Well Being of Future Generations Wales Act" and the "Code of Practice – Ethical employment in supply chains"

5 OPTIONS APPRAISAL

5.1 No options were available due to changes required in accordance with UK and WG legislative updates.

6 EVALUATION CRITERIA

6.1 The CPR's provide a corporate framework for the procurement of all Goods, Services and Works for the Council, including concession contracts. The role of procurement in local government remains pivotal in addressing the economic, social and environmental pressures that we face. A series of training materials are in the process of being developed and will be rolled out to compliment the launch of the updated CPR's.

6.2 A requirement of the Social Partnership and Public Procurement (Wales) Act 2023 is the publication of an annual report to demonstrate how the Council is meeting its " Socially Responsible Procurement objectives"

7 REASONS:

7.1 To comply with legislation.

8 RESOURCE IMPLICATIONS:

8.1 No additional resource implications, changes will be managed by existing Ardal procurement resource and devolved functions.

9 CONSULTEES:

- Senior Leadership Team (SLT)
- Internal Audit
- Legal Services

10 BACKGROUND PAPERS:

Appendix 1 – Updated Contract Procedure Rules

11 AUTHOR(s):

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CONTRACT PROCEDURE RULES ('CPRs')

DRAFT FEBRUARY 2025

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CONTRACT PROCEDURE RULES ('CPRs') – DRAFT (7 Feb 2025)

1. Introduction

- 1.1 These Contract Procedure Rules (CPRs) provide a corporate framework for the **procurement** of all **Goods, Services** and **Works** for the Council, including **concession contracts**. These **Rules** apply to all procurements commenced on or after 24 February 2025 when the **Procurement Act 2023** came into force. Any procurements commenced prior to that date shall continue to be governed by the requirements of the Public Contracts Regulations 2015 ("**PCR**").
- 1.2 Sustainable Procurement is defined in the Wales Procurement Policy Statement as "the process whereby organisations meet their needs for goods, services, works and utilities in a way that achieves **value for money** on a whole life basis in terms of generating benefits not only to the organisation, but also providing opportunity for how this money can be spent in a way that delivers wider economic, social, environmental and cultural well-being both locally and within Wales but also to society and the economy, whilst minimising damage to the environment". "Procurement" under the Procurement Act 2023 means the award, entry into and management of a **contract**.
- 1.3 Procurement includes the identification of need, consideration of options, the actual procurement process and the subsequent management and review of the contracts.
- 1.4 The Council spends in the region of £150 million per annum on the external procurement of Goods, Services and Works. It is therefore important that the Council strategically manages this spend to ensure that it:
- i. Obtains value for money and the required level of quality and performance in all contracts let.
 - ii. Conducts its procurement activity openly, transparently and, where practicable, based on standard approaches and use of common systems that appropriately minimise complexity, cost, timescales and requirements for suppliers.
 - iii. Complies with all, English and Welsh law that governs and / or relates to the procurement of goods, services and works and the letting of concession contracts.
 - iv. Meets the principles of the Welsh Government's Wales Procurement Policy Statement (WPPS).
 - v. Considers all relevant guidance issued by Welsh Government including Welsh Procurement Advice Notes and the Code of Practice on Ethical Employment in Supply Chains.
 - vi. Supports the achievement of the seven well-being goals for Wales as set out in the Well-being of Future Generations (Wales) Act (2015).

- vii. Has procurement procedures which, when followed, should protect members and officers of the Council from any allegation of acting unfairly or unlawfully in connection with any procurement by the Council.
- viii. Subject to compliance with (iii), has considered, assessed and where practicable mitigated any risks associated with a particular procurement process and subsequently entering into contracts; and
- ix. Achieves the organisational outcomes of the Council's Socially Responsible Procurement Strategy and Policy.

- 1.5** These Rules are not intended as detailed guidance for implementation. Any [procurement guidance](#) issued by the Council's [Strategic Procurement Lead](#) must be taken into account, including the **Buying Responsibly Guides**. Appendix 2 (Definitions and Interpretations) - the first time a key word is used within the CPRs it is *italicised in bold blue text* to indicate that it is included within Appendix 2.
- 1.6** Contracts, which involve the receipt of income by the Council or the disposal of an asset or an undertaking by the Council, may often require competitive [tender](#). The reason for this, for instance, is because they amount to a "concession", or confer a competitive advantage on the [contractor](#) as against its competitors, or the Council needs to be able to demonstrate that it has received an appropriate market value. Therefore, all references to competitive tenders and [quotations](#) within these CPRs shall apply (with such changes as are appropriate) equally to circumstances where the contract involves the receipt of income by the Council or the disposal of any asset or undertaking by the Council, as they do to purchases to be made by the Council, unless specifically stated otherwise.
- 1.7** These CPRs govern organisational behaviour in the conduct of procurement. It is important that such behaviour is undertaken in support and delivery of the wider policies and objectives of the Council and in respect of officers, this includes the Employees' Code of Conduct.
- 1.8** All Officers must comply with the Council's "Code of Conduct" in addition to the Council's "Anti-Fraud, Bribery and Corruption Policy" and must not invite or accept any gift or reward in respect of the award or performance of any contract. It will be for the officer to prove that anything received was not received corruptly. High standards of conduct are obligatory. Corrupt behaviour will lead to investigation under the council's disciplinary procedures and is a criminal offence under the "Bribery Act 2010"
- 1.9** Any person who is not an officer of the Council, but is engaged by the Council to advise, conduct, or supervise any stage of a Tender, must Comply with the Council's Contract Procedure and Financial Procedure Rules. No consultant shall make any decision on whether to award a contract or who a contract should be awarded to.
- 1.10** In conducting any procurement, the [Seven Principles of Public Life](#) and utmost probity must be demonstrated at all times

- 1.11** All values referred to in these Rules are **exclusive** of VAT **unless they refer to** procurements **above** the *Procurement Act Thresholds* (PAT) which are **inclusive of VAT**.
- 1.12** Any dispute regarding interpretation of these Rules shall be referred to the Chief Officer Law & Governance or their nominated officers for resolution in consultation with the Council's Strategic Procurement Lead.
- 1.13** These Rules shall be read in conjunction with the Council's Constitution as a whole and, in particular, in respect of contract payments, including compliance with the Council's Financial Procedure Rules.
- 1.14** The Chief Officer Law & Governance or their nominated officers in consultation with the Strategic Procurement Lead will amend these Rules from time to time, to ensure that they meet all Legal Requirements.
- 1.15** The Chief Officer Law & Governance or their nominated officers and the Strategic Procurement Lead shall periodically undertake a formal review of these Rules.

2. Compliance with these Rules

- 2.1** These Rules must be followed when dealing with any Council Procurement except for those Procurements and other matters referred to in Rule 3 (Exemptions).
- 2.2** Every Procurement undertaken by the Council or any other party on its behalf must comply with:
- i. All, English and Welsh law and associated guidance that governs and or relates to the procurement of goods, services and works and the letting of concession contracts and to the extent of any conflict between these CPR and any such legal requirements then the provisions of such legal requirements shall prevail.
 - ii. The Council's Constitution as a whole, and
 - iii. The Council's strategic objectives and policies including its Socially Responsible Procurement Strategy and Policy, and
 - iv. Other objectives and requirements listed in clause 1.4 of these rules.

- 2.3 The Strategic Procurement Lead may from time-to-time issue procurement guidance, following consultation with the Council's **Section 151** and **Monitoring Officer**. Senior Officer in each Council Service Area must ensure that employees in their Service Area are aware of such guidance and must require compliance with such guidance.
- 2.4 Any failure by officers to comply with any of the provisions of these CPRs or associated guidance adopted by the Council may result in disciplinary action. Any procurement carried out on behalf of the Council may only be undertaken by officers with the appropriate delegated authority to carry out such tasks and who have access to the relevant training, Guidance and support to undertake the particular procurement.

3. Exemptions to the Rules

These Rules do not apply to: -

- 3.1 **The acquisition or disposal of land** (see Procedural Rules for the Acquisition or Disposal of Land. Any land contracts which involve development agreements shall be notified to the Chief Officer Law & Governance and legal advice sought on the procurement law implications)
- 3.2 **Contracts of employment** which make an individual a direct employee of the Council.
- 3.3 **Use of the Council's in-house services.**
- 3.4 **Grants** (Grants are not regulated by public procurement law, as they are not public contracts. Grants are, however, regulated by the rules on subsidy control (formerly known as state aid) and by general public law controls relating to fiduciary duty and proper spending of public money. As appropriate, legal and financial advice should be obtained from the relevant Council officers). If there are any procurements for services, goods or works for which grant money is used then these will be caught by these CPRs.
- 3.5 **Individual orders placed under a Framework Agreement** or a contract which provide for orders to be placed against an agreed schedule of rates, or under a measured term contract, provided that such contracts or Framework Agreements have been let by the Council in accordance with these Rules and the orders placed in accordance with the applicable Framework Agreement or contract. The Strategic Procurement Lead must be consulted before the use of any Framework not listed on the Council Supply Directory. If a Framework was let under Public Contracts Regulations 2015 ("PCR") any 'call offs' will continue to be governed by the PCR.

- 3.6 An individual care contract.** That is a contract for services entered into in pursuance of powers under The Social Services and Well-being (Wales) Act 2014 for the benefit of an individual, where: -
- i. the estimated value is below the *Light Touch* Regime under the Procurement Act (and/or is not a Regulated Below Threshold Contract).
 - ii. the Council does not have any existing framework or umbrella arrangements in place in respect of the relevant service.
 - iii. the individual care contract represents value for money and;
 - iv. where the contract is required to honour the preference of the individual service user; or
 - v. is required as a matter of emergency in the interest of the welfare of the individual service user.
- 3.7 Instructions and briefs to Counsel** issued by or on behalf of the Chief Officer Law & Governance and Legal Services to Counsel or nominated officer. The Chief Officer Law & Governance or their nominated officers will make arrangements to ensure that appropriate record is kept of all such instructions or briefs together with a record of Counsel's fee.
- 3.8 Goods, Services and Works procured by another public body** on behalf of, or for the joint benefit of the Council and other parties, and provided, that, in such case, the other public body's procurement / contract rules, all English and Welsh procurement law requirements, and the fundamental principles such as non-discrimination, equal treatment, transparency, mutual recognition and proportionality have been complied with (that is, a collaborative procurement arrangement such as contracts awarded via the Welsh Government Commercial Procurement Delivery Team, Crown Commercial Services etc. The advice of the Strategic Procurement Lead must be sought before placing reliance on any such arrangement).
- 3.9** Any other contract that is defined as 'exempted contract' under Schedule 2 of the PA 23.
- 3.10** When placing reliance on the exemptions stated above the *Senior Officer* in the Service Area should ensure that the best possible value for money is obtained for the Council.

4. Conflicts of Interest

- 4.1** No Elected Member, employee or agent of the Council shall improperly use their position to obtain any personal or private benefit from any contract entered into by the Council.

- 4.2 The Council must take all reasonable steps to ensure that a conflict of interest and/or potential conflicts of interest does not put a **supplier** at a perceived or actual unfair advantage or disadvantage in relation to a procurement. If any advantage cannot be avoided, or the supplier will not take steps that the Council considers are necessary in order to ensure it is not put at an unfair advantage then the suppliers must be excluded from the procurement.
- 4.3 The Council must undertake a “conflicts assessment” before publishing a tender or transparency notice or a dynamic market notice. If a conflict of interest or potential conflict of interest is identified the Council must set out the steps it has taken or will take to demonstrate that no such conflict of interest exists. The Council must keep any assessment under review, revise as is necessary and when publishing any notice confirm that a conflicts assessment has been prepared and revised in accordance with the Procurement Act (Part5).
- 4.4 Elected Members and employees of the Council shall comply with the requirements of section 117 of the Local Government Act 1972 and, as appropriate, the Officers and Members Code of Conduct set out in the Constitution in respect of the declaration of interests in contracts with the Council.
- 4.5 Such interests must be declared to the Monitoring Officer for inclusion in the appropriate registers, detailing how the conflict has been addressed.

5. Welsh Language Act

- 5.1 Any invitations to tender for a contract must state that tenders may be submitted in Welsh.
- 5.2 Any invitations to tender for a contract must be published in Welsh, where the:
 - i. Subject matter of the tender for a contract suggests that it should be produced in Welsh, or
 - ii. Anticipated audience, and their expectations, suggests that the document should be produced in Welsh.
- 5.3 Where a tender or quote has been submitted in Welsh, this must be treated no less favourably than a submission in English (including, amongst other matters, in relation to the closing date for receiving submissions, and in relation to timescale for informing bidders of decisions).
- 5.4 If a tender has been submitted in Welsh, and it is necessary to interview the bidder as part of the assessment process, you must:
 - i. Offer to provide a translation service from Welsh to English to enable the bidder to use the Welsh language at the interview; and
 - ii. If the bidder wishes to use the Welsh language at interview, provide a simultaneous translation service for that purpose (unless you conduct the interview in Welsh without a translation service).

- 5.5** When informing a bidder of the decision in relation to a quotation or tender, you must do so in Welsh if the quotation or tender was submitted in Welsh.
- 5.6** Where relevant to the subject matter of the contract, contracts must contain provision requiring the Contractor to comply with all applicable requirements of:
- i. The Authority's Welsh Language Scheme,
 - ii. The Welsh Language (Wales) Measure 2011, and
 - iii. The Welsh language standards issued to Monmouthshire County Council (Compliance Notice – Section 44 Welsh Language (Wales) Measure).

6. Procurement Planning

- 6.1** Before commencing any procurement, the Senior Officer responsible for the proposed procurement, must undertake (or ensure that it is undertaken) the appropriate level of preparation and planning, proportionate to the proposed value and nature of the project. Depending upon the value and nature of the procurement proposed this should include consideration of those matters referred to in clause 6.2 and the timely taking of finance, legal, digital and procurement advice as appropriate.
- 6.2** The preparation and planning stage of the process is critical. It will influence all future activity on the contract. If this part of the process is done correctly then the rest should flow without difficulty, but the reverse is also true. It is common to underestimate the planning stage or not carry it out at all. The key tasks at the planning stage include:
- i. Any officer that is required to lead a procurement process must be named with relevant approvals within the Councils Authorised Signatory List, which is held by the Strategic Procurement Lead.
 - ii. Ensuring the procurement is included on the Contract Forward Plan.
 - iii. Engagement with key stakeholders in order to identify and assess needs – what is being procured and why? What is the key driver for the procurement? What are the critical success factors? What outcomes are being sought?
 - iv. Advice on the procurement of software and licences shall in the first instance be brought to the attention of the Council's Digital Programme team (or its successor) and approval to proceed sought. Any exception to this rule will need to be justified by the relevant Chief Officer where the procurement activity is taking place and approved by the Head of Service with responsibility for Digital Services.
 - v. Checking that no existing in-house provision exists for the Goods, Services or Works required (see rule10)

- vi. Carrying out of options appraisal to look at different ways of meeting, the identified needs (e.g. buy, lease or rent?) and using the Carbon Reduction Guidance issued by the Strategic Procurement Lead to minimise the carbon impact of the procurement
- vii. Determining budget and funding, to define a realistic budget for the contract to achieve the desired results and then securing the funds to finance and manage the contract throughout its duration, including any disposal costs
- viii. Selection of the appropriate Procurement Procedure (see Appendix 1)
- ix. Using Guidance issued by the Strategic Procurement Lead to consider options to deliver wider well-being objectives including carbon reduction, **community well-being benefits** and fair work
- x. Preparing the specification (setting out the requirements)
- xi. Where a tender is to be awarded, determining the criteria and evaluation methodology and how to secure the Most Advantageous Tender.

6.3 The results of this planning stage must be properly documented by the Senior Officer responsible for the proposed procurement (or their nominated deputy) and, if used recorded in the Council's **electronic procurement** system.

7. Advice and Risk Assessment

- 7.1** At the outset of a procurement process, the Senior Officer (or their nominated officer) must ensure all proposed procurements with an estimated value in excess of £75,000 for goods, services and works are recorded on the Council's Contract Forward Plan. In addition to these Rules, the Senior Officer must follow all guidance issued by the Strategic Procurement Lead in respect of the procurement.
- 7.2** The advice of the Chief Officer Law & Governance (or their nominated officers) must be sought on all procurements with an estimated value in excess of £100,000 (unless a **Call Off Contract** is procured under a framework in line with the requirements of the framework and any advice or guidance from the Strategic Procurement Lead) and for lower value requirements where the complexity of the procurement requires, for example the inclusion of bespoke clauses. If there is any doubt, legal advice should be sought.
- 7.3** For Procurements with an estimated value in excess of £75,000 for goods, services and works, the Senior Officer shall carry out a risk assessment (proportionate to the nature and value of the proposed contract). The risk assessment shall be prepared at the outset and thereafter maintained and updated throughout the Procurement Process until the end of contract. The decision maker must be informed of any risks identified and of the contingency measures in place.

- 7.4** When carrying out any risk assessment in respect of a proposed procurement, regard must be had to the requirements to comply with the whole of these Rules.

8. Personal Data

- 8.1** In carrying out any Procurement, the Senior Officer responsible for the procurement must take all reasonable steps, including incorporation of appropriate provision into tender documentation and Contracts, to ensure that the personal data of individuals is protected in accordance with all legal requirements (including the Data Protection Legislation) and Codes of Practice from the Information Commissioner's Office (ICO) and as set out in the Council's Information Governance Policies. The Senior Officer must ensure the Councils' obligations and risks, in respect of personal data, are considered and indemnities are sought where appropriate. More information and guidance can be obtained from the Data Protection & Information Manager (or their nominated officers).

9. Other Advice

- 9.1** As part of the tender planning stage, the Senior Officer responsible for the procurement must ensure that they seek advice in relation to the organisations non procurement related requirements as set out in the Pre-Tender Report (Advice and Further Considerations Section).

10. Use of In-house Service

- 10.1** Before any external procurement is considered, it is important to check the Supply Directory to ensure that no existing in-house provision exists for the Goods, Services or Works required.
- 10.2.** In-house services must be used unless the Senior Officer of the procuring Service Area and the in-house service provider agree otherwise, evidenced in writing and retained by the procuring Senior Officer.

11. Framework Arrangements and Dynamic Markets

- 11.1 The Council has entered into a number framework agreements (including Dynamic Markets (formally DPS)) for the supply of various types of goods, services and works.
- 11.2 The Procurement Team maintain a register of such contracts and framework agreements in the Supply Directory and can provide advice on their use and any exceptions granted.
- 11.3 It is the responsibility of the Service Area requiring the procurement to ascertain whether there is a framework or other corporate purchasing agreement in place by checking the Supply Directory. If such a framework or corporate purchasing arrangement exists, then Service Areas must use this arrangement or otherwise obtain the prior agreement of the Strategic Procurement Lead.
- 11.4 The use of frameworks not listed in the Supply Directory is only permissible once the *Procurement Team* has approved its use (including checking that the framework agreement concerned may be relied upon by the Council). The Procurement Team will be able to advise on the use on 'non-Welsh' Frameworks and any additional requirements when using these Frameworks.
- 11.5 When using framework agreements, all guidance issued in relation to the use of the Framework concerned must be considered by the Service Area and followed. The award criteria, weightings and the terms and conditions of contract specified in the framework agreement must be used. It is the responsibility of the Service Area requiring the procurement to ensure that all supporting documentation necessary is assembled and completed, before placing reliance on a framework agreement. It should be noted that the relevant framework agreement will include terms and conditions governing contract/orders let under it and the Service Area should satisfy themselves that the terms and conditions are suitable for their requirements before using the framework (taking advice as appropriate). Whilst Procurement and Legal Services can provide advice and support, it will be expected that this provision will be complied with by the Service Area before seeking such advice.
- 11.6 Where Goods, Services or Works are regularly required, and arrangements described in Rule 11 are not available, consideration must be given to procuring a framework arrangement and the advice of the Strategic Procurement Lead must be obtained.
- 11.7 Collaborative and Joint working arrangements:
 - i. Any consortia procurement arrangements must be approved for use by the Strategic Procurement Lead before reliance is placed on the same.
 - ii. Before proceeding with any proposed joint working arrangements, legal advice should be sought from the Chief Officer Law & Governance or their nominated officers

12. Estimating the Contract Value

- 12.1** The estimated contract value is the maximum value the Council could expect to pay under the contract including where applicable, amounts already paid. The value is **exclusive of value added tax**, up to the PA23 threshold, which the Council expects to be payable over the full duration of the contract (not the annual value and inclusive of any extensions). In estimating the value of a contract, the Council must take into account all of the facts which are material to the estimate and available to the authority at the time it makes the estimate.
- 12.2** In estimating the contract value the Service Area needs to account for the following:
- i. The value of any goods, services or works provided by the Council under the contract other than for payment.
 - ii. Amounts that would be payable if an option in the contract to supply additional goods, services or works were exercised.
 - iii. Amounts that would be payable if an option in the contract to extend or renew the term of the contract were exercised.
 - iv. Amounts representing premiums, fees, commissions or interest that could be payable under the contract.
 - v. Amounts representing prizes or payments that could be payable to participants in the procurement.
- 12.3** If the Council is unable to estimate the value of a contract in accordance with [Schedule 3](#) of the PA23 threshold (for example because the duration of the contract is unknown), the Council is to estimate the value of the contract as an amount of more than the threshold amount (see Procurement Act Thresholds) for the type of contract. It is recommended that service areas simply undertake the best valuation with the information available on what it expects to pay, following the detailed rules set out in Schedule 3. It is unlawful to exercise any discretion in valuing a contract with a view to avoiding the requirements of the Act. If there is uncertainty over calculating the estimated value of the proposed Contract, then the advice of Legal and Procurement Services should be sought.
- 12.4** No Works or requirements for Goods or Services may be artificially split to avoid consulting with the Strategic Procurement Lead or avoid compliance with procurement law or these Rules.
- 12.5** Where the Council has requirements over a period of time for Goods and Services where the contracts have similar characteristics and the Goods and Services are of the same type, and enters into a series of contracts or a contract which is renewable, then the estimated value shall be calculated by the total spend on such matters over the last 12 months or projected estimated spend for next 12 months or if the contracts have been continuous then the total value of the contracts, whichever is the greater. In estimating this value, the advice of the Strategic Procurement Lead must be sought.
- 12.6** In considering if the Procurement Act applies, the Council must have regard to the 'Estimating the Value of a Contract' set out in Schedule 3 of the Procurement Act and the advice of the Strategic Procurement Lead sought.

- 12.7** In estimating the value of a **Framework**, the Council estimate the sum of the value of all contracts that have or may be awarded in accordance with that Framework.
- 12.8** The Council must estimate the value of a **concession contract** as the maximum amount the supplier could expect to receive under or in connection with the contract including, where applicable, amounts already received. The amount a supplier could expect to receive includes the following—
- i. Amounts representing revenue (whether monetary or non-monetary) receivable pursuant to the exploitation of the works or services to which the contract relates (whether from the contracting authority or otherwise).
 - ii. The value of any goods, services or works provided by the contracting authority under the contract other than for payment.
 - iii. Amounts that would be receivable if an option in the contract to supply additional services or works were exercised.
 - iv. Amounts that would be receivable if an option in the contract to extend or renew the term of the contract were exercised.
 - v. Amounts representing premiums, fees, commissions or interest that could be receivable under the contract.
 - vi. Amounts received on the sale of assets held by the supplier under the contract.

13. Carbon Reduction

- 13.1** Service Areas must fully consider the [Circular or Sustainable Procurement Hierarchy](#) principles at the start of a tender process to identify opportunities to buy sustainably, minimise carbon impact, waste and any negative environmental impact. Carbon reduction requirements should be embedded into tenders and contracts in accordance with Guidance issued by the Strategic Procurement Lead.
- 13.2** Carbon Reduction Plans must be sought in all tenders above £6million (Inc VAT) in accordance with Guidance issued by Strategic Procurement Lead .

14. Community Well-being Benefits

- 14.1** Community Well-being Benefits (formerly Social Value) are well-being commitments offered by bidders over and above the primary contract requirements i.e. the requirements as stipulated in the specification and/or Terms and Conditions. The Community Well-being Benefits requirements should be used within tenders above £250,000 to capture each tenderers Community Well-being Benefits offer. The successful tenderers offer will form part of the Contract

- 14.2** The Strategic Procurement Lead will issue Community Well-being Guidance and Templates which must be used and followed, and the delivery of Community Well-being Benefits managed by the contract manager using the Council's online platform.
- 14.3** For all contracts below £250,000 in value, the inclusion of community benefits as a contractual obligation is optional but shall be considered.
- 14.4** In all cases where Community Well-being Benefits are being delivered, there must be a contractual requirement for the successful contractor to provide monitoring information on the community benefits as determined by the Strategic Procurement Lead. More generally, the named contract manager as part of the normal contract management process should monitor the delivery of community benefits.
- 14.5** Regard must be had to the Welsh Government guidance on Community Well-being Benefits and such other guidance as the Strategic Procurement Lead may issue from time to time on the approaches to delivering community well-being benefits through Council contracts.

15. Procurement Process and Procedures

A Summary of the Council's 4 Procurement Routes is set out in Appendix 3 and Appendix 4 (Governance and Procedures Overview).

16. Quotations- Goods (Supplies), Services and Works

- 16.1** Where possible, Goods, Services or Works must be obtained via existing approved arrangements including:
 - i. firstly, in-house services provision (see Rule 10), and
 - ii. secondly, Framework Agreements and consortia arrangements approved for use by the Council's Strategic Procurement Lead (See Rule 11).
 - iii. if no in-house service or Framework arrangement available then quotations must be sought.
- 16.2 Quotations Process**
 - i. Quotations must not be artificially split (rule 12.5) and rule 12.6 (repeat requirements) to avoid compliance with procurement law or these Rules.
 - ii. Any **request for quotation** (RFQ) shall include as a minimum a technical specification, pricing schedule and terms and conditions.

- iii. Bidders should be given sufficient time to submit a response to a request for quotation. Consideration should be given to the complexity of the quote being requested and sufficient time allowed for bidders to provide suitable quotes.
- iv. Quotes should only be accepted, via an email or the Sell2Wales system. If accepted in writing the acceptance should make clear that the Council's standard terms and conditions referred to in the Council's ***purchase order*** apply. On acceptance of the quotation (written or electronic), a purchase order must be sent via the ***Purchase-to-Pay*** (P2P) system, which contains reference to the Council's standard terms and conditions.
- v. In the circumstance where not all suppliers respond to the request for quotation with a submission, it is acceptable to evaluate and award the contract based on whatever submissions have been made, even where there is only one submission, provided Value for Money is achieved.
- vi. For quotations above £25,000 a minimum of two people must evaluate the quotations received.

16.3 Quotation Route 1 - Goods, Services and Works up to the value £25,000 (Excluding VAT)

16.3.1 For procurements with an estimated value of up to £25,000 the use of the Sell2Wales Quick Quote function is encouraged. As a minimum Services Areas must seek:

- i. At least Three written quotes from suitable supplier(s) via email, in order to demonstrate Value for Money. Where it is not possible to obtain three quotes, the Quotation Record Form can be used to record the reasons for this and evidence that the recommended decision still demonstrates value for money.
- ii. Where the market allows at least **one** quotation should be sought from a local supplier.

16.3.2 The Service Area must retain a copy of the quotation(s) received and make a copy available on request. A Quotation Record Form must be used to document the process undertaken for quotations above £10,000 and if 3 quotations are not sought the reasons must be set out and approved via the Quotation Record Form.

16.4 Quotation Route 2 – Goods, Services and Works between the value of £25,000 to £75,000 (Excluding VAT)

16.4.1 For procurements with a value between £25,000 to £75,000 then the requirement **must be managed through the Sell2Wales** website to ensure compliance with the Procurement Act and in particular the requirement to publish a below threshold Tender Notice (if opportunity advertised) and publish a Contract Details Notice **for all** quotations awarded. As a minimum the Service Area must seek:

- i. At least **four** written quotations from suitable suppliers and these should include suppliers who are either micro, small and medium-sized enterprises (SMEs), or voluntary, community and social enterprises (VCSEs). We encourage Service Areas to advertise opportunities through Sell2Wales.
- ii. Where the market allows at least **two** quotations should be sought from local suppliers, and these should include providers who are either micro, small and medium-sized enterprises (SMEs), or voluntary, community and social enterprises (VCSEs).

16.4.2 Note that the option to reserve procurements on the basis of location should **not be used** in relation to procurements which are of cross-border interest to suppliers from EU Member States.

16.4.3 The Service Area must keep an appropriate file record (Quotation Record Form) evidencing matters, including for Works that relevant competency and capability assessments have been undertaken. The Service Area needs to be satisfied, able to demonstrate compliance and that it has obtained value for money and complied with these Rules.

16.4.4 Where it is not a regulated *Below Threshold Contract* and there are less than four suppliers (but more than one) for the requested goods, services or works on the Sell2Wales system, it is acceptable to request quotations from the number (less than four) of the suppliers registered.

16.4.5 Where it is proposed to Direct Award, it is a requirement to follow the Direct Award authorisation procedures set out in CPR 17.

16.4.6 The quotation must be received electronically using the Sell2Wales system and will automatically be endorsed with the time and date of receipt and “locked” by the system until the closing time and date prescribed in the request for quotation.

16.4.7 All quotations received will be automatically “unlocked” and available for evaluation in the electronic system after the closing time and date prescribed in the request for quotation. The officer in the Service Area running the quotation will open quotations; the electronic procurement system will automatically record all quotation prices. There is no requirement for Legal Services or Procurement Team officers to be present. Following evaluation of the submissions and acceptance of the quotation on the electronic system, a purchase order must be sent via the Purchase-to-Pay (P2P) system or the provision of CPR 24 (Placing of Orders) complied with.

16.4.8 If a quotation is to be openly advertised on the Sell2Wales system, then a Tender Notice will be issued by the Sell2Wales system, and the requirements of the Procurement Act complied with.

16.4.9 The prior consent of the Strategic Procurement Lead must be obtained to the use of an alternative Procurement Procedure or reliance being placed on Rule 17 (‘Direct Awards and Exceptions’). Where reliance is placed on “Exceptions” a Notice **must** be published on Sell2Wales to comply with the Procurement Act.

16.5 Tenders - Goods, Services and Works – general provisions

16.5.1 Where possible Goods, Services and Works must be obtained via existing approved arrangements including:

- i. firstly, in-house services provision (see Rule 10), and
- ii. secondly, Framework Agreements and consortia arrangements approved for use by the Council's Strategic Procurement Lead (See Rule 11).
- iii. if no in-house service or Framework arrangement available then tenders must be sought. Tenders must not be artificially split (rule 12.5) and rule 12.6 (repeat requirements) to avoid consulting with the Strategic Procurement Lead or avoid compliance with procurement law or these Rules.
- iv. The details of **the tender must be included on the Council's Contract Forward Plan at the earliest opportunity**. Failure to do this may result in delays in the procurement process.

16.6 Tender Process

16.6.1 The invitation to tender must include details of the Council's requirements for the particular contract including:

- i. a specification of the Services, Goods or Works being procured and instructions on whether any *variants* are permissible.
- ii. the procurement timetable including the tender return date and time, which shall allow a reasonable period for the applicants to prepare their tenders (including a time for bidders to seek clarifications on the tender documents). Any clarification should also include any clarification on the terms and conditions and a statement included to advise applicants not to raise any changes to terms and conditions as part of their tender submission.
- iii. the Council's terms and conditions of contract.
- iv. the evaluation criteria including attached weightings.
- v. the Form of Tender.
- vi. pricing mechanism and instructions for completion.
- vii. whether the Council is of the view that TUPE may apply and/or whether this is a matter for the contractor to assess (internal advice should be sought prior to tender).
- viii. If personal data being handled as part of the contract that it will be processed in accordance with legal requirements including the General Data Protection Regulation (GDPR) and Data Protection Act.
- ix. form and content of method statements to be provided.
- x. rules for submitting of tenders.
- xi. any further information, which will inform or assist Tenderer(s) in preparing tenders.

16.6.2 Every Tenderer submitting a tender will be required to sign a declaration to the effect that:

- i. they have not and will not inform any other person outside their organisation of the amount of their tender.
- ii. they have not fixed the amount of any tender in accordance with a price fixing arrangement.
- iii. they accept that the Council is entitled to cancel the contract and to recover from them the amount of any loss resulting from such cancellation if it is discovered that there has been any corrupt or fraudulent act or omission by them which in any way induced the Council to enter into the contract.
- iv. acknowledging that the Council is not bound to accept the lowest or any tender submitted, that the tender exercise may be aborted at any stage during the tender process and that they tender at their own cost and expense.
- v. Bidders shouldn't qualify their tender.

16.6.3 In respect of proposed procurements with an estimated value in excess £75,000 for Goods, Services and Works, the Service Areas must use the Pre-Tender Report Form to obtain the prior approval from the Procurement Team to issue the invitation to tender documentation, including specification, evaluation criteria and weightings.

16.6.4 Prior disclosure to Tenderers of the award criteria and weightings is a fundamental requirement that must be complied with for all the Council's procurements. In respect of all quotes/tenders, where the main quote/tender criterion is the most advantageous tender, the Senior Officer must ensure that evaluation criteria or sub-criteria is listed in the Request for Quote or Invitation to Tender documentation, in order of importance. Any particular scoring or weighting attributable to any criteria or sub criteria must be clearly stated.

16.6.5 In developing tender documentation, Service Areas need to consider whether there may be any potential modifications needed and if so, how potential modifications will be made during the operation of the contract and where applicable, provide details for those in the tender documentation.

16.6.6 The prior consent of the Strategic Procurement Lead must be obtained to the use of an alternative Procurement Procedure or reliance being placed on Rule 17 (Direct Awards and Exceptions). Where reliance is placed on "Exceptions" a Notice must be published on Sell2Wales to comply with the Procurement Act.

16.6.7 The procurement of any goods, services or works, including an extension or modification (formerly known as a *variation*) to a contract requires appropriate levels of authority before it can commence and prior to contract award.

16.7 Tender Route 3 – Goods, Services and Works – between the value of £75,000 (Excluding VAT) to Procurement Act Threshold (Including VAT)

16.7.1 For procurements with an estimated value of £75,000 up to the Procurement Act Thresholds amounts, then:

- i. The Service Area must notify the Procurement Team as soon as possible of their requirement and ensure the tender is on the Contract Forward Plan, failure to do this may result in delays in issuing the tender. Where practical, at least 6 months in advance of the need.
- ii. All requirements must be managed on the Council's electronic procurement system or on Sell2Wales the national procurement website and tenders invited using a Procurement Act procedure.
- iii. The Council's Pre-Tender Report Form and Contract Award Form must be used to record the procurement actions taken for goods, services and works over £75,000.

16.7.2 As a minimum the Service Area must seek:

- i. At least **four** written tenders from suitable providers and these should include providers who are either micro, small and medium-sized enterprises (SMEs), or voluntary, community and social enterprises (VCSEs).
- ii. Where the market allows at least **two** tenders should be sought from local suppliers, and these should include providers who are either micro, small and medium-sized enterprises (SMEs), or voluntary, community and social enterprises (VCSEs).

16.7.2 We encourage Service Areas to advertise opportunities through Sell2Wales and seek advice from the Strategic Procurement Lead. If the Tender is to be openly advertised, then a Tender Notice will be issued via the Sell2Wales system, and the requirements of the Procurement Act complied with.

16.8 Tender Route 4 – Goods, Services and Works above the Procurement Act Thresholds.

16.8.1 For all procurements above Procurement Act Threshold:

- i. The Service Area must notify the Procurement Team as soon as possible of their requirement and ensure the tender is on the Contract Forward Plan, failure to do this is likely to result in delays in issuing the tender. Where practical, at least 12-18 months in advance of the need.
- ii. the advice of the Strategic Procurement Lead and, unless using an approved Framework Agreement, the Chief Officer Law & Governance (or their nominated officers) must be sought at the outset to determine the Procurement Procedure to be followed and at all subsequent stages of the procurement process.
- iii. the procurement process will be conducted in accordance with the advice received and where applicable will in any event be in accordance with the requirements of the Procurement Act and *Regulations* for the time being in force.
- iv. All requirements must be managed and advertised on the Council's electronic procurement system and on Sell2Wales the national procurement website and tenders invited using a Procurement Act procedure. This will ensure that the required *Notices* as set out in Appendix 5 are published as required.

- v. In accordance with section 16 of the Procurement Act 2023 Preliminary Market Engagement is encouraged and
- vi. the requirements of such Procurement Act and Regulations will take precedence over any requirements set out in these Rules.

17. Direct Awards and Exceptions

- 17.1** In exceptional circumstances and subject to the following requirements the rules set out in sections 13 shall not apply and *reduced number of tenders* or a *single tender* may be invited.
- i. This provision (Direct Awards and Exceptions) does not apply to procurements above the Procurement Act Thresholds, in which case compliance with the provisions of the PA 23 and Regulations is mandatory.
 - ii. Before proceeding to let any contract the Service Area must state in the Quotation Record Form, Pre-Tender Report and Contract Award Report the reasons why a Direct Award or reduced number of tenders is proposed, why the proposed way forward (reduced number of tenders or Direct Award) represents value for money and is in the Council's best interest.
 - iii. Further information on the justification for direct awards can be obtained within [Schedule 5](#) of the PA2023. The Strategic Procurement Lead will issue Guidance on the types of scenarios where a direct award could be made which could include the following:
 - The public contract concerns the creation or acquisition of a unique work of art or artistic performance.
 - Due to an absence of competition for technical reasons, only a particular supplier can supply the goods, services or works required
 - The public contract concerns the supply of goods, services or works by the existing supplier which are intended as an extension to, or partial replacement of, existing goods, services or works in circumstances where, (a) a change in supplier would result in the contracting authority receiving goods, services or works that are different from, or incompatible with, the existing goods, services or works, and (b) the difference or incompatibility would result in disproportionate technical difficulties in operation or maintenance.
 - The goods, services or works to be supplied under the public contract are strictly necessary for reasons of extreme and unavoidable urgency, and as a result the public contract cannot be awarded on the basis of a competitive tendering procedure. Urgency is unavoidable if it, is not attributable to any act or omission of the Council, and could not have been foreseen by the Council.
 - iv. Before proceeding with a reduced number of tenders or a Direct Award, the consent of the Strategic Procurement Lead must be obtained on a Pre-Tender Report Form. The Strategic Procurement Lead reserves the right not to sign and approve any request for a Direct Award or reduced number of tenderers, which in their reasonable opinion do not warrant approval, in which case the proposed procurement should not proceed. It must be appreciated that the Strategic Procurement Lead cannot authorise any direct awards or exceptions, (and Council

Service Areas should not proceed with any proposed procurement) that would be in breach of the requirements of the Regulations or any other Legal Requirement. The Strategic Procurement Lead will set out their justification for not approving requests on the Quotation Record Form, Pre-Tender Report and Contract Award Form, in which case the procurement will not have approval to proceed. It should also be noted that there will also be no approval to proceed with award of the contract and accordingly Legal Services will be unable to complete any contract in these circumstances.

- v. Where a direct award or exception has been agreed by the Strategic Procurement Lead , the following approval will need to be obtained.
 - Value up to £75,000 – Head of Service
 - Excess of £75,000 – The responsible Chief Officer, S151 Officer and Cabinet Member.

All approved exceptions to these CPR's will be reported to the Councils Governance & Audit Committee on at least a 6 monthly basis.

- 17.2** The following situation should not arise, and this provision is inserted purely for completeness. If the Strategic Procurement Lead is presented with any Pre Tender Report or Contract Award Report, which contains proposals that are in breach of the Procurement Act, Regulations or any Legal Requirements and following advice the relevant Service Area does not withdraw the proposal, then the matter shall be reported by the Strategic Procurement Lead to the Chief Officer with responsibility for the Service Area concerned, the Council's Chief Financial Officer (S151 officer), and Monitoring Officer for consideration and determination as to the way forward (including the presentations of any reports required to Cabinet and or Council). It must be appreciated that Statutory Officers cannot be expected to authorise any proposed procurements which would be in breach of the requirements of the Procurement Act, Regulations or any other legal requirements. The Chief Internal Auditor will be notified of the above.

18. Electronic Tendering

- 18.1** All procurement with a value of £25,000 or above (including requests for quotations) **must be conducted using Sell2Wales** or the Council's approved electronic system. It is the responsibility of the Senior Officer of each service to ensure that their staff comply with this rule.
- 18.2** Any officer required to use the Council's electronic procurement system must notify the system administrator so that they can be registered with the appropriate and required levels of access. Similarly, it is the responsibility of the relevant Senior Officer to notify the Councils Strategic Procurement Lead of changes to any officer's eligibility to use the system (e.g. staff leaving or disciplinary measures) at the earliest opportunity so that the user access can be deactivated.

- 18.3** Where rule 15.1 applies, all requests for quotations and invitations to tender, along with all associated procurement documentation, must be issued via Sell2Wales and/or the Council's approved electronic procurement system.
- 18.4** Where rule 15.1 applies, all quotes and tender submissions from bidding organisations, including all supporting documentation, must be received via Sell2Wales or the Council's approved electronic procurement system.

19. Conditions of Participation

- 19.1** The Council should also consider whether supplier is an excluded /excludable supplier as defined by Schedule 6 of the Procurement Act
- 19.2** The Council may set conditions of participation which a supplier must satisfy in order to be awarded a public contract.
- 19.3** The Conditions must only relate to the supplier's:
 - i. legal and financial capacity to perform the contract, or
 - ii. technical ability to perform the contract, including any necessary Health and Safety and Environmental management measures
- 19.4** When setting conditions of participation, Officers must ensure they are a proportionate means of assessing the supplier's relevant capacity or ability, having regard to the nature, complexity and cost of the public contract.
- 19.5** The Council should also consider whether the supplier is an excluded /excludable supplier as defined by Schedule 6 of the Procurement Act
- 19.6** For Below Threshold contracts the Council has a duty to consider small and medium-sized enterprises and should provide suitable rationale for including conditions of participation.

20. Receipt, Custody and Opening of Electronic Tenders

- 20.1** Where these rules require and even when the rules do not require but it is practicable the Council's electronic procurement system must be used and all tenders submitted by electronic arrangements via the Council's electronic procurement system. After the tender submission deadline has passed tenders submitted electronically must be opened in accordance with guidance issued by the Strategic Procurement Lead, and the electronic

record kept shall, as a minimum meet the requirements set out in the guidance document issued by the Strategic Procurement Lead on the opening and recording of electronic tender submissions.

21. Late Tenders

- 21.1** Tenders received after the date and time for receipt of tenders will only be opened and considered with the agreement of Strategic Procurement Lead and Chief Officer Law & Governance (or their nominated officers) if this was the result of an identified system wide failure of the Council's e-procurement system (and not the bidders' ICT system) and notification has been received by the Council in advance of the tender deadline.

22. Tender Evaluation

- 22.1** Evaluation Team - For each Contract with an estimated value above £75,000 in respect of Goods, Services and Works, the Senior Officer of the Service Area requiring the procurement shall form an evaluation team ('Evaluation Team') with responsibility for evaluating tenders. Written records of the membership of the evaluation team and evaluation undertaken must be kept. The minimum number of people in the Evaluation Team is two.
- 22.2** The Strategic Procurement Lead will issue evaluation guidance to ensure each team member understands their role and responsibility during the evaluation.
- 22.3** Where the Contract estimated value exceeds the Procurement Act Threshold except as otherwise stated in 7.2), the Chief Officer Law & Governance (or their nominated officers) and the S151 officer shall be consulted and, where they consider it appropriate, representatives of those officers shall be included on the Evaluation Team. Consideration should also be given to including service users on the Evaluation Team.
- 22.4** The Evaluation Team shall examine tenders in accordance with the predetermined evaluation criteria for the quotes/tenders and identify quotes/tenders that best meet the criteria. The evaluation criteria shall be strictly observed (and remain unchanged) at all times throughout the contract award procedure.
- 22.5** As a general rule, no adjustment or qualification to any quote or tender(s) submitted is permitted. Errors found during the examination of quotes or tenders shall be dealt with in one of the following ways:

- i. If the error is not arithmetical the tenderer shall be given details of the error(s) and shall be given the opportunity of confirming without amendment or withdrawing the quote or tender; or
- ii. If an arithmetical error is found, the responsible officer shall correct the error(s) provided that, apart from these genuine arithmetic error(s), no other adjustment revision or qualification is permitted. An appropriate record shall be kept.

23. Post Tender Clarification

- 23.1** The Senior Officer, following consultation with the Strategic Procurement Lead and in accordance with any requirements set by the Strategic Procurement Lead (regarding records to be kept) may seek clarification from Tenderers in respect of their tenders provided this does not involve discrimination. Clarifications should be undertaken in the Council's electronic procurement system and a record of all clarifications needs to be maintained within the system including minutes of any clarification interviews. Legal advice should be sought as required.
- 23.2** At all times during any clarification process the Council shall consider and comply with the principles of non-discrimination, equal treatment, transparency, mutual recognition and proportionality, principles that shall apply to all the Council's Procurements.

24. Standstill, Awarding Contracts and Letters of Intent

- 24.1** A decision to award a Contract may only be made by:
- i. Subject to Clause 24.2 an officer with the requisite delegated authority to award contracts in accordance with the Council's Scheme of Delegations or
 - ii. Otherwise pursuant to a decision of the Council, one of its Committees or Cabinet.
- 24.2** For all Procurements valued at above £75,000, the decision to award a Contract shall be made by the relevant Head of Service using the Council's pro forma Contract Award report unless the decision is to be made by a Chief Officer or the Cabinet, in which case the Council's standard reporting forms for such decisions shall be used. The Senior Officer must ensure, prior to seeking such a decision, that sufficient funds are in place to meet all contract payments and if any funding is being obtained from third parties that any conditions attaching to such funding have been complied with.

- 24.3** A Contract shall only be awarded using the pre-determined tender evaluation criteria and weightings to the most advantageous tender. When a decision is subject to the Council's 'Call in Procedure' (See the Council's Scrutiny Procedure Rules), any decision will be subject to that call in period and the decision to award the contract should not be acted upon until the call in period has expired.
- 24.4** Before entering into a public contract the Council must publish a contract award notice. Before publishing a contract award notice, the Council must provide an assessment summary to each supplier that submitted an assessed tender. The assessment summary must provide information about the Council's assessment of the tender and if different, the *most advantageous tender* submitted in respect of the contract.
- 24.5** The Council may not enter into a public contract before the end of the mandatory or voluntary eight working day standstill period, beginning on the day that the contract award notice is published.
- 24.6** If any additional information is to be disclosed to tenderers, this must be agreed in advance with the Strategic Procurement Lead , taking into account the requirements of any legislation relating to the disclosure of information.
- 24.7** A letter of intent is not an appropriate substitute for a formal contract but in exceptional circumstances can be issued as an interim measure until a formal contract has been signed. Letters of intent shall only be used with the prior agreement of, and in a form approved by, the Chief Officer Law & Governance (or their nominated officers). It should be noted that letters of intent can be legally binding agreement and accordingly must refer to the relevant contract documents as a minimum.
- 24.8** Save for exceptional circumstances, no Contractor should be asked to provide any Services, supply any Goods or carry out any Works (including preliminary Works) until the Contract is concluded or the Services, Goods or Works concerned are covered by a letter of intent. Should the Senior Officer for the Service Area concerned make any decision to the contrary, such decision shall contain a full risk assessment as to the possible implications to the Council of the Contractor being allowed to start before the contract terms and conditions have been finalised or a letter of intent issued.

25. Placing of Orders/Completion of Contracts and Retention of Contract Documentation

- 25.1** Frameworks - Orders placed under Framework Agreements must be placed using the order form prescribed in the Framework Agreement and on the terms and conditions set out in the Framework Agreement. (See Rule11.5)

- 25.2** For all other contracts with a value of up to £75,000, orders should be placed using the Council's electronic Purchase to Pay system (P2P) unless the Strategic Procurement Lead otherwise agrees or there is a more applicable form of contract required. The P2P system generates purchase orders, which incorporate by reference the Council's standard terms and conditions of contract.
- 25.3** For Contracts with a value above £75,000 Service Areas must use the appropriate standard form of contract issued or approved for use by the Chief Officer Law & Governance (or their nominated officers).
- 25.4** It is essential that the Goods, Services or Works are procured on the Council's standard terms and conditions and not those submitted by the Contractor. A contractor's terms and conditions should only be used following consultation with the Chief Officer Law & Governance or their nominated officers, and the Strategic Procurement Lead.
- 25.5** Contract documents, along with all associated related documents, must be saved to the Council's electronic procurement system and retained for a minimum of six years from the contract end date and, if the contract is concluded under seal, for a period of twelve years from the contract end date. Where the contract was funded, or partly funded, through some form of external grant then further grant specific conditions, as regard to retention of documents may apply and must be adhered to.
- 25.6** As minimum contracts must set out:
- i. The work, materials, services or supplies to be carried out or provided and standards required.
 - ii. The price to be paid (or, as appropriate, the sums to be received) with a statement of discounts, or other deductions, and where not known, the basis upon which the final contract sum is to be calculated.
 - iii. The time or times within which the contract is to be performed; and
 - iv. The commencement and termination dates of the contract.
 - v. The performance criteria and contract monitoring arrangements

26. Execution (Completion/Signing/Sealing) of Contracts

- 26.1** Contracts with a value in excess of £75,000 may only be signed on behalf of the Council by a Senior Officer.
- 26.2** For contracts below the threshold set out in rule 26.1 they can be signed by an Authorised Signatory. However, regardless of who signs there should be consideration in terms of separation of duties and the person who signs the contract on behalf of the Council should not be the same officer who led the offer to market

26.3 The Council's seal may only be affixed to a contract in the presence of the Chief Officer Law & Governance or their nominated officers.

27. After Award, Standstill Periods and Notices

27.1 Contract Award Notices and Assessment Summaries

27.1.1 Before entering into a public contract, the Council must publish a contract award notice setting out that the Council intends to enter into a contract. Before publishing a contract award notice in respect of a contract awarded under section 19 (award following competitive tendering procedure), a contracting authority must provide an assessment summary to each supplier that submitted an assessed tender. An "assessment summary" means, in relation to an assessed tender, not including any tender disregarded in the assessment of tenders, information about the contracting authority's assessment of:

- i. The tender, and
- ii. If different, the most advantageous tender submitted in respect of the contract.

27.2 Standstill

27.2.1 For contracts above Procurement Act Thresholds the Council may not enter into a public contract before:

- i. The end of the mandatory standstill period, or
- ii. If later, the end of another standstill period provided for in the contract award notice.

27.2.2 The "mandatory standstill period" is the period of eight working days beginning with the day on which a contract award notice is published in respect of the contract. These requirements do not apply to contracts awarded:

- i. Under section 41 of the Procurement Act where a direct award has been made due to extreme and unavoidable urgency or to protect life etc.
- ii. Awarded in accordance with a framework.
- iii. Awarded by reference to a dynamic market.
- iv. A light touch contract.

27.2.3 If a contract is of a kind described 25.3, a contracting authority may not enter into the contract before the end of any standstill period (a “voluntary standstill period”) provided for in the contract award notice. A voluntary standstill period may not be less than a period of eight working days beginning with the day on which the contract award notice is published.

27.2.4 For any other notices, please see noticing regime set out in Appendix 5.

27.3 Key performance indicators

27.3.1 Before entering into a public contract with an estimated contract value of more than £5 million, the Council must set at least three key performance indicators in respect of the contract. This does not apply if the Council considers that the supplier’s performance under the contract could not appropriately be assessed by reference to key performance indicators.

27.3.2 A “key performance indicator” is a factor or measure against which a supplier’s performance of a contract can be assessed during the life-cycle of the contract. The Council must publish any key performance indicators.

27.3.3 This section does not apply in relation to a public contract that is:

- i. a framework,
- ii. a concession contract, or
- iii. a light touch contract.

27.3.4 Section 71 of the Procurement Act sets out the provisions about assessing performance against, and publishing information about, key performance indicators.

27.3.5 If any additional information is to be disclosed to tenderers, this must be agreed in advance with the Strategic Procurement Lead, taking into account the requirements of any legislation relating to the disclosure of information.

28. Bonds, Securities, Liquidated and other Damages

28.1 The Senior Officer (of the Service Area requiring the procurement) is responsible for ensuring that a risk assessment is undertaken, to determine if a performance bond or performance guarantee is required. If appropriate, the advice of the Council’s Finance officers should be sought.

28.2 Consideration should also be given to the appropriateness of including in the contract a provision for liquidated damages to be paid by the contractor in case the terms of the contract are not duly performed.

28.3 The above should be considered prior to going out to tender and if it may be required, provision included in the Tender.

29. Parent Company Guarantee

29.1 The Senior Officer (of the Service Area requiring the procurement) is responsible for seeking a Parent Company Guarantee where a contractor is a subsidiary of a parent company and:

- i. The award is based on evaluation of the parent company.
- ii. The financial status of the contractor (having regard, inter alia, to the proposed contract) warrants the same and or
- iii. The S151 Officer recommends.

29.2 The above should be considered prior to going out to tender and if it may be required, provision included in the Tender.

30. Records

30.1 To ensure appropriate records are maintained the Council's electronic procurement system or Sell2Wales must be used for all contracts above £25,000.

30.2 For all Procurements below £25,000 where Sell2Wales or the Council's electronic procurement system is not used, Service Areas must keep appropriate records. As a minimum the records kept must detail:

- i. Which parties were selected to provide a quotation.
- ii. To whom the Contract was awarded and the reasons for so doing (lowest price or offer which represents best value to the Council), so that best value and the integrity of the process can be demonstrated.
- iii. The value of the contract.
- iv. The start and expiry date of the contract; and

- v. Details of whether the contract is a one-off or expected to be renewed

30.3 The Procurement Team shall maintain a Corporate Contract Register, which will record details of all contracts /contracts (above £25,000) awarded by the Council and the Procurement Act requires this Register to be published. Service Areas must use Sell2Wales for all procurements over £25,000 to enable the Council to meet its legal responsibilities.

31. Contract Management

31.1 On the Contract Award Report Form, the Senior Officer (of the Service Area concerned) must identify and nominate an individual (referred to as the 'Contract Manager'), who will manage the day-to-day aspects of the Contract for its term (See rule 34 re Contract End).

31.2 The day-to-day management of the Contract shall be undertaken by the Contract Manager and shall include monitoring and reporting (including making use of the Council's reporting tools on the Council's electronic procurement system) in respect of:

- i. supplier performance
- ii. compliance with quality, specification and contract terms
- iii. compliance with cost
- iv. user experience
- v. risk management
- vi. safeguarding
- vii. delivery of community well-being benefits
- viii. Any other performance measure as prescribed by the Strategic Procurement Lead

31.3 For all contracts where there are key performance indicators the Contract Manager must on an annual basis assess performance against the KPIs and publish this information. This must also be done upon termination of the contracts.

31.4 For all contracts, it is the responsibility of the Contract Manager to raise any incidents of poor performance immediately with the Contractor and seek rectification. In instances of particularly poor performance, or persistent poor performance, the Contract Manager should consider the appropriate course of action to take under the contract, taking advice as appropriate.

32. Modifying a Public Contract (formerly Contract Variation) – basic principles

- 32.1** Depending upon the nature of the modification proposed, the terms of the contract concerned, and scope of the original procurement exercise undertaken, contract modification have the potential to amount to a new contract and/or procurement, and thus can constitute a single tender award without advertisement and require a new procurement process.
- 32.2** In all cases of contract modification, careful consideration must be made of the impact of the increased value of the contract on the procurement threshold levels, particularly whether the increase in value will move a contract from below Procurement Act Threshold to above Procurement Act Threshold.
- 32.3** The advice of the Strategic Procurement Lead and the Chief Officer Law & Governance or their nominated officers must be obtained as to whether a Modification is permissible.
- 32.4** Contract and framework agreements may be varied without a new procurement procedure where it is a **Permitted Modification** as set out in 32.10.
- 32.5** In the circumstances detailed in CPR32.10 (permitted modifications) the decision to authorise or not a proposed contract modification shall be made, as appropriate, by Cabinet or the officers listed below, provided that the modification cost can be met within budget and complies with all Legal Requirements. Decisions to authorise modifications shall be recorded in writing and at Senior Officer level and above, and as appropriate, a Cabinet report must be prepared. All modifications shall be entered on the Council's electronic procurement system and the Contracts Register, and an amendment made to the original Purchase Order and/or Contract

Authorised Signatory. Modification (or aggregate value of all modifications made to the Contract) up to £75,000

Senior Officer Modification (or aggregate value of all modification made to the Contract) over £75,000 up to £1million

Relevant Chief Officer (in discussion with the Council's S151 Officer and liaison with Cabinet Member). Modification (or aggregate value of all modifications made to the Contract) over £1million up to £5 million

Cabinet decision. Modification (or aggregate value of all modifications made to the Contract) Above £5m.

- 32.6** CPR 32.5 shall not apply to modifications to Works contracts provided the modifications are in line with the Procurement Act, these CPRs and a relevant officer has been authorised to approve such modifications in the original award report. Such modifications shall also only be permissible if

they are within the approved budget for the contract. Any such modification shall be recorded the Contract Modification Form and the contract signed by the relevant officer.

- 32.7** As soon as it becomes known or apparent (whichever is the earlier) to the Contract Manager, that the total cost of a contract, will or is likely to exceed the contract sum, they must inform their service finance manager for financial monitoring purposes. The relevant Finance Manager will advise the Senior Officer and or Contract Manager of any further financial requirements that need to be complied with in order to inform future budget monitoring reports or any further financial governance decisions that need to be taken. In most circumstances a brief report must be prepared, which must address the reasons for increased cost, an analysis of options considered to reduce cost to budget, and the funding options considered to meet any budget shortfall, together with an indication of how any additional costs will be paid for. This brief report will ultimately feed into future budget monitoring or budget preparation reports. This report needs to consider any legal implications and be signed off by the Senior Officer and sent to the finance manager acting on behalf of the Section 151 Officer.
- 32.8** Any modification to the original Contract must be in the best interests of the Council and continued delivery of services. Section 74 of the Procurement Act sets out when a Contract may be modified. The Council may modify a public contract or a contract that, as a result of the modification, will become a public contract (a “convertible contract”) if the modification is:
- i. is a permitted modification under Schedule 8 of the Procurement Act – see 30.8,
 - ii. is not a substantial modification – see 30.09, or
 - iii. is a below-threshold modification – see 30.10.
- 32.9** A contracting authority may also modify a public contract or a convertible contract if the contract is a light touch contract.
- 32.10** **Schedule 8** of the Procurement Act sets out the conditions for a permitted modification and should be referenced for the detail but in summary the key area where a modification is allowed:
- i. **Provided for in the Contract.**
 - ii. **Urgency and the protection of life, etc**
 - iii. **Unforeseeable circumstances** where the modification would not increase the estimated value of the contract by more than 50 per cent.
 - iv. **Materialisation of a known risk**
 - v. **Additional goods, services or works** - using a different supplier would result in the supply of goods, services or works that are different from, or incompatible with, those already provided for in the contract. The modification must not increase the estimated value of the contract by more than 50 per cent.

- vi. **Transfer on corporate restructuring** - A *novation* or assignment of a public contract to a supplier that is not an *excluded supplier* is a permitted modification if it is required following a corporate restructuring or similar circumstance.

32.11 A substantial modification is a modification which would:

- i. increase or decrease the term of the contract by more than 10 per cent of the maximum term provided for on award,
- ii. materially change the scope of the contract, or
- iii. materially change the economic balance of the contract in favour of the supplier.

32.12. Below threshold Modifications

32.12.1 A modification is a **below-threshold modification** if:

- i. The modification would not itself increase or decrease the estimated value of the contract by more than—
 - i. In the case of a contract for goods or services, 10 per cent.
 - ii. In the case of a contract for works, 15 per cent.
- ii. The aggregated value of below-threshold modifications would be less than the threshold amount for the type of contract.
- iii. The modification would not materially change the scope of the contract, and
- iv. The modification is not listed within Schedule 8 or defined as a substantial modification.

32.13. Contract change notices

32.13.1 Before modifying a public contract or a convertible contract (see section 74(1)), the Council must publish a contract change notice. This does not apply if:

- i. The modification increases or decreases the estimated value of the contract by:
 - i. in the case of a contract for goods or services, 10 per cent or less,
 - ii. in the case of a contract for works, 15 per cent or less, or
- ii. The modification increases or decreases the term of the contract by 10 per cent or less of the maximum term provided for on award, unless the modification is a novation or assignment on corporate restructuring.

32.13.2 A “contract change notice” is a notice setting out that the Council intends to modify the contract. It is not required for ‘light touch’ contracts.

33. Assignments and Novations

- 33.1** Any proposals to assign or novate a contract must be referred to the Chief Officer Law & Governance or their nominated officers at the earliest possible instance for advice.

34. Termination of Contract

- 34.1** For any Contract exceeding £25,000 in value early termination shall be approved by the appropriate decision maker and for any contract over £75,000 the advice of the Chief Officer Law & Governance or their nominated officers and Strategic Procurement Lead must be first sought. Contracts of a lesser value may be terminated early (prior to the expiry date) by agreement with the Contractor or in accordance with the termination provisions set out in the Contract. Legal advice should be sought as appropriate. The Senior Officer must inform the Strategic Procurement Lead when any Contract is terminated early and the reasons for the same.
- 34.2** For any Contract exceeding £5,000,000 in value, early termination shall be approved by Cabinet unless the matter relates to a Council function in which case matters shall be reported to Council.
- 34.3** If required by the Procurement Act then a contract termination notice will need to be published.

35. Payments on Account and Contract Payments

- 35.1** Payments on account should only be made upon certification by the person designated under the Contract for that purpose ('the appropriate person'). The appropriate person will keep detailed records of any such payment, which shall be open to inspection by the Strategic Procurement Lead and S151 officer.
- 35.2** The Senior Officer of the relevant service area shall make arrangements to retain adequate details relating to all contract payments made to allow for a proper audit of all such payments. All payments made must comply with the process as set out in Financial Procedure Rules.

36. Contract End

- 36.1** For contracts with a duration of more than 12 months, then at an appropriate point but generally at least six months prior to the end of the contract term, the Contract Manager should review the Contractor's performance and consider what, if any, replacement arrangements are required.
- 36.2** Some contracts may require active steps to be taken to end the contract (e.g. serving of notices) and or steps to be taken to decommission the contract arrangements. The Senior Officer of the Service Area concerned is responsible for ensuring that where appropriate, matters are diarised and appropriate steps taken to bring contracts to an end and sufficient time allowed to put in place any replacement arrangements that may be required.

37. Transitional Arrangements

- 37.1** For any procurements commenced before the Procurement Act 2023 comes into force, further advice should be sought from the Strategic Procurement Lead and Chief Officer Law & Governance (or their nominated officers).

Appendix 1: Procurement Routes and Procedures

Where the Council carries out a procurement, which is fully regulated by the Procurement Act then the Council must use one of the following procurement procedures:

- a. **The Open Procedure** - A single stage tendering procedure without restriction on who can submit tenders (Open procedure).
- b. **Competitive Flexible Procedure** - such other competitive tendering procedure as the council considers appropriate for the purpose of awarding the public contract
- c. **Direct Award** – where the justification applies [in accordance with schedule 5 of the Procurement Act] a contract may be awarded directly to a Supplier without competition
- d. **Frameworks** – a contract may be awarded in accordance with a framework. The framework call-off procedure must be followed.

Appendix 2- Definitions and Interpretations

In these Rules the following definitions apply:

Authorised Signatory means officers that have been approved and named within the Council's Authorised Signatory List to advertise procurements on behalf of the Council, for which the coordination is the responsibility of the Strategic Procurement Lead.

Below threshold contract means a contract for the supply, for pecuniary interest, of goods, services or works to a contracting authority; a framework; or a concession contract, that has an estimated value of less than the 'threshold amount' for the type of contract (see Procurement Act Thresholds below)

Call off contract means a contract entered into following a procurement under a Framework Agreement.

Community Well-being Benefits means the delivery of social, economic and environmental benefit, through effective application of Community Benefits clauses in public contracts. The Community Well-being Benefits requirements should be used within tenders above £250,000 to capture each tenderers Community Well-being offer.

Concession Contracts means a contract between the Council and Contractor, for the supply, for pecuniary interest, of works or services to a contracting authority i.e. council where—

- (a) at least part of the consideration for that supply is a right for the supplier/contractor to exploit the works or services, and
- (b) under the contract the supplier/contractor is exposed to a real *operating risk*.

Contract means any form of agreement, contract (including, without limitation, purchase orders produced on the Council's e-procurement P2P system or any replacement of such system) for the supply of Goods, provision of Services or carrying out of Works and or concession contracts.

Contract Manager means an officer responsible for the monitoring and management of a contract.

Contractor / Supplier means any contractor, supplier or provider with whom the Council enters into a Contract for the carrying out of Works, provision of Services or the supply of Goods.

Contracts Register means the register maintained (in such form as determine from time to time) by the Strategic Procurement Lead, which lists all contracts (except arrangements in respect of Land) concluded by the Council with a value in excess of £25,000 inc VAT. (See clause 30.3 of the CPR).

“Covered procurement” under the Procurement Act means the award, entry into and management of a public contract.

CPRs acronym for Contract Procedure Rules as may be amended from time to time.

Electronic procurement. The procurement of all goods, services and works conducted using the Council’s approved electronic procurement system, as specified from time to time by the Strategic Procurement Lead.

Excluded Supplier –

A supplier is an “excluded supplier” if:

(a) the Council considers that:

- (i) a mandatory exclusion ground (see Schedule 6 of PA 2023) applies to the supplier or an associated person, and
- (ii) the circumstances giving rise to the application of the exclusion ground are continuing or likely to occur again, or

(b) the supplier or an associated person is on the debarment list by virtue of a mandatory exclusion ground.

Excludable supplier –

A supplier is an “excludable supplier” if:

(a) the Council considers that:

- (i) a discretionary exclusion ground (see Schedule 7 of PA 23) applies to the supplier or an associated person, and
- (ii) the circumstances giving rise to the application of the exclusion ground are continuing or likely to occur again, or

(b) the supplier or an associated person is on the debarment list by virtue of a discretionary exclusion ground.

The **Framework Agreement**. An agreement with one or more Contractors, the purpose of which is to establish the terms (in particular with regard to price and quantity) governing a contract or contracts to be awarded during the period for which the framework agreement applies.

Goods covers all products, goods, supplies, substances and materials that the Council purchases, hires or otherwise obtains.

Grant(s) a sum of money paid or to be paid by the Council to a third party, and in respect of which the Council does not require the grantee to provide the Council with any Services, or Goods or carry out any Works for the Council’s direct benefit. The Grant(s) may be conditional (i.e. obligation to spend the Grant(s) in a particular manner, to account for that spend and repay the Grant(s) if the Grant(s) conditions are breached).

Strategic Procurement Lead means the Council’s lead Procurement officer responsible for strategic procurement, managing the Council’s relationship with the **Procurement Team**, the delivery of the strategic procurement objectives and ensuring compliance with procurement legislation.

Legal Requirements means all English and Welsh law and associated guidance that governs and or relates to the procurement of goods, services and works and the letting of concession contracts.

Light Touch Contracts - Light touch contracts are contracts for certain social, health, education and other public services and are subject to more flexible procurement rules. One thing these services have in common is that they are services provided directly to individuals or groups of people and therefore warrant special treatment and greater flexibility.

Modification (formerly known as a variation)- means any alteration to a Contract, including additions, omissions, substitutions, alterations, or changes of any other nature.

Monitoring Officer. The officer designated by the Council as its Statutory Monitoring Officer as required under Section 5 of the Local Government and Housing Act 1989.

Most Advantageous Tender (MAT). A tender evaluated on the basis of qualitative, technical and sustainable aspects of the tender submission as well as price when reaching an award decision.

Notices means the notices referred to in the PA 2023 and attached in Appendix 5

Novation - the process of substituting an existing contract with a replacement contract, or substitution of a new party for a previous party in a contract.

An “**operating risk**” (see concession contract) is a risk that the supplier/contractor will not be able to recover its costs in connection with the supply and operation of the works or services, where the factors giving rise to that risk—

(a)are reasonably foreseeable at the time of award, and

(b)arise from matters outside the control of the contracting authority/council and the supplier/contractor.

Permitted Modification means a modification to a contract which is permitted either under the Procurement Act or as set out in rule 30.

Procurement. Means, for the purposes of these rules, “the process whereby the Council meets its need for goods, services, works and utilities in a way that achieves value for money on a whole life basis in terms of generating benefits not only to the organisation, but also providing opportunity for how this money can be spent in a way that delivers wider economic, social, environmental and cultural well-being both locally and within Wales. but also to society and the economy, whilst minimising damage to the environment”. It includes the identification of need, consideration of options, the

actual procurement process and the subsequent management and review of the contracts. "Procurement" under the Procurement Act 2023 (PA 23) means the award of, entry into and management of a contract.

Procurement Act means the Procurement Act 2023 (PA 23) as amended from time to time

Procurement Act Thresholds are prescribed in [Schedule 1 \(Threshold Amounts\)](#) .

The current thresholds, inclusive of VAT are:

- Services £214,904
- Light Touch Regime for Services £663,540
- Supplies £214,904
- Works £5,372,609
- Concession contracts £5,372,609

The thresholds change every two years and are due to change again on 1st January 2026

Procurement Guidance. means the Guidance issued/to be issued from time to time by the Strategic Procurement Lead, in consultation with the Council's S151 and Monitoring Officers.

Procurement Team – means officers working for, or seconded into, the Council's commissioning and procurement function which may include officers of any other Local Authority who assist the Council in that regard.

Procurement Process means the process, which spans the whole life cycle of the procurement, from identification of needs, options appraisal, supplier selection, award, and contract management through to the end of a contract or the end of the useful life of the asset, or disposal of the asset.

Procurement Routes. Means the procurement procedure to be followed in the Procurement. For example:

- **The open procedure**
- **Competitive flexible procedure**

See Appendix 1 for an overview of the procurement procedures available. The appropriate procedure to use must be considered on a case-by-case basis, as it will depend on factors that are specific to each procurement.

Purchase Order means an electronic order raised and authorised via the Council's e-procurement system P2P system, or such other electronic system in force for the time being

Purchase-to-Pay (P2P) means the Council's electronic method of processing payments.

Quotation means a quotation of price and any other relevant detail submitted to the Council upon the Council's request, without the formal issue of an invitation to tender.

Regulated below threshold procurement means a below threshold contract that is not: a. an exempted contract as defined in Schedule 2 of the Procurement Act; b. a concession contract; or c. a utilities contract.

Regulations. means The Procurement (Wales) Regulations 2024, as amended from time to time.

Rules means these Contract Procedure Rules.

Section 151 Officer means the officer designated by the Council as its Statutory Section 151 Officer as required under Section 151 of the Local Government Act 1972

Senior Officer means any officer who is at Head of Service level or above or, if such is the case, named in a decision of the Cabinet, Council or one of its Committees, as having delegated powers and duties in respect of the procurement concerned."

Services includes all services, which the Council purchases or otherwise obtains including advice, specialist consultancy work, agency staff and all those activities constituting Services for the purposes of the PA 23 or Regulations.

Single Tender and Reduced Number of Tenders means where these Rules allow (and for good reason and subject to a proper business case), the Council limits the minimum number of Tenderers to be invited to tender to one or a lesser number than would otherwise normally be required by these Rules given the estimated value of the Contract concerned.

Supplier / Contractor means any contractor, supplier or provider with whom the Council enters into a Contract for the carrying out of Works, provision of Services or the supply of Goods.

Request for Quotation (RFQ). Means a request to provide a price and any other relevant detail, without the formal issue of an invitation to tender.

Tenderer(s) individual, individuals, partnerships, companies or other bodies invited to submit quotes/tenders/prices for providing the Council with Services, supplying Goods or carrying out Works.

Value for Money should be considered as the optimum combination of whole-of-life costs in terms of not only generating efficiency savings and good quality outcomes for the organisation, but also benefit to society, the economy, and the environment, both now and in the future.

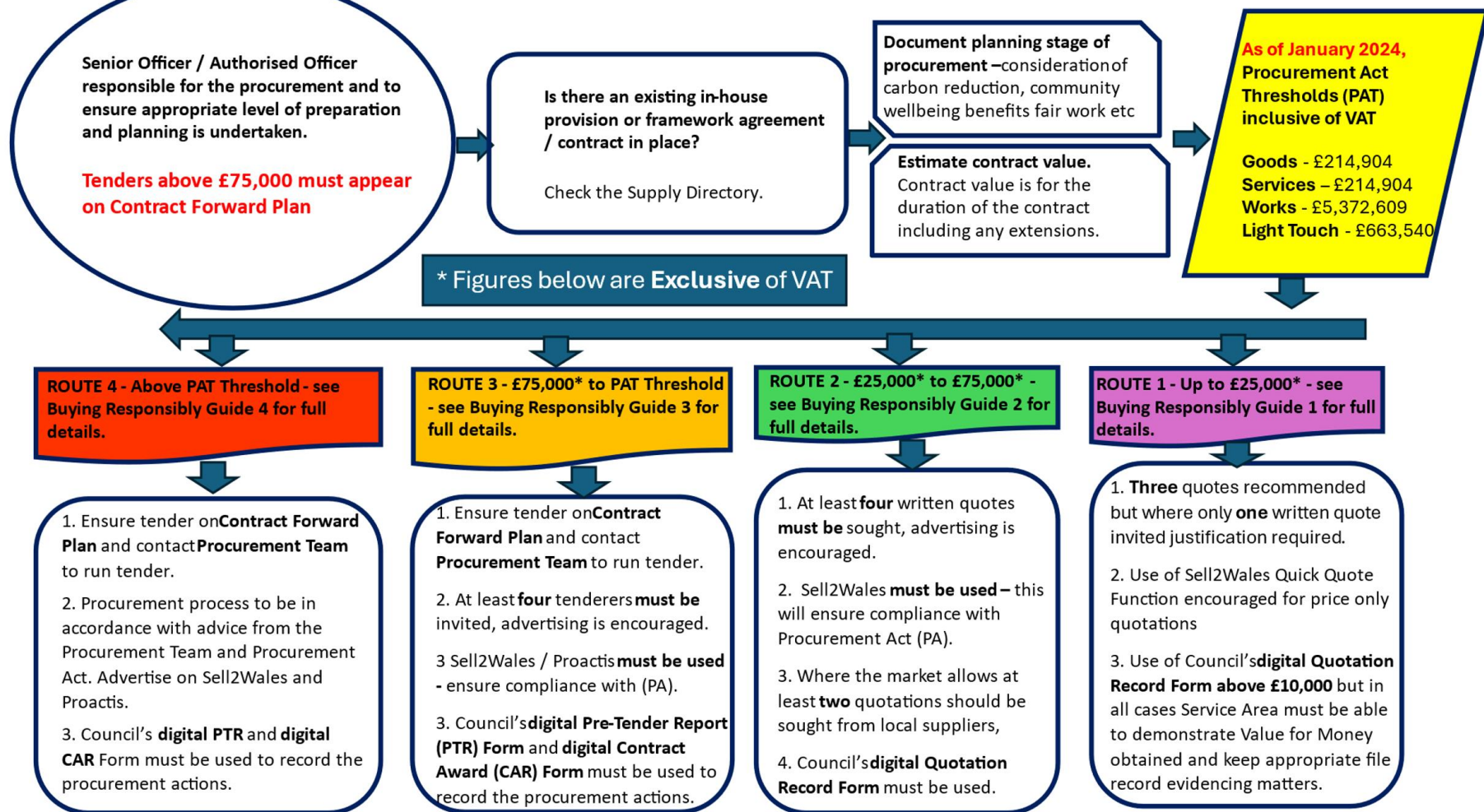
Variant Bid means an offer/bid, which contains variants on the requirements specified by the Council in its procurement documentation.

Variation and Variations means any alteration to a Contract, including additions, omissions, substitutions, alterations, or changes of any other nature.

Works includes all works of new construction and repairs in respect of physical assets (buildings, roads, etc.) including all those activities constituting Works for the purposes of the Procurement Act 2023.

Appendix 3 – Procurement Process Flow Chart

Contract Procedure Rules - Procurement Flowchart 2025



Appendix 4 – Governance and Procedures Overview

This chart provides a high-level overview of the procurement procedures and governance requirements for contracts let under the Procurement Act 2023 (PA2023). It relates to the procurement of goods, services and works both through Request for Quotation (RFQ), Tender or Call-Off from a Framework. Please note internal Procurement Team.

Value (*excluding VAT)	Route	Recommended	Minimum Requirements (where call-off from FW comply with minimum requirements)	Notice Publication Requirement (PA2023)	System	Governance requirements in addition to Authorities own decision-making requirements	Exceptions to minimum requirements including Direct Awards	Resourced and Managed by	Modifications	Contract Register	Terms and Conditions (where call-off from FW, always use FW T&C)
£0-£25K*	1 – Written Quote	3 written quotes encouraged through S2W / Email.	1 written quotation via email where you can demonstrate value for money	None	Email or S2W	QRF completed and retained by Service Area.	Not applicable	Managed by Service Area (through S2W where applicable) in accordance with procurement guidance	PO / contract amendment	None PO record	Standard or Framework
£25K-£75K*	2 – S2W RFQ	Advertise opportunity through S2W	Invite 4 quotes through S2W	BTTN where advertised CDN for all awards including without competition	S2W	QRF completed and retained by Service Area	Managed within Service Area – reasons recorded on PQR and Procurement approval required	Managed through S2W by Service Area in accordance with procurement guidance	PO / contract amendment	S2W CDN created by Service Area	Standard or Framework
£75K*-PA2023 thresholds	3 – Below Threshold Tender	Advertise through S2W	Invite 4 tenders through S2W		Proactis and S2W	Record on Contract Forward Plan PTR / CAR to record procurement route agreed with Ardal Procurement and Service Area approval	PTR to set out justification Procurement / Legal / Finance advice as required	Service Area lead with Ardal Procurement support Proactis Sourcing project created and managed by Ardal Procurement	CMF to record procurement consultation and Service Area approval Legal / Finance advice as required	Proactis Contract Record created by Ardal Procurement	Use standard or Framework or agree with Legal Services
PA2023 thresholds and above	4 – Above Threshold Tender	Preliminary Market Engagement	Advertise through S2W	Various in accordance with PA2023	Proactis and S2W	Legal / Finance advice as required.					Agree with Legal Services or Framework

BTTN	Below Threshold Tender Notice
CDN	Contract Details Notice
S2W	Sell2Wales

QRF	Quotation Record Form
PTR	Pre-Tender Report
CAR	Contract Award Report
CMF	Contract Modification Form

PA2023 Thresholds incl. VAT	
Goods and Services	£214,904
Works	£5,372,609
Light Touch	£663,540

Please note in addition to above, for all contracts a purchase order (PO) will be required to manage payments to suppliers and contractors

Appendix 5 – Noticing Regime

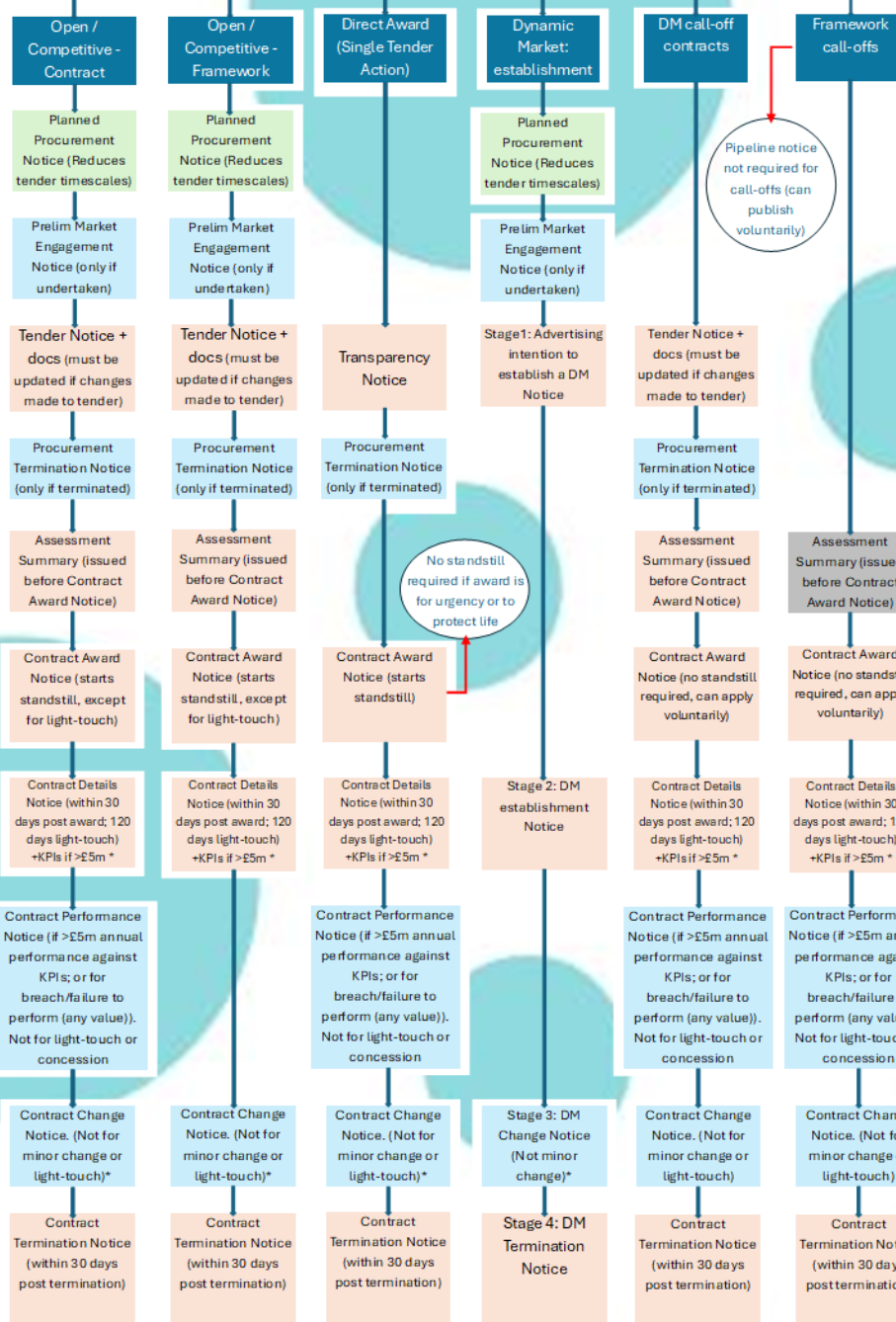
Green = Optional
 Notice Orange = Mandatory
 Notice Blue = Conditional
 Notice Grey = Voluntary
 All values are inclusive of VAT @20%
 unless otherwise stated

Procurement Act 2023 – Noticing Regime (for local authority)

* Contract Details Notice & Change Notice: must also publish redacted copy of contract if value is >£5m under a reserved (non-devolved) procurement

Above Procurement Act 2023 (PA23) Threshold = public contracts
 Thresholds: Goods/Services £213+; Works £5.3m+; Concession £5.3m+; Light-touch £663k+
 (Not including exempt contracts)

Pipeline Notice – only if total FY contract spend of £100m+ for next 18 months.
 Notice for all planned procurements with estimated value of more than £2 million; except FW call-offs (voluntary only). Must be published within 56 days of 1st April each year



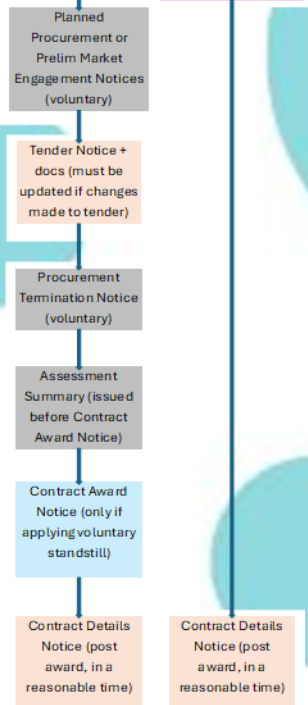
Payment Compliance Notice: compliance with 30 days payment terms (published every 6 months), and individual contract payment above £25k (exclusive of VAT) notice (published quarterly). Not including concessions.

Below PA23 Threshold = regulated below-threshold contracts
 (Not including exempt contracts or concessions)

Notifiable below-threshold contract:
 value between £25k (Exclusive of VAT) and PA23 threshold

Openly advertised tender
 (award of a contract, FW or DM)

Closed group of invited suppliers
 (award of a contract, FW, STA or FW/ DM call-off)



Contract Change Notice (only if it becomes a "convertible contract" i.e. the contract value goes over GPA threshold as a result of a change). Not for light-touch

Contract Termination Notice (only if it has become a "convertible contract" above GPA threshold following a change)

This flow chart is intended as a guide only; Procurement Leads are responsible for checking what notices are required and when to publish



REPORT

SUBJECT:	TREASURY MANAGEMENT ACTIVITY UPDATE - QUARTER 3 2024/25
MEETING:	Governance & Audit Committee
DATE:	20th February 2025
DIVISIONS/WARD AFFECTED:	All

1. **PURPOSE:**

- 1.1. The Prudential Code and CIPFA treasury guidance require local authorities to produce annually a Treasury Management Strategy Statement and Prudential Indicators on their likely financing and investment activity, and to ensure that the appropriate governance function that oversees the treasury management activities of the Authority is kept informed of activity quarterly.
- 1.2. The Authority's treasury management strategy for 2024/25 was approved by Council on 22nd March 2024. Over the three quarters of the year the Authority has borrowed and invest substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.
- 1.3. This report represents the third update of treasury management activity during 2024/25 following the Quarter 1 report being considered by this Committee on the 31th of July 2024 and quarter 2 on the 28th of November.

2. **RECOMMENDATIONS:**

That Governance & Audit committee review the results of treasury management activities and the performance achieved in quarter 3 as part of their delegated responsibility to provide scrutiny of treasury policy, strategy and activity on behalf of Council.

3. **KEY ISSUES:**

3.1. **Key data metrics at quarter end:**

Type	Metric	Q4 23/24	Q1 24/25	Q2 24/25	Q3 24/25
External	Bank of England base rate	5.25%	5.25%	5.00%	4.75%
External	UK Consumer Prices Index	3.2%	2.0%	1.7%	2.6%
External	10-year UK gilt yield	3.94%	4.29%	4.01%	4.57%
Internal	Council Borrowing	£173.9m	£177.7m	£175.3m	£184.5m
Internal	Borrowing Average rate	3.50%	3.62%	3.60%	3.71%
Internal	Investments	£11.9m	£10.3m	£16.0m	£15.5m
Internal	Investment Average rate	5.16%	5.30%	5.13%	5.03%
Internal	Credit score/rating	A+ / 4.51	AA-/4.3	AA-/4.1	AA-/3.95

3.2. **Key messages:**

<i>Treasury management activities undertaken during the second quarter complied fully with the CIPFA code and the limits and indicators as set out in the Authority's approved Treasury Management Strategy.</i>
<i>The Authorities average cost of borrowing has increased slightly during the period, reflective of volatility in Government gilt yields.</i>
<i>Cash balances reduced slightly over the quarter by 0.5m to £15.5m as part of the managed internal borrowing strategy. During the quarter, the authority's investment balances ranged from between £12.5m and £30.5m.</i>
<i>Investments in externally managed pooled funds generated £49k (5.37%) income return, together with an £66k (-1.77%) unrealised capital gain during the quarter.</i>
<i>Unrealised capital losses over the lifetime of the investments stand at £354k, for which the Authority maintains a sufficient treasury risk reserve to mitigate against any required realisation.</i>
<i>The Authority continues to invest in a specific Environmental, Social and Governance (ESG) investment product and is prioritised for investment where returns remain competitive. During the quarter this product returned 4.66% compared to an average rate of 4.76% for all Money Market Funds.</i>
<i>Non-treasury investments, comprising the Authority's Solar farm and two strategic property assets, are forecast to generate £478k or 1.54% return during 2024/25 (1.06% in 2023/24).</i>

4. **ECONOMIC SUMMARY**

- 4.1. **Economic background:** The Chancellor of the Exchequer delivered her Autumn Budget at the end of October. Based on the plans announced, the Office for Budget Responsibility reported they would provide a short-term boost to GDP growth before weakening it further out and push inflation higher over the medium-term. This change to the economic and inflation outlook caused financial markets to readjust expectations of Bank of England (BoE) Bank Rate and gilt yields higher. The council's treasury management advisor, Arlingclose, also revised its interest rate forecast upwards in November, with Bank Rate expected to eventually fall to 3.75%.
- 4.2. UK annual Consumer Price Index (CPI) inflation remained above the Bank of England (BoE) 2% target in the later part of the period. The Office for National Statistics (ONS) reported headline consumer prices rose 2.6% in November 2024, up from 2.3% in the previous month and in line with expectations. Core CPI also rose, but by more than expected, and remained elevated at 3.6% in November against a forecast of 3.5% and compared to 3.3% in the previous month.
- 4.3. UK economy GDP registered no growth (0.0%) between July and September 2024 and 0.4% between April and June 2024, a further downward revision from the 0.5% rate previously reported by the ONS. Of the monthly GDP figures, the economy was estimated to have contracted by 0.1% in October, following the same size decline in September.
- 4.4. The BoE's Monetary Policy Committee (MPC) held Bank Rate at 4.75% at its December 2024 meeting. The meeting minutes suggested a reasonably dovish tilt to rates with the outlook for economic growth a concern among policymakers as the Bank downgraded its Q4 GDP forecast from 0.3% to 0.0%.

5. **BORROWING ACTIVITY**

- 5.1. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio and, where practicable, to maintain borrowing and investments below their underlying levels, known as internal borrowing.
- 5.2. Gilt yields were volatile but have increased overall during the period. Much of the increase has been in response to market concerns that policies introduced by the Labour government will be inflationary and lead to higher levels of government borrowing. The election of Donald Trump in the US in November is also expected to lead to inflationary trade policies.
- 5.3. The PWLB certainty rate for 10-year maturity loans was 4.80% at the beginning of the period and 5.40% at the end. The lowest available 10-year maturity rate was 4.52% and the highest was 5.44%. Rates for 20-year maturity loans ranged from 5.01% to 5.87% during the period, and 50-year maturity loans from 4.88% to 5.69%.
- 5.4. Whilst the cost of short-term borrowing from other local authorities spiked to around 7% in late March 2024, primarily due a dearth of LA-LA lending/borrowing activity during that month, as expected shorter-term rates reverted to a more market-consistent range and were generally around 5.00% - 5.5%. Rising rates were seen towards the end of the period in the LA-LA market.
- 5.5. The Authority's borrowing position at the end of the quarter is:

	30.09.24 Balance	30.09.24 Weighted Average Rate	30.09.24 Weighted Average Maturity	Balance Movement	31.12.24 Balance	31.12.24 Weighted Average Rate	31.12.24 Weighted Average Maturity
	£m	%	(years)		£m	%	(years)
Public Works Loan Board	127.3	3.4	19.6	8.5	135.8	3.5	18.5
Banks (LOBO)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Welsh Govt Interest Free	8.0	0.0	2.7	(0.3)	7.7	0.0	2.3
Local Authorities / Other	40.0	4.9	0.4	1.0	41.0	5.1	0.4
Total borrowing	175.3	3.6	14.4	9.2	184.5	3.71	13.8

- 5.6. The Authority's total borrowing has increased by £9.2 million over the quarter. This increase is attributed to the strategic renewal of borrowings ahead of the original loan maturities, allowing the Authority to secure more favourable rates.

6. **INVESTMENT ACTIVITY**

- 6.1. During the quarter, the authority's investment balances ranged from between £12.5m and £30.5m due to timing differences between income and expenditure. The movement in investments during the quarter was:

	30.9.24 Balance	Net Movement	31.12.24 Balance	31.12.24 Income Return	31.12.24 Weighted Average Maturity Days
	£m	£m	£m	%	

Banks & building societies (unsecured)	(1.0)	1.0	0.0	Average 4.89%	Up to 180 days
Government (incl. local authorities)	(8.0)	(1.0)	(9.0)		
Money Market Funds (MMFs)	(3.0)	0.5	(2.5)		
Multi asset income, Pooled funds	(4.0)	0.0	(4.0)	5.44%	N/A
Total investments	(16.0)	0.5	(15.5)	5.03%	

- 6.2. Bank Rate reduced from 5.00% to 4.75% in November 2024 with short term interest rates largely being around these levels. The rates on DMADF deposits ranged between 4.70% and 4.94% and money market rates between 4.63% and 5.03%.
- 6.3. **Externally Managed Pooled Funds:** £4m of the Authority's investments are invested in externally managed strategic pooled multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and longer-term price stability.
- 6.4. These funds provide an important diversification for the Authority and generated £49k (5.37%) income return, together with a £66k (-1.77%) unrealised capital during the quarter. In the first nine months of 2024/25 the pooled funds have generated £151k (5.54%) income return and £14k (0.39%) unrealised capital gain.
- 6.5. Accumulated unrealised capital losses over the lifetime of the investment stand at £354k. The Authority maintains an adequate treasury risk reserve to mitigate against the risk that capital losses on pooled funds become realised and consequently result in a charge against the Council Fund.

7. Environmental, Social and Governance

- 7.1. Throughout the quarter the investment portfolio has been assessed against 3 charters that organisations can voluntarily sign up for to ensure that all are meeting minimum level of ESG responsibility.
- 7.2. The authority continues to hold an ESG specific Investment product. This fund aims to provide security of capital and liquidity while focussing on the performance of the underlying issuers on a range of environmental, social and governance.
- 7.3. As at 31st December 2024 the Authorities ESG specific Money Market Fund returned 4.66% compared to an average rate of 4.76% for all Money Market Funds

8. NON-TREASURY INVESTMENTS:

- 8.1. The authority continues to hold £31.08m of non-financial asset investments and their forecast performance can be seen in the table below:

	Budgeted net (income) / expenditure 2024/25 £000's	Carrying Value 31.03.24 £000's	Budgeted return 2024/25 %	Net return 2023/24 %

Oak Grove Solar Farm	(323)	5,611	5.76	9.45
Newport Leisure Park & service loan	(234)	18,819	1.24	0.15*
Castlegate Business Park	128	6,654	-1.92	-3.46
Overall portfolio	(478)	31,084	1.54	1.06

*Includes a one-off write-off of historic bad debt of £217k. Net return excluding this write-off would be 1.31% (overall portfolio 1.76%).

- 8.2. The investment at Oak Grove Solar Farm continues to provide a substantial return on investment. The forecast return for the year remains lower than 2023/24 due to some grid outages and prevailing weather conditions.
- 8.3. The investment at Newport leisure park continues to provide a net income stream for the Authority, although this is budgeted to remain slightly lower than the expected 2% return after borrowing until currently negotiated rent free concessions end.
- 8.4. The investment in Castlegate is still budgeting a net negative return on investment. Continued negotiations with interested parties should further improve the net return in 2025/26 and as rental concessions periods advance. The majority of anchor tenant space is now occupied. This continues to represent a significant improvement on the position since the anchor tenant vacated their space in Spring 2022.

9. **Compliance with treasury limits and indicators**

- 9.1. The Section 151 officer reports that all treasury management activities undertaken during the year complied fully with the CIPFA code and the limits and indicators as set out in the Authority's approved Treasury Management Strategy.

10. **CONSULTEES**

Cabinet Member - Resources

Arlingclose Limited – External Treasury management advisors to Monmouthshire CC

11. **BACKGROUND PAPERS**

Appendix 1 – 2024/25 Treasury Management Quarter 3 update

Glossary of treasury terms

12. **AUTHORS**

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Section 1	External market conditions
Section 2	Movement in treasury balances
Section 3	Borrowing activity during the year
Section 4	Investment Activity during the year
Section 5	Environmental, Social and Governance
Section 6	Non-treasury investments
Section 7	Treasury budget performance.
Section 8	Compliance with prudential indicators and treasury limits

1. External market conditions

- 1.1. Economic background: The Chancellor of the Exchequer delivered her Autumn Budget at the end of October. Based on the plans announced, the Office for Budget Responsibility reported they would provide a short-term boost to GDP growth before weakening it further out and push inflation higher over the medium-term. This change to the economic and inflation outlook caused financial markets to readjust expectations of Bank of England (BoE) Bank Rate and gilt yields higher. The council's treasury management advisor, Arlingclose, also revised its interest rate forecast upwards in November, with Bank Rate expected to eventually fall to 3.75%.
- 1.2. UK annual Consumer Price Index (CPI) inflation remained above the Bank of England (BoE) 2% target in the later part of the period. The Office for National Statistics (ONS) reported headline consumer prices rose 2.6% in November 2024, up from 2.3% in the previous month and in line with expectations. Core CPI also rose, but by more than expected, and remained elevated at 3.6% in November against a forecast of 3.5% and compared to 3.3% in the previous month.
- 1.3. UK economy GDP registered no growth (0.0%) between July and September 2024 and 0.4% between April and June 2024, a further downward revision from the 0.5% rate previously reported by the ONS. Of the monthly GDP figures, the economy was estimated to have contracted by 0.1% in October, following the same size decline in September.
- 1.4. The labour market continued to loosen, but the ONS data still require treating with some caution. Recent figures reported the unemployment rate rose to 4.3% (3mth/year) in the three months to October 2024 and economic inactivity fell to 21.7%. The ONS reported pay growth over the same three-month period at 5.2% for both regular earnings (excluding bonuses) and for total earnings.
- 1.5. The BoE's Monetary Policy Committee (MPC) held Bank Rate at 4.75% at its December 2024 meeting, having reduced it to that level in November and following a previous 25bp cut from the 5.25% peak at the August MPC meeting (5-4 vote to cut). At the December meeting, six Committee members voted to maintain Bank Rate at 4.75% while three members preferred to reduce it to 4.50%. The meeting minutes suggested a reasonably dovish tilt to rates with the outlook for economic growth a concern among policymakers as the Bank downgraded its Q4 GDP forecast from 0.3% to 0.0%.
- 1.6. The November Monetary Policy Report (MPR) showed the BoE expected GDP growth to pick up to around 1.75% (four-quarter GDP) in the early period of the forecast horizon before falling back. The impact from the government's Autumn Budget pushed GDP higher in 2025 than was expected in the August MPR, before becoming weaker. The outlook for CPI inflation showed it rising above the MPC's 2% target from 2024 into 2025 and reaching around 2.75% by the middle of calendar

2025. Over the medium-term, once the near-term pressures eased, inflation was expected to stabilise around the 2% target. The unemployment rate was expected to increase modestly, rising to around 4.5%, the assumed medium-term equilibrium unemployment rate, by the end of the forecast horizon.

- 1.7. Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would continue to fall from the 5.25% peak. From the first cut in August 2024, followed by the next in November which took Bank Rate to 4.75%, February 2025 is deemed the likely month for the next reduction, with other cuts following steadily in line with MPR months to take Bank Rate down to around 3.75% by the end of 2025.
- 1.8. The US Federal Reserve continued cutting interest rates during the period, reducing the Fed Funds Rate by 0.25% at its December 2024 monetary policy meeting to a range of 4.25%-4.50%, marking the third consecutive reduction. Further interest rate cuts are expected into 2025, but uncertainties around the potential inflationary impact of President-elect Trump's policies may muddy the waters in terms of the pace and magnitude of further rate reductions. Moreover, the US economy continues to expand at a decent pace, suggesting that monetary policy may need to remain more restrictive in the coming months than had previously been anticipated.
- 1.9. The European Central Bank (ECB) also continued its rate cutting cycle, reducing its three key policy rates by 0.25% in December. Euro zone inflation rose above the ECB 2% target in November 2024, hitting 2.2% as was widely expected and a further increase from 2% in the previous month. Inflation is expected to rise further in the short term, but then fall back towards the 2% target during 2025, with the ECB remaining committed to maintaining rates at levels consistent with bringing inflation to target, but without suggesting a specific path.
- 1.10. **Financial markets:** Financial market sentiment was generally positive over the period, but economic, financial and geopolitical issues meant the ongoing trend of bond yield volatility very much remained. In the last few months of the period, there was a general rising trend in yields due to upwardly revised interest rate and inflation expectations, causing gilt yields to end the period at substantially higher levels to where they began.
- 1.11. Over the period, the 10-year UK benchmark gilt yield started at 3.94% and ended at a high of 4.57%, having reached a low of 3.76% in mid-September. While the 20-year gilt started at 4.40%, ended at a high of at 5.08% and hit a low of 4.27% in mid-September. The Sterling Overnight Rate (SONIA) averaged 5.01% over the period to 31st December.
- 1.12. **Credit review:** In October, Arlingclose revised its advised recommended maximum unsecured duration limit on most banks on its counterparty list to six months. Duration advice for the remaining five institutions, including the newly added Lloyds Bank Corporate Markets, was kept to a maximum of 100 days.
- 1.13. Fitch revised the outlooks on Royal Bank of Scotland, NatWest Markets PLC, and National Westminster Bank to positive from stable, while affirming their long-term ratings at A+.
- 1.14. Moody's upgraded the ratings on National Bank of Canada to Aa2 from Aa3, having previously had the entity on Rating Watch for a possible upgrade. Moody's also upgraded the ratings on The Co-operative Bank to A3 (from Baa3) and downgraded the ratings on Coventry Building Society to A3 (from A2) and Canada's Toronto-Dominion Bank to Aa2 (from Aa1).
- 1.15. S&P also downgraded Toronto-Dominion Bank, to A+ from AA-, but kept the outlook at stable.
- 1.16. Credit default swap prices were generally lower at the end of the period compared to the beginning for the vast majority of the names on UK and non-UK lists. Price volatility over the period also remained generally more muted compared to previous periods.

1.17. Financial market volatility is expected to remain a feature, at least in the near term and, credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remain under constant review.

2. Movement in Treasury balances

2.1. 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 to offset the CFR or for investment.

Table 1: Balance Sheet Summary

	31.3.24 £m	Movement from YE £m	30.06.24 £m	Movement from Q1 £m	30.09.24 £m	Movement from Q2 £m	31.12.24 £m
General Fund CFR	198.3	0.0	198.3	0.0	198.3	0.0	198.3
Less: *Other debt liabilities	(2.3)	0.0	(2.3)	0.0	(2.3)	0.0	(2.3)
Borrowing CFR	196.0	0.0	196.0	0.0	196.0	0.0	196.0
Less: External borrowing	(173.9)	(3.8)	(177.7)	2.4	(175.3)	(9.2)	(184.5)
Net External borrowing	22.1	(3.8)	18.3	2.4	20.7	(9.2)	11.5
Less: Usable reserves	(25.3)	0.0	(25.3)	0.0	(25.3)	0.0	(25.3)
Less: Working capital	(8.8)	5.5	(3.3)	(8.0)	(11.3)	9.6	(1.7)
(Net Investments)	(11.9)	1.6	(10.3)	(5.7)	(16.0)	0.4	(15.5)

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

2.2. The Authority pursued its strategy of keeping borrowing and investments below their underlying levels for the quarter, known as internal borrowing. Table 1 above highlights that at the end of the quarter the Authority was internally borrowed by £11.5m, meaning that reserves and working capital were being used in lieu of external borrowing.

2.3. At the end of the quarter the Authority had net investments of £15.5m. Balances over the period ranged from between £12.5m and £30.5m due to timing differences between income and expenditure and borrowing activity.

2.4. The treasury management position on 31st September 2024 and the change during the year is shown in Table 2 below.

Table 2: Borrowing and Investment Summary

	30.9.24 Balance £m	30.9.24 Rate %	Movement	31.12.24 Balance £m	31.12.24 Rate %
Long-term borrowing	124.9	3.30	4.3	129.2	3.38
Short-term borrowing	50.4	4.35	4.9	55.3	4.48
Total borrowing	175.3	3.65	9.2	184.5	3.71
Long-term investments	0.0	N/A	0.0	0.0	N/A

Short-term investments	(8.0)	5.02	(1.0)	(9.0)	4.89
Pooled Funds	(4.0)	5.15	0.0	(4.0)	5.44
Cash and cash equivalents	(4.0)	Included in ST above	1.5	(2.5)	Included in ST above
Total investments	(16.0)	5.13	0.5	(15.5)	5.03
Net Borrowing	159.3		9.7	169.0	

- 2.5. The authorities net borrowing position has slightly increased over the quarter. This is primarily due to timing differences in funding and expenditure increasing short term investments.

3. Borrowing activity during the year

- 3.1. As outlined in the treasury strategy, the Authority's chief objective when borrowing has been to strike an appropriate risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. During the period short term interest rates have been higher than long term interest rates.
- 3.2. After substantial rises in interest rates since 2021 many central banks have now begun to reduce their policy rates, albeit slowly. Gilt yields were volatile but have increased overall during the period. Much of the increase has been in response to market concerns that policies introduced by the Labour government will be inflationary and lead to higher levels of government borrowing. The election of Donald Trump in the US in November is also expected to lead to inflationary trade policies.
- 3.3. The PWLB certainty rate for 10-year maturity loans was 4.80% at the beginning of the period and 5.40% at the end. The lowest available 10-year maturity rate was 4.52% and the highest was 5.44%. Rates for 20-year maturity loans ranged from 5.01% to 5.87% during the period, and 50-year maturity loans from 4.88% to 5.69%.
- 3.4. Whilst the cost of short-term borrowing from other local authorities spiked to around 7% in late March 2024, primarily due a dearth of LA-LA lending/borrowing activity during that month, as expected shorter-term rates reverted to a more market-consistent range and were generally around 5.00% - 5.5%. Rising rates were seen towards the end of the period in the LA-LA market.
- 3.5. At 31st December 2024 the Authority held £184.5m of loans, a increase of £9.2m from 30th September 2024, as part of its strategy for funding previous and current years' capital programmes.
- 3.6. Outstanding loans on 31st December are summarised in Table 3 below.

Table 3: Borrowing Position

	30.9.24 Balance	30.9.24 Weighted Average Rate	30.9.24 Weighted Average	Balance Movement	31.12.24 Balance	31.12.24 Weighted Average Rate	31.12.24 Weighted Average
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	£m	%	Maturity (years)		£m	%	Maturity (years)
Public Works Loan Board	127.3	3.4	19.6	8.5	135.8	3.5	18.5
Banks (LOBO)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Welsh Gov Interest Free	8.0	0.0	2.7	(0.3)	7.7	0.0	2.3
Local authorities /Other	40.0	4.9	0.4	1.0	41.0	5.1	0.4
Total borrowing	175.3	3.6	14.4	9.2	184.5	3.71	13.8

3.7. The Authority's chief objective when borrowing has always been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

3.8. To that end, two long-term PWLB loans were taken during the period to achieve some cost certainty.

Table 4: Long-dated Loans borrowed

	Amount £m	Rate %	Period (years)
PWLB EIP Loan	5.0	5.09	1
PWLB EIP Loan	5.0	5.22	1.33
Total	10.0	5.16	1.17

3.9. Other borrowing activity

3.10. **LOBO Loans:** The Authority does not hold any LOBO (Lender's Option Borrower's Option) loans.

3.11. CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

3.12. The Authority currently holds commercial investments that were purchased prior to the change in the CIPFA Prudential Code. The Authority is not planning to purchase any investment assets primarily for yield within the next three years and so is able to access PWLB borrowing if considered cost effective.

4. Investment activity during the quarter

4.1. The CIPFA Treasury Management Code now defines treasury management investments as those investments which arise from the Authority's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

4.2. The Authority holds significant invested funds during the year, representing income received in advance of expenditure plus balances and reserves held. During the quarter, the Authority's investment balances ranged from between £12.5m and £30.5m due to timing differences between income and expenditure. The investment position at the end of the quarter was:

Table 5: Treasury Investment Position

	30.9.24 Balance	Net Movement	31.12.24 Balance	31.12.24 Income Return	31.12.24 Weighted Average Maturity Days
	£m	£m	£m	%	
Banks & building societies (unsecured)	(1.0)	1.0	0.0	Average 4.89%	Up to 180 days
Government (incl. local authorities)	(8.0)	(1.0)	(9.0)		
Money Market Funds (MMFs)	(3.0)	0.5	(2.5)		
Multi asset income, Pooled funds	(4.0)	0.0	(4.0)	5.44%	N/A
Total investments	(16.0)	0.5	(15.5)	5.03%	

- 4.3. Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 4.4. The Authority expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different asset classes and boost investment income.
- 4.5. Bank Rate reduced from 5.25% to 5.00% in August 2024 and again to 4.75% in November 2024 with short term interest rates largely being around these levels. The rates on DMADF deposits ranged between 4.70% and 4.94% and money market rates between 4.63% and 5.03%.
- 4.6. The combination of risk and return metrics are shown in the extracts from the Arlingclose quarterly investment benchmarking in the table below.

Table 6: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
MCC 31.03.2024	A+	4.51	62%	4	5.01
MCC 30.09.2024	AA-	4.10	33%	59	4.81
MCC 31.12.2024	AA-	3.95	22%	17	5.02
Similar LAs	AA-	4.28	41%	79	4.73
All LAs	A+	4.59	61%	11	4.78

- 4.7. **Externally Managed Pooled Funds:** £4m of the Authority's investments are invested in externally managed strategic pooled multi-asset and property funds where short-term security and liquidity

are lesser considerations, and the objectives instead are regular revenue income and longer-term price stability.

- 4.8. These funds provide an important diversification for the Authority and generated £49k (5.37%) income return, together with a £66k (-1.77%) unrealised capital loss during the quarter.
- 4.9. In the first nine months of 2024/25 the pooled funds have generated £151k (5.54%) income return and £14k (0.39%) unrealised capital gain.
- 4.10. Accumulated unrealised capital losses over the lifetime of the investment stand at £354k. The Authority maintains an adequate treasury risk reserve to mitigate against the risk that capital losses on pooled funds become realised and consequently result in a charge against the Council Fund.
- 4.11. 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 Authority's medium to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over the longer term that total returns will exceed cash interest rates.
- 4.12. **Statutory override:** In April 2023 the Department for Levelling Up, Housing and Communities (DLUHC) published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. A further consultation on the override was included in MHCLG's annual consultation on the provisional local government finance settlement published in December 2024: the consultation closes on 15th January 2025 with the outcome expecting to be published in February 2025. So far the override has been extended until 31st March 2025; whether the override will be extended beyond this date is unknown but commentary from both consultations suggests an extension is unlikely.

5. Environmental, Social and Governance

- 5.1. Throughout the year the investment portfolio has been assessed against 3 charters that organisations can voluntarily sign up for to ensure that all are meeting minimum level of ESG responsibility. These are shown in the table below:

Table 7: ESG Charter Signatories

	UN Principles for Responsible Investment	Uk Stewardship Code 2020	Net-Zero Asset Managers Initiative
Aberdeen Asset Liquidity	✓	✓	✓
Aegon	✓	✓	✓
CCLA Investment Management	✓	✓	✓
Federated (Prime Rate) Liquidity Fund	✓	✓	✓
HSBC Global Asset Management	✓	✓	✓
LEGAL AND GENERAL MMF	✓	✓	✓
Ninety-One	✓	✓	✓
STATE STREET	✓	✓	✓
Morgan Stanley - No Longer Used	✓	✓	x

Goldman Sachs - No Longer Used	✓	✓	x
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- 5.2. An updated list of signatories to the three charters is provided by the Authority's treasury advisors each quarter and will continue to be monitored. Any counterparties not signed up to all three charters will be removed from the Authorities investment portfolio.
- 5.3. At 31st December 2024 the Authorities ESG specific Money Market Fund returned 4.66% compared to an average rate of 4.76% for all Money Market Funds.

6. Non-Treasury Investments

- 6.1. The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return.
- 6.2. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and/or for commercial purposes (made primarily for financial return).
- 6.3. Investment Guidance issued by DLUHC and Welsh Government also broadens the definition of investments to include all such assets held partially or wholly for financial return.
- 6.4. The Authority held a net book value of £31.08m of such non-financial asset investments at the 31st March 2024 (£32.2m as at 31st March 2023) made up of:

Table 8: Returns on non-treasury investments

	Forecast net (income) / expenditure 2024/25 £000's	Carrying Value 31.03.24 £000's	Budgeted Return 2024/25 %	Net return 2023/24 %
Oak Grove Solar Farm	(323)	5,611	5.76	9.45
Newport Leisure Park & service loan	(234)	18,819	1.24	0.15*
Castlegate Business Park	128	6,654	-1.92	-3.46
Overall portfolio	(478)	31,084	1.54	1.06

*Includes a one-off write-off of historic bad debt of £217k. Net return excluding this write-off would be 1.31% (overall portfolio 1.76%).

- 6.5. These investments continue to represent an important income diversification for the Council and contributes towards the overall funding of Council services.
- 6.6. Returns on both the Newport Leisure park and Castlegate investments will improve as the profile of rental concessions advances.
- 6.7. The Authority also holds a portfolio of legacy non-financial asset investments that have been held for over a decade and are retained for income generation, capital gain or to support wider economic development or broader policy objectives. Income generation for these agricultural, retail and industrial assets are a secondary consideration and as such return against original investment would be considered negligible.

7. Treasury budget performance

7.1. The Authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 9 below.

Table 9: Budget performance

	Forecast 30.09.24 £000's	Budget £000's	Over / (under) Budget £000's
Interest Payable			
PWLB	4,512	4,046	466
Market loans	12	135	(123)
Short term loans	2,234	2,916	(682)
Other Activities (Internal Arrangements)	155	155	0
Total Interest payable on borrowing	6,913	7,252	(339)
Interest Receivable			
Invested cash short term	(941)	(1,176)	235
Pooled Funds	(200)	Included above	(200)
Finance lease income	(55)	Included above	(55)
Total income from Investments	(1,196)	(1,176)	(20)
Total	5,717	6,077	(359)

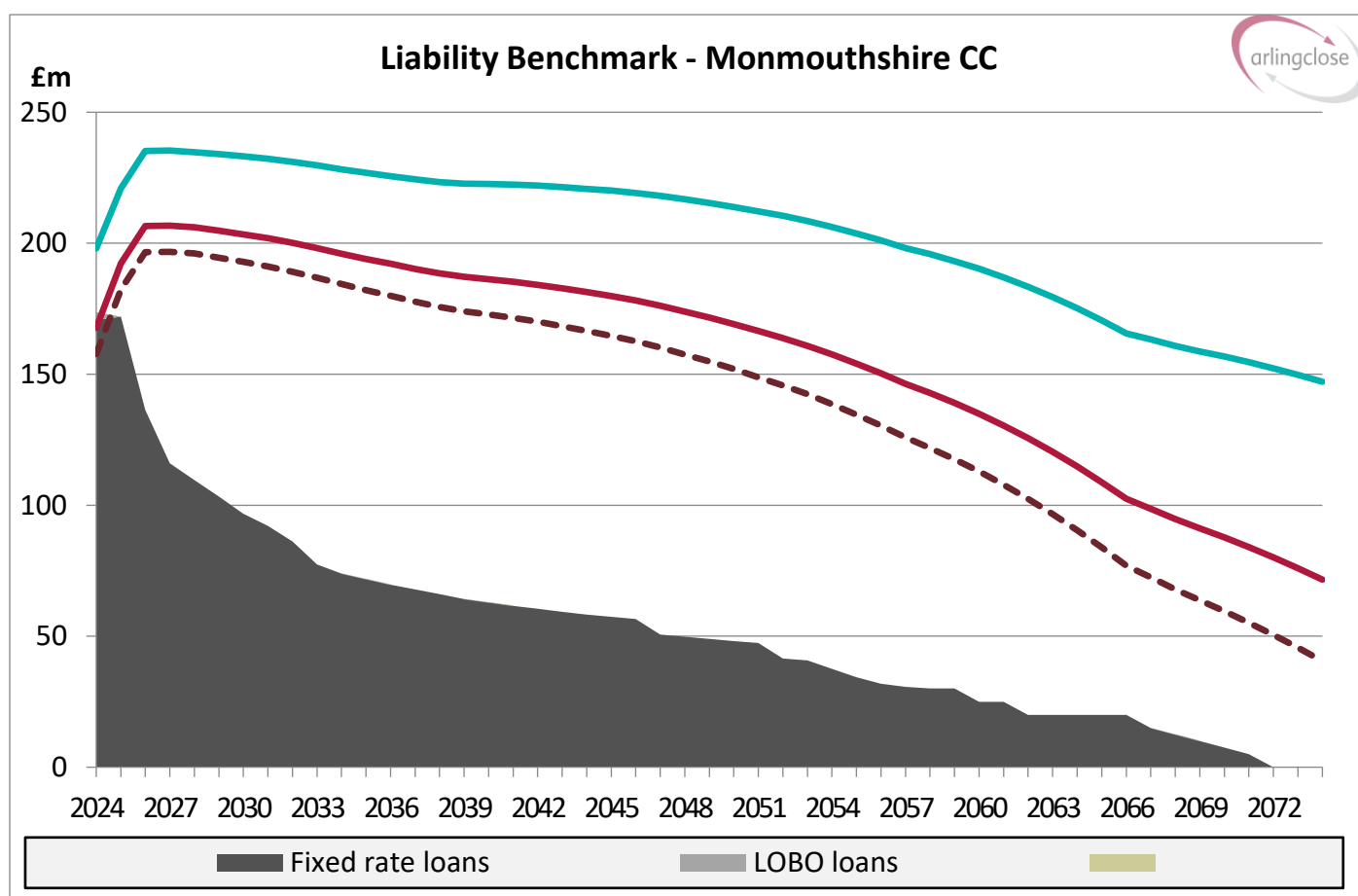
8. Compliance with treasury limits and indicators

- 8.1. The Section 151 officer reports that all treasury management activities undertaken during the year complied fully with the CIPFA code and the limits and indicators as set out in the Authority's approved Treasury Management Strategy as shown in table 13.
- 8.2. **Liability Benchmark:** This indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 10: Liability Benchmark

	31.3.24 Actual	31.3.25 Forecast	31.3.26 Forecast	31.3.27 Forecast	31.3.28 Forecast
Loans CFR	198.0	220.0	234.4	234.4	234.5
Less: Balance sheet resources	(40.3)	(38.7)	(38.7)	(38.7)	(38.7)
Net loans requirement	157.7	181.3	195.7	195.7	195.7
Plus: Liquidity allowance	16.2	10.0	10.0	10.0	10.0
Liability benchmark	173.9	191.3	205.7	205.7	205.7
Current loan profile	(173.9)	(172.5)	(137.0)	(116.5)	(110.1)
Borrowing requirement	0.0	18.8	68.7	89.2	95.7

- 8.3. Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing is in line with the medium-term financial plan, minimum revenue provision on new capital expenditure is based on the annuity method, and expenditure and reserves all increasing by inflation of 2.5% p.a. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing.



- Old
- 8.4. The gap between the dotted red line and the grey shaded area of the chart represents the forecast difference between the estimated borrowing requirement and the Council's current loans profile.

If capital expenditure plans remain accurate, this gap ultimately represents a borrowing requirement which will need be met by new and replacement loans over time.

- 8.5. **Borrowing limits:** Compliance with the [authorised limit](#) and [operational boundary](#) for external debt is demonstrated in the table below.

Table 11: Borrowing Limits

	2024/25 Maximum during the year £m	31.12.24 Actual £m	2024/25 Operational Boundary £m	2024/25 Authorised Limit £m	Complied? Yes/No
Borrowing	187.7	184.5	252.6	268.0	Yes
PFI, Finance Leases & Other LT liabs	2.3	2.3	2.8	3.8	Yes
Total debt	190.0	186.8	255.4	271.8	Yes

- 8.6. **Note:** Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

- 8.7. **Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

Table 12: Maturity Structure of borrowing

Maturity	31.12.24 Actual	Lower Limit	Upper Limit	Complied?	31.3.24 Actual (For comparison)
Under 12 months	30.0%	0%	50%	Yes	29%
12 months and within 24 months	6.3%	0%	30%	Yes	3%
24 months and within 5 years	10.0%	0%	30%	Yes	10%
5 years and within 10 years	12.7%	0%	30%	Yes	16%
10 years and within 20 years	9.6%	0%	30%	Yes	10%
20 years and within 30 years	12.4%	0%	30%	Yes	12%
30 years and within 40 years	8.0%	0%	30%	Yes	10%
40 years and within 50 years	10.8%	0%	30%	Yes	12%
50 years and above	0%	0%	30%	Yes	0%

Table 13: Investment Limits

	Maximum in quarter	2024/25 Limit	Complied? Yes/No
The UK Government	£17.0m	Unlimited	Yes
Local Authorities per counterparty	£0m	£4m	Yes
Secured Investments	£0m	£4m	Yes

Banks per counterparty, rating A- or above	£2m (£3m total for the Councils operational bank)	£2m (£3m total for the Councils operational bank)	Yes
Building societies (unsecured)	£0m	£2m	Yes
Registered providers (e.g. Housing Associations (unsecured)	£0m	£2m	Yes
Money Market Funds	£4m	£4m	Yes
Any group of pooled funds under the same management	£2m	£5m	Yes
Real estate investment trusts	£0m	£5m	Yes
Limit per non-UK country	£0m	£4m	Yes
Other Investments	£0m	£2m	Yes

8.8. **Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating and 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.

Table 14: Credit Risk

	31.12.24 Actual	2024/25 Target	Complied?
Portfolio average credit	AA-/3.95	A-/5.0	Yes

8.9. **Principal Sums Invested for Periods Longer than a year:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Table 15: Principal invested for period longer than a year

	During 2024/25
Actual principal invested for 365 days & beyond year end	£0m
Limit	£6m
Complied?	Yes

Authorised Limit	The affordable borrowing limit determined in compliance with the Local Government Act 2003 (English and Welsh authorities) and the Local Government in Scotland Act 2003. This Prudential Indicator is a statutory limit for total external debt. It is set by the Authority and needs to be consistent with the Authority's plans for capital expenditure financing and funding. The Authorised Limit provides headroom over and above the <i>Operational Boundary</i> to accommodate expected cash movements. Affordability and prudence are matters which must be taken into account when setting this limit. (see also <i>Operational Boundary</i> , below)
Balances and Reserves	Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.
Bail-in	Refers to the process which the banking regulatory authorities will use to restructure a financial institution which is failing or likely to fail. Unsecured creditors of and investors in that financial institution will participate in its restructure who will, as a consequence, incur a non-recoverable loss (commonly referred to as a 'haircut') on their obligation/investment. Local authority investments with banks and building societies such as term deposits, certificates of deposit, call accounts and non-collateralised bonds are unsecured investments and are therefore vulnerable to bail-in.
Bank Rate	The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.
Bond	A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.
Capital Expenditure	Expenditure on the acquisition, creation or enhancement of capital assets
Capital Financing Requirement (CFR)	The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.
Capital growth	Increase in the value of the asset (in the context of a collective investment scheme, it will be the increase in the unit price of the fund)
Capital receipts	Money obtained on the sale of a capital asset.
CIPFA	Chartered Institute of Public Finance and Accountancy
Constant Net Asset Value (CNAV)	Also referred to as Stable Net Asset Value. A term used in relation to the valuation of 1 share in a fund. This means that at all times the value of 1 share is £1/€1/US\$1 (depending on the currency of the fund). The Constant NAV is maintained since dividend income (or interest) is either added to the shareholders' account by creating shares equal to the value of interest earned or paid to the shareholder's bank account, depending on which option is selected by the shareholder.
Collective Investment Schemes	Funds in which several investors collectively hold units or shares. The assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'Pooled Funds'). Unit Trusts and Open-Ended Investment Companies are types of collective investment schemes / pooled funds.

Corporate Bonds	Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
Corporate Bond Funds	Collective Investment Schemes investing predominantly in bonds issued by companies and supranational organisations.
CPI <i>Also see RPI</i>	Consumer Price Index. (This measure is used as the Bank of England's inflation target.)
Credit Default Swap (CDS)	A Credit Default Swap is similar to an insurance policy against a credit default. Both the buyer and seller of a CDS are exposed to credit risk. Naked CDS, i.e. one which is not linked to an underlying security, can lead to speculative trading.
Credit Rating	Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.
Cost of carry	When a loan is borrowed in advance of requirement, this is the difference between the interest rate and (other associated costs) on the loan and the income earned from investing the cash in the interim.
Credit default swaps	Financial instrument for swapping the risk of debt default; the buyer effectively pays a premium against the risk of default.
Diversification / diversified exposure	The spreading of investments among different types of assets or between markets in order to reduce risk.
Derivatives	Financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded on a regulated exchange or traded 'over the counter'.
ECB	European Central Bank
Federal Reserve	The US central bank. (Often referred to as "the Fed")
Floating Rate Notes	A bond issued by a company where the interest rate paid on the bond changes at set intervals (generally every 3 months). The rate of interest is linked to LIBOR and may therefore increase or decrease at each rate setting
GDP	Gross domestic product – also termed as "growth" in the economy. The value of the national aggregate production of goods and services in the economy.
General Fund	This includes most of the day-to-day spending and income. (All spending and income related to the management and maintenance of the housing stock is kept separately in the HRA).
Gilts (UK Govt)	Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged': being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.

Housing Revenue Account (HRA)	A ring-fenced account of all housing income and expenditure, required by statute
IFRS	International Financial Reporting Standards
Income Distribution	The payment made to investors from the income generated by a fund; such a payment can also be referred to as a 'dividend'
Investments - Secured - unsecured	Secured investments which have underlying collateral in the form of assets which can be called upon in the event of default Unsecured investments do not have underlying collateral. Such investments made by local authorities with banks and building societies are at risk of bail-in should the regulator determine that the bank is failing or likely to fail.
Liability Benchmark	Term in CIPFA's Risk Management Toolkit which refers to the minimum amount of borrowing required to keep investments at a minimum liquidity level (which may be zero).
LOBOs	LOBO stands for 'Lender's Option Borrower's Option'. The underlying loan facility is typically long term and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at predetermined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the 'option' to either accept the new imposed fixed rate or repay the loan facility.
LVNAV (Low Volatility Net Asset Value)	From 2019 Money Market Funds will have to operate under a variable Net Value Structure with minimal volatility (fluctuations around £1 limited to between 99.8p to 100.2p)
Maturity	The date when an investment or borrowing is repaid.
Maturity profile	A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. The amount or percent maturing could be shown on a year-by-year or quarter-by-quarter or month-by-month basis.
MiFID II	MiFID II replaced the Markets in Financial Instruments Directive (MiFID I) from 3 January 2018. It is a legislative framework instituted by the European Union to regulate financial markets in the bloc and improve protections for investors.
Money Market Funds (MMF)	Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.
Minimum Revenue Provision	An annual provision that the Authority is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets
Non-Specified Investments	Term used in the Communities and Local Government Guidance and Welsh Assembly Guidance for Local Authority Investments. It includes any investment for periods greater than one year or those with bodies that do not have a high credit rating, use of which must be justified.
Net Asset Value (NAV)	A fund's net asset value is calculated by taking the current value of the fund's assets and subtracting its liabilities.

Operational Boundary	This is the limit set by the Authority as its most likely, i.e. prudent, estimate level of external debt, but not the worst case scenario. This limit links directly to the Authority's plans for capital expenditure, the estimates of the Capital Financing Requirement (CFR) and the estimate of cashflow requirements for the year.
Permitted Investments	Term used by Scottish Authorities as those the Authority has formally approved for use.
Pooled funds	See Collective Investment Schemes (above)
Premiums and Discounts	In the context of local authority borrowing, (a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and (b) the discount is the gain arising when a loan is redeemed prior to its maturity date. If on a £1 million loan, it is calculated* that a £100,000 premium is payable on premature redemption, then the amount paid by the borrower to redeem the loan is £1,100,000 plus accrued interest. If on a £1 million loan, it is calculated that a £100,000 discount receivable on premature redemption, then the amount paid by the borrower to redeem the loan is £900,000 plus accrued interest. PWLB premium/discount rates are calculated according to the length of time to maturity, current market rates (plus a margin), and the existing loan rate which then produces a premium/discount dependent on whether the discount rate is lower/higher than the coupon rate. *The calculation of the total amount payable to redeem a loan borrowed from the Public Works Loans Board (PWLB) is the present value of the remaining payments of principal and interest due in respect of the loan being repaid prematurely, calculated on normal actuarial principles. More details are contained in the PWLB's lending arrangements circular.
Private Finance Initiative (PFI)	Private Finance Initiative (PFI) provides a way of funding major capital investments, without immediate recourse to the public purse. Private consortia, usually involving large construction firms, are contracted to design, build, and in some cases manage new projects. Contracts can typically last for 30 years, during which time the asset is leased by a public authority.
Prudential Code	Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.
Prudential Indicators	Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators between authorities.
PWLB	Public Works Loans Board. It is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

Quantitative Easing	In relation to the UK, it is the process used by the Bank of England to directly increase the quantity of money in the economy. It “does not involve printing more banknotes. Instead, the Bank buys assets from private sector institutions – that could be insurance companies, pension funds, banks or non-financial firms – and credits the seller’s bank account. So the seller has more money in their bank account, while their bank holds a corresponding claim against the Bank of England (known as reserves). The end result is more money out in the wider economy”. Source: Bank of England
Registered Provider of Social Housing	Formerly known as Housing Association
Revenue Expenditure	Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges
RPI	Retail Prices Index. A monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. Pensions and index-linked gilts are uprated using the CPI index.
SORP	Statement of Recommended Practice for Accounting (Code of Practice on Local Authority Accounting in the United Kingdom).
Specified Investments	Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than 1 year. UK government, local authorities and bodies that have a high credit rating.
Supported Borrowing	Borrowing for which the costs are supported by the government or third party.
Supranational Bonds	Instruments issued by supranational organisations created by governments through international treaties (often called multilateral development banks). The bonds carry an AAA rating in their own right. Examples of supranational organisations are those issued by the European Investment Bank, the International Bank for Reconstruction and Development.
Treasury Management Code	CIPFA’s Code of Practice for Treasury Management in the Public Services.
Temporary Borrowing	Borrowing to cover peaks and troughs of cash flow, not to fund spending.
Term Deposits	Deposits of cash with terms attached relating to maturity and rate of return (interest)
Unsupported Borrowing	Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.
Usable Reserves	Resources available to finance future revenue and capital expenditure
Variable Net Asset Value (VNAV)	A term used in relation to the valuation of 1 share in a fund. This means that the net asset value (NAV) of these funds is calculated daily based on market prices.

Working Capital	Timing differences between income/expenditure and receipts/payments
Yield	The measure of the return on an investment instrument



REPORT

SUBJECT:	2025/26 Capital Strategy and 2025/26 Treasury Management Strategy
DIRECTORATE:	Resources
MEETING:	Governance & Audit Committee
DATE:	20th February 2025
DIVISION/WARDS AFFECTED:	Countywide

1. PURPOSE

- 1.1. Full Council delegates responsibility for the monitoring and scrutiny of the borrowing consequences of capital investment to the Governance & Audit Committee. This includes the treasury management policy, strategy and practices.
- 1.2. The capital plans of the Authority are inherently linked with the treasury management activities it undertakes, and therefore the capital strategy is brought alongside the treasury management strategy report.
- 1.3. The purpose of this report is to collect the Committee's views and response to the Council's draft 2025/26 Capital and Treasury Management Strategies, including the Minimum Revenue Provision (MRP) policy.

2. RECOMMENDATIONS

- 2.1. That Governance & Audit Committee considers the draft Capital strategy for 2025/26 as found at **Appendix 1** and endorses for onward circulation and approval by full Council.
- 2.2. That Governance & Audit Committee considers the draft Treasury management strategy for 2025/26 as found at **Appendix 2** and endorses for onward circulation and approval by full Council. This includes the:
 - 2025/26 Minimum Revenue Provision Policy Statement, and;
 - 2025/26 Investment & Borrowing Strategies
- 2.3. That Governance & Audit Committee note the requirement to review the Council's treasury management activities on behalf of the Council by continuing to receive quarterly treasury management activity updates during 2025/26 as per the requirements of the updated CIPFA Treasury Code of Practice.

3. KEY ISSUES:

<i>The CIPFA prudential code requires Local Authorities to produce an annual capital strategy and treasury management strategy prior to the commencement of a financial year</i>
<i>The existing strategies in place for 2024/25 are suitably robust and have provided the framework for both capital investment and treasury investment and borrowing decisions to follow</i>
<i>The 2025/26 strategies therefore follow a similar format with no substantive changes to the proposed strategic frameworks</i>
<i>In respect of the treasury management strategy a specific investment category has been added to allow for investment in Covered or Supranational bonds. The limit on investment with any one counterparty is £5m, with a total sector limit of £10m</i>
<i>The Minimum revenue provision policy has been updated to clarify the treatment of leases and PFI schemes, and for loans classified as capital expenditure</i>

4. 2025/26 Capital Strategy

Overview

- 4.1. The Capital Strategy sets out the longer-term context in which capital investment decisions are made and demonstrates that the Authority takes capital investment decisions that are in line with its Corporate priorities, and gives consideration to both risk, reward and impact. It also demonstrates that these decisions are taken whilst having proper regard to the stewardship of public funds, value for money, prudence, sustainability and affordability.
- 4.2. The main considerations arising from the Capital strategy shown in **Appendix 1** are summarised in this report below.
- 4.3. The Capital strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.
- 4.4. The Cabinet's Community and Corporate Plan establishes a clear purpose to become a zero-carbon county, supporting wellbeing, health and dignity for everyone at every stage of life and sets the goals for Monmouthshire to be a:
 - A Fair place to live where the effects of inequality and poverty have been reduced;
 - A Green place to live and work, with reduced carbon emissions, and making a positive contribution to addressing the climate and nature emergency;
 - A Thriving and ambitious place, where there are vibrant town centres, where businesses can grow and develop;
 - A Safe place to live where people have a home and community where they feel secure;
 - A Connected place where people feel part of a community and are valued;

- A Learning place where everybody has the opportunity to reach their potential.

- 4.5. Achievement of these objectives will be pursued via actions driven by an array of enabling plans and individual service plans. In some instances, these actions will involve a requirement for capital investment.
- 4.6. A large degree of capital investment is funded from grants, or internal resources such as capital receipts and specific reserves, which do not impact on borrowing levels, but where borrowing is required, it is important that the approved limits are not exceeded.
- 4.7. This is an important area of overall financial management governance in that debt funded capital expenditure, and the external borrowing that results, locks in the Council into revenue financing costs sometimes for as long as 50 years. These costs are comprised of the external loan interest costs and the provision for financing the debt funded capital expenditure, known as Minimum Revenue Provision (MRP).
- 4.8. In the current financial climate and taking into account a continued Medium Term Financial Projection (MTFP) revenue budget gap, capital investment needs to remain within affordable limits. Demand for capital resources remains high and therefore inevitably, prioritisation of projects, leveraging in other sources of funding and working with partners remain key to meeting this demand.
- 4.9. Within the context of significant demands for capital resources and limited availability, there is the need to develop and link our use of the various strategic plans across the organisation which drive the need for capital investment and develop alternative strategies to meet demand so the Councils own capital programme is prioritised within an affordable framework.
- 4.10. **Setting Capital Budgets**

Draft 2025/26 Capital Medium Term Financial Plan

Scheme Type	Indicative Budget 2025/26	Indicative Budget 2026/27	Indicative Budget 2027/28	Indicative Budget 2028/29
Asset Management Schemes	2,449,049	2,230,049	2,230,049	2,230,049
School Development Schemes	12,232,076	0	0	0
Infrastructure & Transport Schemes	6,075,740	4,204,740	4,204,740	4,204,740
Regeneration Schemes	730,200	730,200	730,200	730,200
Inclusion Schemes	1,200,000	1,200,000	1,200,000	1,200,000
ICT Schemes	462,500	413,000	413,000	413,000
Vehicles Leasing	1,500,000	1,500,000	1,500,000	1,500,000
Capitalisation Directive	3,707,500	2,357,500	1,357,500	0
Other Schemes	550,000	1,110,000	1,110,000	1,110,000
Total Expenditure	28,907,066	13,745,490	12,745,490	11,387,990

- 4.11. The capital MTFP and capital strategy seek to work towards a financially sustainable core capital programme, whilst balancing the need to deliver capital investment plans in line with policy commitment and need.
- 4.12. The current capital MTFP does not cover all the capital budget pressures that have been identified. This shows that there is more demand for capital spending than the Council considers it can reasonably afford. This means that capital schemes will have to be ranked or the capital available has to be divided more widely than is ideal.
- 4.13. All stakeholders must understand that paying for capital spending by borrowing only pushes the cost to revenue budgets over future years, but at the same time if capital maintenance works are put off then the total lifetime costs of keeping an asset are likely to go up. This effect is often hidden in medium term financial planning as asset lives are much longer than four years.
- 4.14. The capital programme includes yearly investment for property maintenance, highways maintenance, relevant specific capital grants and the future schools programme. This will help to deal with the most urgent backlog issues, focussing on worst condition first and related risk. However, estate rationalisation programs, closure/disposal of assets, asset transfers and other capital projects to refurbish or replace operational properties will also be used to reduce the backlog funding needed. This will not solve the specific total backlog but is a way of targeting the main issues in a reasonable way.
- 4.15. **Capital Financing**
- 4.16. All capital expenditure incurred has to be physically financed. Once the finite available sources of internal financing (capital receipts, reserves/revenue) and external grant financing are extinguished the Authorities only recourse is to debt (borrowing).

Medium term capital financing

Financing source	Final Budget 2025/26	Indicative Budget 2026/27	Indicative Budget 2027/28	Indicative Budget 2028/29
Debt	22,000,566	8,188,990	8,188,990	8,188,990
External sources	3,046,000	3,046,000	3,046,000	3,046,000
Capital Receipts	3,757,500	2,407,500	1,407,500	50,000
Reserves	103,000	103,000	103,000	103,000
Total Funding	28,907,066	13,745,490	12,745,490	11,387,990

- 4.17. Approval of capital expenditure funded through borrowing locks the Council into committing revenue funding over a very long period (as long as 50 years). Minimum Revenue Provision (MRP) is required to be funded from revenue budgets to cover expected borrowing repayments and the level of MRP is increasing over the medium-term so the Authority needs to ensure its capital plans remain affordable and sustainable.

Proportion of financing costs to net revenue stream

Proportion of financing Costs to net revenue stream	2024/25 Estimate £m's	2025/26 Estimate £m's	2026/27 Estimate £m's	2027/28 Estimate £m's	2028/29 Estimate £m's
Net Interest payable	6.6	6.8	7.3	7.4	7.4
MRP	6.4	6.1	6.7	6.7	6.9
Total Financing costs	13.0	12.9	14.0	14.1	14.3
Net Revenue Stream	199.3	215.8	227.1	238.6	250.4
Proportion of net revenue stream %	6.52%	5.98%	6.16%	5.91%	5.71%

- 4.18. The table above compares financing costs to the net revenue stream i.e. the amount of income from Council Tax, business rates and general government grants. The overall proportion of financing costs remains fairly stable over the MTFP window which is reflective of the total revenue stream increasing in line with expected inflationary impacts whilst the financing costs increase moderately in line further capital investment made, most notably the completion of the new Abergavenny 3-19 school.
- 4.19. Total financing costs remain sustainable within the context of the Authorities overall revenue budget in so much that they are fully provided for within the medium term financial plan.

Ongoing Capital Programme Development

- 4.20. In light of continuing funding constraints, it is important that the Council understands the key risks and future aspirations for capital investment. These are captured through various plans and strategies across the Council. There will be a range of priorities originating from these plans which will look to deliver on aspirational long term objectives such as the decarbonisation agenda and affordable housing.
- 4.21. Alongside this, it is important to consider the requirement to maintain the Councils current asset base. As noted previously, this is something that has been severely impacted by constrained funding levels in previous years and has resulted in a maintenance backlog developing, which gives rise to the potential for major asset failures to occur where issues have developed over time. Although the risks associated are captured through ongoing condition surveys and monitoring, it is inevitable that as time progresses that more significant sums of investment will be required to maintain or substantially refurbish ageing assets.
- 4.22. There will inevitably be other priorities to be considered for inclusion within the capital programme over the medium to longer term, with the next phase of WG's Sustainable Communities for Learning Programme and further regeneration schemes that will require substantial match funding commitments. The consideration to support such priorities will need to be carefully balanced against other competing demands.
- 4.23. **Capital Receipts**
- 4.24. In circumstances where property is deemed surplus to requirements and can be sold, the Disposal Strategy within the Asset management strategy (AMS) provides the process by which this happens and considerations for doing so. To enable a consistent approach to the disposal of surplus land and property, the Disposal policy clarifies the circumstances within

which the council will achieve its requirements for best consideration, whilst supporting the Council's objectives as per the Community & Corporate Plan and AMS.

Forecast Capital receipts

	2024/25	2025/26	2026/27	2027/28	2028/29
	£000	£000	£000	£000	£000
Balance as at 1st April	9,984	5,052	3,332	1,116	635
Less: capital receipts used for financing	(1,381)	(640)	(460)	(460)	(460)
Less: capital receipts used to support capitalisation directive	(3,744)	(3,358)	(2,358)	(324)	0
Capital receipts for Redundancies	0	0	0	0	0
Capital receipts Received	91	0	0	0	0
Capital receipts Forecast	103	2,278	603	303	0
Forecast Balance as at 31st March	5,052	3,332	1,116	635	175

- 4.25. The value of Capital receipts forecast after 2025/26 drops off quite considerably which is reflective of the replacement local development plan (RDLP) not proceeding as quickly as envisaged in the original delivery agreement. This will have an impact on the balance of receipts available to fund future capital investment demands in the near term.
- 4.26. Traditionally receipts have been earmarked to finance the Authorities future schools investment. Whilst the Council has further future schools aspirations, in recent years it was not proposed to advocate a similar approach to members in respect of tranche B. Schools based assets commonly have a useful life of 50 years+, and as such traditional long term loan funding can be sourced at competitive rates with limited annual revenue volatility. The Council derives greater revenue benefit by using capital receipts in affording replacement of short life assets, given the avoidance of proportionately more significant minimum revenue provision.

5. 2025/26 Treasury Management Strategy

Overview

- 5.1. The treasury management strategy sets out the Council's longer term borrowing requirement and plans, which is driven mainly by the capital programme requirements and the resulting impact on the revenue budget.
- 5.2. It includes how it will manage and invest its surplus cash which also have various targets/limits set as part of prudential indicators, treasury management indicators and also includes additional guidance of the Welsh Government Investment Guidance and the Minimum Revenue Provision Policy.
- 5.3. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the TM Code) which outlines that capital expenditure plans should be:

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

Prudent: All external borrowing and other long-term liabilities are within prudent levels. The full Council set an authorised limit and operational boundary for external debt, these need to be consistent with the Council's plans for affordable capital expenditure and financing, and with its treasury management policy statement and practices.

Sustainable: taking into account the arrangements for repayment of debt (including through MRP) and consideration of risk and the potential impact on the Council's overall financial sustainability in the medium to longer term.

- 5.4. The Governance & Audit Committee in its role as the Council's delegated body to review and scrutinise the authority's financial affairs must receive as a minimum a quarterly treasury update report including an annual report after its close on treasury management activities during the year.
- 5.5. Overall responsibility for treasury management remains with the full Council. In effect, that body delegates the execution and administration of treasury management decisions to the Section 151 officer or deputy who will act in accordance with the Treasury management strategy, treasury management practices and CIPFA's Standard of Professional Practice on treasury management.
- 5.6. The detailed Treasury strategy for 2025/26 is included at **Appendix 2**. Key points of interest are summarised below.

Annual Minimum Revenue Provision (MRP) Policy Statement

- 5.7. The annual Minimum Revenue Provision is the mechanism used for spreading the capital expenditure financed by borrowing over the years to which benefit is provided. Regulations state that the authority must calculate for the current financial year an amount of minimum revenue provision which it considers to be prudent. In addition, there is the requirement for an Annual Minimum Revenue Provision Policy Statement to be drafted and submitted to full Council. This is shown in section 8 of the strategy. The policy also makes consideration of the Welsh Government MRP guidance.

Type of Expenditure	Option Applied	MRP Calculation
Supported Borrowing funded Expenditure	Option 3	Calculated on an annuity basis over the expected useful life of an asset, whereby the MRP element increases over time to reflect a consistent charge over life of the assets taking into account the real value of money

Unsupported Borrowing funded Expenditure	Option 3	Calculated on an annuity basis over the expected useful life of an asset, whereby the MRP element increases over time to reflect a consistent charge over life of the assets taking into account the real value of money
Leases and PFI	Option 5	MRP charges will be adjusted so that the overall charge for MRP over the life of the lease reflects the value of the right-of-use asset recognised on transition rather than the liability.
Loans classed as capital expenditure	Option 6	As prescribed

Borrowing Strategy

- 5.8. Given the constraints on public expenditure over recent years and in particular to local government funding, the Council'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 long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.
- 5.9. By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years.
- 5.10. The Council has previously raised the majority of its long-term borrowing from the PWLB and expects to continue to do so during 2025/26. PWLB loans are no longer available to local Councils planning to buy investment assets primarily for yield and the Council intends to avoid this activity in order to retain its access to PWLB loans.
- 5.11. Short term borrowing has traditionally been sourced from the inter-Local authority market and this is expected to continue as it provides a low administration cost option for borrowing at competitive rates of interest.

Investment Strategy

- 5.12. Both the CIPFA Code and the WG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income
- 5.13. The Authority continues to hold a minimum of £10m of investments to meet the requirements of a professional client under the Mifid II regulations (Markets in financial instruments directive) and therefore consideration will continue to be given to investing

balances with a more medium to long term outlook, albeit within the confines and framework of the internal borrowing approach outlined above.

- 5.14. The existing portfolio of strategic pooled funds currently provides a degree of risk diversification into different sectors, however the Council will closely monitor the returns on these investments in light of a heightened interest rate environment.
- 5.15. The approved counterparty list and limits are shown in the Treasury strategy. The investment limits proposed complement the Authorities objective of striking an appropriate balance between risk and return, whilst minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 5.16. It is important to note that the counterparty rating limits and investment maturities act as limits and not targets and are further informed by market information alongside bespoke periodic advice from our treasury advisers as to sustainability and financial robustness of specific counterparties.

Environmental, social and governance (ESG) policy

- 5.17. Environmental social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level.
- 5.18. When investing in banks and funds, the Council 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.
- 5.19. An updated list of signatories to the three charters is provided by the Authority's treasury advisors each quarter and will continue to be monitored. Any counterparties not signed up to all three charters will be removed from the Authorities investment portfolio.
- 5.20. The Council will continue through 2025/26 to engage with its advisors Arlingclose to evaluate its existing investments and assess whether a more proactive ESG policy can be applied. Governance and Audit Committee will be kept informed of progress through the regular reporting of treasury performance into committee.

6. CONSULTTEES:

Deputy Chief Executive

Cabinet Member for Resources

Arlingclose – Treasury Management Advisors to Monmouthshire CC

7. APPENDICIES:

Appendix 1 – 2025/26 Capital strategy

Appendix 2 - 2025/26 Treasury Management Strategy including the Minimum Revenue Provision policy statement and Investment & Borrowing Strategies

8. AUTHORS:

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Strategy & Treasury Management Strategy 2025/26

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1. Executive Summary

Capital Strategy

- 1.1. The requirement for Local Councils to produce an annual Capital Strategy is outlined in the most recent update of the CIPFA Prudential Code, published in 2021.
- 1.2. In order to demonstrate that the Council takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, Councils should have in place a capital strategy that sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.
- 1.3. As local Councils become increasingly complex and diverse it is vital that those charged with governance understand the long-term context in which investment decisions are made and the financial risks to which the Council is exposed.
- 1.4. With local Councils having increasingly wide powers around commercialisation, more being subject to group arrangements and the increase in combined Council arrangements it is no longer sufficient to consider only the individual local Council; the residual risks and liabilities to which it is subject should also be considered.
- 1.5. The Capital strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. The development of a capital strategy allows flexibility to engage with full council to ensure that the overall strategy, governance procedures and risk appetite are fully understood by all elected members.
- 1.6. Decisions made now on capital and treasury management will have financial consequences for the Council for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

Treasury Strategy

- 1.7. Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council borrows and invests substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful

identification, monitoring and control of financial risks are therefore central to the Council's prudent financial management.

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

1.9. The TM Code identifies three key Treasury management principles:

1.10. **KEY PRINCIPLE 1**

Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

KEY PRINCIPLE 2

Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds.

KEY PRINCIPLE 3

They should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

The TM Code is clear that throughout public services, the priority for treasury management is to protect capital rather than to maximise return. The avoidance of all risk is neither appropriate nor possible. However, a balance must be struck with a keen responsibility for public money.

1.11. This Council 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.

2025/26 Capital Strategy

1. Introduction

- 1.1. This Capital Strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services, along with an overview of how associated risk is managed and a summary of the implications for future financial sustainability.
- 1.2. Capital expenditure is where the Council spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this also includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.
- 1.3. Current Welsh Government legislation on the flexible use of capital receipts permits them to be used to fund revenue expenditure that will generate ongoing savings or reduce revenue costs or pressures over the longer term to a Council, or several Councils, and/or to another public body.
- 1.4. In the current economic climate of financial constraints and a continued Medium Term Financial Projection (MTFP) revenue budget gap, expenditure on capital needs to remain within affordable limits. Demand for capital resources remains high and therefore inevitably, prioritisation of projects, leveraging in other sources of funding and working with partners remain key to meeting this demand.
- 1.5. The strategy highlights the key risks and considerations:
 - The Council's medium term capital programme contains a substantial amount of borrowing, in particular until the end of 2025/26 as part of the financing package of the new King Henry school in Abergavenny. Whilst this is affordable and included in the medium term revenue budget considerations, it would be unsustainable to continue at a such a heightened borrowing level thereafter, especially given the current economic climate and ongoing pressures upon the Council's revenue budget.
 - Within the context of significant demands for capital resources and limited availability, there is the need to develop and link our use of the various strategic plans across the organisation which drive the need for capital investment and develop alternative strategies to meet demand so the Councils own capital programme is prioritised within an affordable framework. This will include clearer visibility and assessment of demand for maintenance of assets such as property, highways and other operational assets, as well as focussing on asset rationalisation.

- Useable capital receipts have been used successfully to provide a limited one-off resource to support financing of the capital programme. In recent years the Council has made use of Welsh Government's guidance allowing flexible use of capital receipts to meet one-off revenue costs associated with service reform. The Council has called upon this flexibility since 2019/20 and plans to do similarly over the medium term.
- With the pool of useable capital receipts forecast to be at minimal levels at the end of the medium term financial plan period, the continued use of capital receipts for this purpose is recognised as necessary but will be required to be tapered down.
- Approval of capital expenditure funded through borrowing locks the Council into committing revenue funding over a very long period (as long as 60 years). With Minimum Revenue Provision (MRP) budgets increasing over the medium-term, the Council needs to ensure its capital plans remain affordable and sustainable.
- The prudential indicators, including borrowing limits, are in line with the final budget proposals presented to Cabinet and Council in February 2024.

1.6. The strategy will be reviewed and updated on an annual basis alongside the Treasury Management Strategy given that both strategies are intrinsically linked.

1.7. The strategy sets out:

- The key objectives outlined in the Prudential Code and the governance arrangements for the Capital Strategy and programme (Section 2)
- The medium term capital programme, its financing, and the revenue implications arising from capital investment (Sections 3 to 5)
- Long term projections for the capital financing costs of the Council and where future demands arise from the various strategic plans across the Council for further capital investment. (Section 6)
- Capital disposals & receipts (Section 7)
- Links between the Capital Strategy and Treasury Management strategy, and treasury decision making. (Sections 8 to 10)
- Consideration of investment for service purposes and commercial activity of the Council and the strategy going forward. (Section 11 and 12)
- Summary of the skills and knowledge the Council holds in order for it to carry out its capital investment and treasury functions. (Section 13)

2. The Prudential Code

2.1. The objective of the Prudential Code is to ensure, within a clear framework, that the capital expenditure plans of local Councils are:

- **AFFORDABLE** - It is important that the Council's capital investment remains within sustainable limits. The Code requires Councils to consider the resources currently available to them and those estimated to be available in the future, together with the totality of the capital plans and income and expenditure forecasts. As well as capital expenditure plans, Councils should consider the cost of past borrowing, ongoing and future maintenance requirements, planned asset disposals and the MRP policy, which all impact upon affordability.
- **PRUDENT** – All external borrowing and other long-term liabilities are within prudent levels. The full Council set an authorised limit and operational boundary for external debt, these need to be consistent with the Council's plans for affordable capital expenditure and financing, and with its treasury management policy statement and practices.
- **SUSTAINABLE** – taking into account the arrangements for repayment of debt (including through MRP) and consideration of risk and the potential impact on the Council's overall financial sustainability in the medium to longer term.

- 2.2. The risks associated with investments for commercial purposes should be proportionate to the Council's financial capacity and standing.
- 2.3. Treasury management decisions should be taken in accordance with good professional practice and in full understanding of the risks involved and how these risks will be managed to levels that are acceptable to the organisation.
- 2.4. The Prudential Code requires Councils to look at capital expenditure plans, investments and debt in the light of overall organisational strategy and resources and ensure that decisions are being made with sufficient regard to the long-term financing implications and potential risks to the Council.
- 2.5. In order to demonstrate that local Councils have fulfilled these objectives, the Prudential Code sets out the prudential indicators that must be used, and the factors that must be taken into account. These indicators are presented alongside the final budget presented to Council.
- 2.6. **Governance & reporting**
- 2.7. The responsibility for decision making in respect of capital investment, investment and borrowing, and prudential indicators lies with full Council.
- 2.8. Council will approve the Capital strategy and the annual Treasury management strategy (including the investment strategy and MRP policy statement).
- 2.9. Council delegates responsibility for the detailed implementation, monitoring and scrutiny of capital investment consequences, including treasury management policy, strategy and practices to the Governance & Audit Committee.

- 2.10. The execution and administration of treasury management decisions is delegated the Section 151 officer or deputy, who will act in accordance with the policy and strategy and follow CIPFA's Standard of Professional Practice on Treasury Management.
- 2.11. The Council recognises the value in the use of treasury advisors to support the management of risk and to access specialist skills and resources. Support provided by its current advisors Arlingclose Limited includes advice on timing of decision making, training, credit updates, economic forecasts, research, articles and advice on capital finance.
- 2.12. **Revised strategy:** Full Council would be asked to approve a revised Treasury Management Strategy should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, a significant change in the Council'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.

3. Setting capital budgets

Over the next four years the Council is planning capital expenditure of £66.8m as summarised below:

Table 1: Capital Medium Term Financial Plan

Scheme Type	Indicative Budget 2025/26	Indicative Budget 2026/27	Indicative Budget 2027/28	Indicative Budget 2028/29
Asset Management Schemes	2,449,049	2,230,049	2,230,049	2,230,049
School Development Schemes	12,232,076	0	0	0
Infrastructure & Transport Schemes	6,075,740	4,204,740	4,204,740	4,204,740
Regeneration Schemes	730,200	730,200	730,200	730,200
Inclusion Schemes	1,200,000	1,200,000	1,200,000	1,200,000
ICT Schemes	462,500	413,000	413,000	413,000
Vehicles Leasing	1,500,000	1,500,000	1,500,000	1,500,000
Capitalisation Directive	3,707,500	2,357,500	1,357,500	0
Other Schemes	550,000	1,110,000	1,110,000	1,110,000
Total Expenditure	28,907,066	13,745,490	12,745,490	11,387,990

- 3.1. Member responsibility for assets rests with the Cabinet member for Resources. The main governance and approval process for capital investment is summarised as follows:
- Council approve the overall revenue and capital budgets following recommendations from Cabinet. They also approve the borrowing limits of which the capital programme will need

to remain within (***the Authorised limit***). This limit is a key performance indicator for treasury management and ensures that capital expenditure is limited and borrowing remains within an affordable limit.

- Any variation of the Authorised borrowing limit can only be approved by Council.
- Council approve the Treasury Management, Investment & Borrowing strategies, which are intrinsically linked to capital expenditure and the capital strategy.
- Service managers put forward proposals for any change or additional capital investment annually which are collated and scrutinised by senior finance teams, who consider the financing cost of the proposals. These are initially screened against the approved priority investment matrix, and a recommendation made to the strategic leadership team (SLT).
- SLT further consider the recommendations against the approved priority matrix and wider Council plans and strategies in place. Following review, SLT will make recommendation to Cabinet for inclusion in the capital budget and to be considered further by Cabinet and Council at final budget setting stage.
- Monitoring of capital expenditure is reported to Cabinet and includes updates on capital receipts and any consequential impact on the revenue budget of the scheme progress made.
- The 2025/26 and forward capital budgets include investment in schemes which attract significant match funding from external bodies which services will be responsible for bidding for. The agreed priority investment matrix listed below plays a key role in ensuring investment is properly aligned with the overall Community and Corporate Plan and wider strategic principles of the Council.

Ref	Aspect	Indicative Rank
H&S	Health & safety works (life & limb works)	1
Legal	Legal & regulatory obligations	1
Rev	Allow a balanced revenue budget to be set, or a net deficit in revenue spending to be positively addressed	2
Corp	Deliver Community & corporate plan priorities	2
Third	Attract significant 3 rd party or private match funding to the County	3
S2S	Spend to save transformational works (including flexible use of capital receipts)	3
INC	Spend to earn net income – rents, interest and dividends	3

Sust	Create sustainable income streams – business rates and council tax	3
AMP	Asset management plan outcomes	4
INF	Addresses major infrastructure investment	4

- 3.2. The current capital MTFP does not cover all the capital budget pressures that have been identified. This shows that there is more demand for capital spending than the Council considers it can reasonably afford. This means that capital schemes will have to be ranked or the capital available has to be divided more widely than is ideal.
- 3.3. All stakeholders must understand that paying for capital spending by borrowing only pushes the cost to revenue budgets over future years, but at the same time if capital maintenance works are put off then the total lifetime costs of keeping an asset are likely to go up. This effect is often hidden in medium term financial planning as asset lives are much longer than four years.
- 3.4. The capital programme includes yearly investment for property maintenance, highways maintenance, relevant specific capital grants and the future schools programme. This will help to deal with the most urgent backlog issues, focussing on worst condition first and related risk. However, estate rationalisation programs, closure/disposal of assets, asset transfers and other capital projects to refurbish or replace operational properties will also be used to reduce the backlog funding needed. This will not solve the specific total backlog but is a way of targeting the main issues in a reasonable way.
- 3.5. There might be other calls for capital funding for schemes that are not yet included in the overall programme. Any new schemes that come forward during the year will either need to be paid for by specific funding sources or represent a call upon any available programme under spends. It is important that capital spending stays at a reasonable level within the framework agreed and, therefore, ranking of capital spending is essential and needs to be affordable and sustainable in the long-term.
- 3.6. Frequent reviews of previously approved schemes that have been delayed will be carried out to ensure that they are still affordable within set budgets. This is especially important in the current economic situation of high inflation and supply chain disruption.

4. Capital financing requirement

- 4.1. All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing

Financing source	Final Budget 2025/26	Indicative Budget 2026/27	Indicative Budget 2027/28	Indicative Budget 2028/29
Debt	22,000,566	8,188,990	8,188,990	8,188,990
External sources	3,046,000	3,046,000	3,046,000	3,046,000
Capital Receipts	3,757,500	2,407,500	1,407,500	50,000
Reserves	103,000	103,000	103,000	103,000
Total Funding	28,907,066	13,745,490	12,745,490	11,387,990

- 4.2. Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). Alternatively, proceeds from selling capital assets (capital receipts) may be used to replace debt finance.
- 4.3. The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace the debt.
- 4.4. The table below provides the medium-term outlook for the Council's CFR, inclusive of the impact of PFI arrangements. This is based on the indicative medium term capital programme and, therefore, does not reflect any potential additional borrowing beyond that already approved.

Table 3: CFR and related MRP charges in £m

	2024/25 Forecast £m's	2025/26 Estimate £m's	2026/27 Estimate £m's	2027/28 Estimate £m's	2028/29 Estimate £m's
Capital Financing Requirement	220.0	234.4	234.4	234.5	238.0
Minimum Revenue Provision	6.4	6.1	6.7	6.6	6.9

- 4.5. The increase in capital expenditure, including that funded via other sources, will be a considerable operational challenge to achieve, as evidenced by the significant levels of slippage incurred over recent financial years. Therefore, it is important to recognise the possibility that the actual CFR may be lower than estimated by the end of the 2024/25 financial year, and in turn reducing the actual need to undertake external borrowing.
- 4.6. It is important that capital expenditure plans are realistic, as otherwise this can result in unnecessarily committing revenue resources towards capital financing budgets, which in turn restricts alternative investment in achieving service delivery aspirations.

5. Revenue budget implications

- 5.1. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. These net annual charges are known as financing costs. The table below compares these financing costs to the net revenue stream i.e. the amount of income from Council Tax (MCC element), business rates and general government grants.

Table 4: Proportion of financing costs to net revenue stream

Proportion of financing Costs to net revenue stream	2024/25 Estimate £m's	2025/26 Estimate £m's	2026/27 Estimate £m's	2027/28 Estimate £m's	2028/29 Estimate £m's
Net Interest payable	6.6	6.8	7.3	7.4	7.4
MRP	6.4	6.1	6.7	6.7	6.9
Total Financing costs	13.0	12.9	14.0	14.1	14.3
Net Revenue Stream	199.3	215.8	227.1	238.6	250.4
Proportion of net revenue stream %	6.52%	5.98%	6.16%	5.91%	5.71%

- 5.2. The overall proportion of financing costs remains fairly stable over the MTFP window which is reflective of the total revenue stream increasing in line with expected inflationary impacts whilst the financing costs increase moderately in line further capital investment made.
- 5.3. **Sustainability:** Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years afterwards. The Section 151 officer is satisfied that the proposed capital programme is prudent, affordable and sustainable because the financing costs have been spread over no more than, the lower of 50 years and the expected life of the resultant asset, so the assets will be paid for by the Council tax payers benefitting from them over the life of the assets. The financing costs for assets funded by debt are included in each annual revenue budget which is balanced before approval by Council.

6. Long term capital financing projections

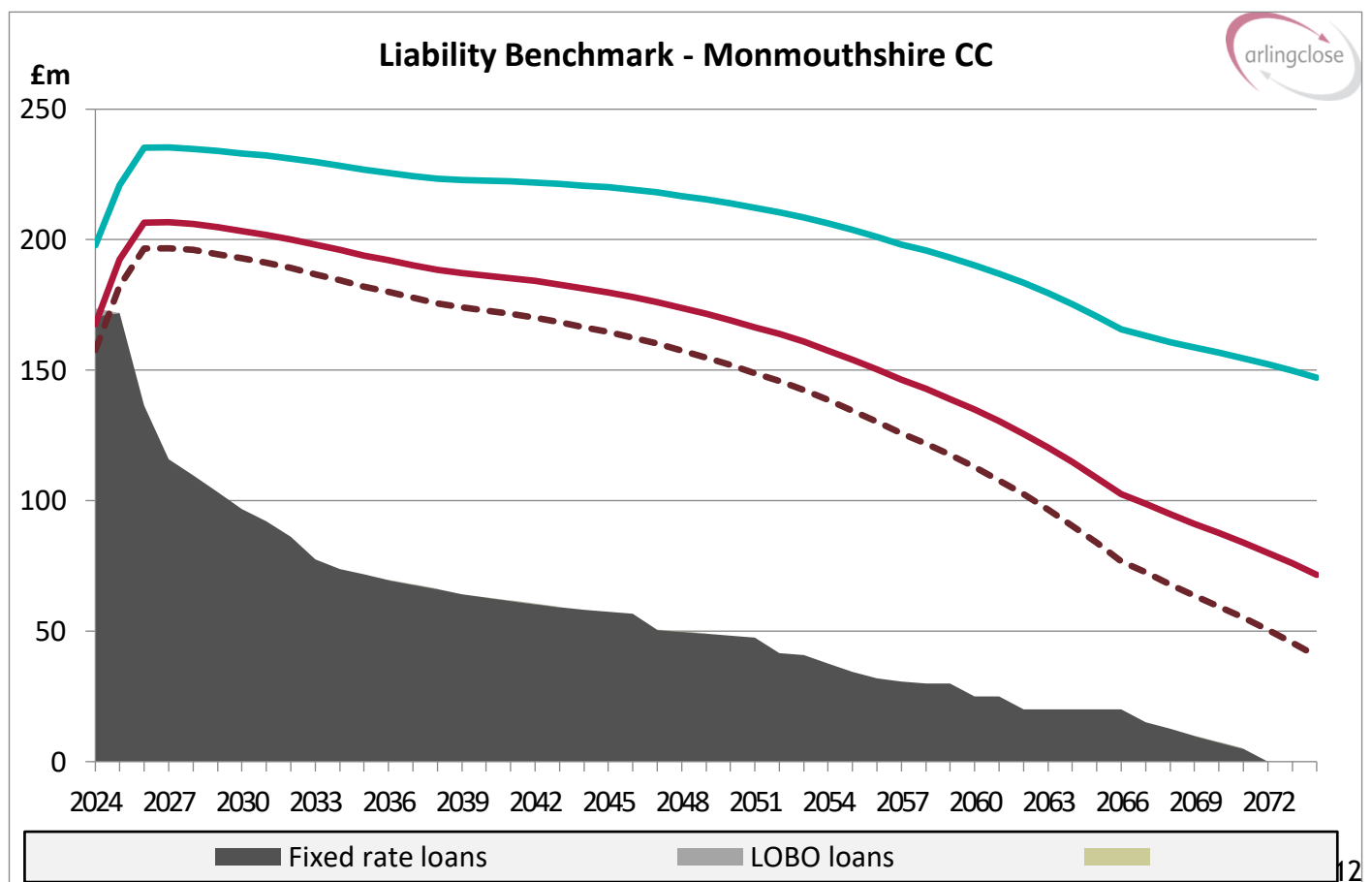
- 6.1. Capital investment is often for assets which have a long-term life i.e. buildings and road infrastructure may have an asset life in excess of 50 years. The financing of these assets could also be over a long-term period. Therefore, it is important to take a long-term view of capital expenditure plans and the impact that may have on the affordability and sustainability of capital expenditure. Once capital expenditure has been financed from

borrowing the Council is committed to the revenue implications arising from that decision (i.e. the annual cost of MRP) for a long-term period.

6.2. Due to the financial constraints that the Council continues to operate under, it is anticipated that the ability to finance capital expenditure from borrowing will remain incredibly restricted over the long-term. This means that the Council will face a significant challenge in being able to finance its medium to longer term capital aspirations in terms of maintenance backlogs, as well as the need to invest in new and existing assets.

6.3. The Liability benchmark shown below demonstrates the following, in terms of the impact of the current capital programme and projected capital investment financed from borrowing over the next 50 years:

- The impact the current capital programme has in terms of the increasing the CFR (blue line) in the short term and the consequent need for external borrowing, denoted by the steepness of the solid and dashed red curves over the initial years;
- A longer-term gradual reduction in the overall level of CFR, as shown by the trajectory of the solid blue line which is a result of indicative annual borrowing being below the level of annual MRP;
- A longer-term reduction in the need to undertake actual external borrowing, as shown by the trajectory of the dashed red line;
- A requirement for further external borrowing in the medium to long-term, despite lower capital expenditure levels, resulting from the need to refinance maturing loans.



- 6.4. It should be noted that the scenario above is for modelling purposes only and the actual position will be impacted by a number of factors that will ultimately determine the level of borrowing and associated capital financing costs. These factors include assumptions included on the level and deliverability of capital investment; the level of external financing for the programme; internal Council resources; and future MRP policy and treasury strategy.

Ongoing Capital Programme Development

- 6.5. In light of continuing funding constraints, it is important that the Council understands the key risks and future aspirations for capital investment. These are captured through various plans and strategies across the Council. There will be a range of priorities originating from these plans which will look to deliver on aspirational long term objectives such as the decarbonisation agenda and affordable housing.
- 6.6. Alongside this, it is important to consider the requirement to maintain the Council's current asset base. As noted previously, this is something that has been severely impacted by constrained funding levels in previous years and has resulted in a maintenance backlog developing, which gives rise to the potential for major asset failures to occur where issues have developed over time. Although the risks associated are captured through ongoing condition surveys and monitoring, it is inevitable that as time progresses that more significant sums of investment will be required to maintain or substantially refurbish ageing assets.
- 6.7. The level of annual investment included in the capital programme for maintenance and refurbishment of assets assists in addressing the highest priority backlog issues, focussing on worst condition first and associated risk. However, estate rationalisation programmes, closure/disposal of assets, asset transfers and other capital projects to refurbish or replace operational properties will also be utilised to offset the backlog funding required. This will not address the specific total backlog but is a way of targeting the main issues in an affordable manner.
- 6.8. There will inevitably be other priorities to be considered for inclusion within the capital programme over the medium to longer term, with the next phase of WG's Sustainable Communities for Learning Programme and further regeneration schemes that will require substantial match funding commitments. The consideration to support such priorities will need to be carefully balanced against other competing demands.

7. Capital disposals & receipts

- 7.1. The Council's [Asset Management Strategy](#) (AMS) sets out the strategic objectives for our land and property. The strategy sets out the way property will be managed and contribute to

the policy objectives of the council. The Asset Management Strategy provides a clear vision of the future of property assets and management of their strategic performance.

7.2. Asset Management Strategy objectives:

- **A fit for purpose and collaborative estate** – providing assets necessary to deliver council services, in the right location, compliant and co-located where possible.
- **Be good role models for climate and nature practices** – manage our assets well, lowering our carbon footprint and promoting more sustainable practices.
- **Maximised and commercialised asset base** – generate more revenue and higher value outcomes (financial and non-financial) from sales of surplus assets.
- **Strengthen the enablement role of Landlord Services** – continue to support service objectives including job creation, tackling homelessness, constructing affordable homes, driving value for money.
- **Optimise social value from community assets** – support community assets equitably, transparently, and consistently.

7.3. MCC benefits from a diverse land and property portfolio that has delivered a commercial return over a number of years. There are over 1500 assets in MCC ownership which support different services and public needs.

7.4. In circumstances where property is deemed surplus to requirements and can be sold, the Disposal Strategy within the AMS provides the process by which this happens and considerations for doing so. To enable a consistent approach to the disposal of surplus land and property, the Disposal policy clarifies the circumstances within which the council will achieve its requirements for best consideration, whilst supporting the Council's objectives as per the Community & Corporate Plan and AMS.

7.5. The AMS acknowledges a need for assets to align to its five core objectives. In circumstances where properties are considered to not meet this criteria, have alternative development potential or can be rationalised to unlock capital receipts, the Council's Disposal Policy can be exercised to support the disposal of surplus assets.

7.6. When capital receipts are generated these can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts "flexibly" on service transformation projects under the Welsh Government flexible use of capital receipts policy. Repayments of capital grants, loans and investments also generate capital receipts.

7.7. The Council anticipates the following capital receipts in the forthcoming financial years:

Table 5: Forecast Capital receipts

	2024/25	2025/26	2026/27	2027/28	2028/29
	£000	£000	£000	£000	£000

Balance as at 1st April	9,984	5,052	3,332	1,116	635
Less: capital receipts used for financing	(1,381)	(640)	(460)	(460)	(460)
Less: capital receipts used to support capitalisation directive	(3,744)	(3,358)	(2,358)	(324)	0
Capital receipts for Redundancies	0	0	0	0	0
Capital receipts Received	91	0	0	0	0
Capital receipts Forecast	103	2,278	603	303	0
Forecast Balance as at 31st March	5,052	3,332	1,116	635	175

- 7.8. Further specific details of planned asset disposals are reported regularly to Cabinet Members.
- 7.9. The value of Capital receipts forecast after 2025/26 drops off quite considerably which is reflective of the replacement local development plan (RDLP) not proceeding as quickly as envisaged in the original delivery agreement. This will have an impact on the balance of receipts available to fund future capital investment demands in the near term.
- 7.10. Traditionally receipts have been earmarked to finance the Councils future schools investment. Whilst the Council has further future schools aspirations, it is not proposed to advocate a similar approach to members in respect of futures tranches of investment. Schools based assets commonly have a useful life of 50 years+, and as such traditional long term loan funding can be sourced at competitive rates with limited annual revenue volatility. The Council derives greater revenue benefit by using capital receipts in affording replacement of short life assets, given the avoidance of proportionately more significant minimum revenue provision.

8. Treasury management

- 8.1. The Treasury management strategy (TMS) is considered alongside the Capital strategy at Council and the figures within it the link directly to the impact of the debt resulting from the Capital strategy and the subsequent capital investment.
- 8.2. Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

9. Borrowing strategy

- 9.1. Whilst the Council has significant long term borrowing requirements, the Council's current strategy of funding capital expenditure is through utilising internal resources such as reserves (called 'internal borrowing') rather than undertaking new borrowing i.e. we defer taking out new long term borrowing and fund capital expenditure from day to day positive cash-flows for as long as we can.
- 9.2. By using this strategy, the Council can also minimise cash holding at a time when counterparty risk remains high. The interest rates achievable on the Council's investments are also significantly lower than the current rates payable on long term borrowing and this remains a primary driver for our current 'internally borrowed' strategy.
- 9.3. Whilst this strategy minimises investment counterparty risk, the risk of interest rate exposure is increased as the current longer term borrowing rates may rise in the future. The market position is being constantly monitored in order to minimise this risk.
- 9.4. The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheaper short-term loans and long-term fixed rate loans where the future cost is known but higher.
- 9.5. **Authorised limit:** The Council is legally obliged to approve an affordable borrowing limit (also termed the 'authorised limit' for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 6: Authorised limit and operational boundary for external debt in £m

Operational boundary and Authorised limit	2025/26 Estimate £m's	2026/27 Estimate £m's	2027/28 Estimate £m's	2028/29 Estimate £m's
Operational Boundary - borrowing	248.2	264.1	265.6	267.2
PFI, leases & right of use assets/Headroom	17.8	17.8	17.8	17.8
Operational Boundary - total external debt	266.0	281.9	283.4	285.0
Authorised Limit - borrowing	263.6	279.5	281.0	282.6
PFI, leases & right of use assets/Headroom	18.8	18.8	18.8	18.8
Authorised Limit - total external debt	282.4	298.2	299.8	301.4

10. Investment strategy

- 10.1. Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

- 10.2. The Council's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local Councils or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Governance

- 10.3. Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the S151 Officer or Deputy and their staff, who must act in line with the treasury management strategy approved by full Council. The draft 2025/26 strategy is considered alongside this paper with a final version to be put forward for approval by full Council in March 2025. In addition quarterly treasury reports on activity are presented to Governance and Audit Committee who are responsible for scrutinising treasury management decisions.

11. Investments for Service Purposes

- 11.1. The Council has historically incurred the majority of its capital expenditure on the assets required to provide its services such as schools, highways and corporate facilities.
- 11.2. However it may also invest in other entities for the wider economic and societal benefits of its communities or businesses. This may include making loans or taking an equity interest in local bodies or the Council's subsidiaries and joint ventures which in turn contribute to services to Monmouthshire residents. It may also include providing guarantees to other bodies.
- 11.3. In light of the public service objective, the Council traditionally is willing to take more risk on these investments than it would with more traditional treasury investments, which are more highly regulated, however any such arrangement should only be entered into if such investments are assessed to break even after all costs are taken into account or if the benefits of the scheme are considered to be worth the net cost.
- 11.4. Decisions on service related investments (e.g. vibrant homes loans afforded through WG repayable grant or economic development loans) can be made by the relevant service manager provided a 100% loss can be covered by the managers existing budgets. Should additional budget/funding be required in the event of a default, then before making the service expense/investment, the Section 151 officer is required to be consulted and where

member approval is felt necessary that the details and risks involved presented to Cabinet for approval.

- 11.5. The criteria and limits laid down in the strategy for treasury Investments can be used as a comparator to measure risks against. Most loans and shares are capital expenditure and such decision requires approval of full Council to be added to the capital programme.
- 11.6. A list of investments for service purposes including loans and guarantees will be maintained by the Treasury team and they will be assessed at least annually and reported as part of the annual accounts and include Foster carer loans and Low cost home ownership equity interest.

12. Commercial Activities

- 12.1. Monmouthshire County Council adopted an Asset Investment Policy in May 2018, with a further amendment to the policy approved in February 2019, which afforded the authority the powers to acquire property to meet policy objectives. The commercial asset investment portfolio contains the strategic sites that are to generate a revenue return to MCC, and/or afford regenerative or social benefit via the ownership of strategic investments.
- 12.2. Total commercial investments held by the Council are currently valued at £31.3m:

Table 7: Value of Commercial investments

Asset	Value @ 01/04/2023	Movement	Value @ 31/03/2024
Castlegate Business Park	6,158,995	495,275	6,654,270
Castlegate Business Park - Service Charge	260,510	-59,088	201,422
Newport Leisure Park	19,756,000	-937,000	18,819,000
Oak Grove Solar Farm	5,484,818	126,119	5,610,937
Broadway Loan	792,293	-792,293	0
Total	32,452,616	-1,166,987	31,285,629

- 12.3. The ratio of commercial income compared to the Council's net revenue budget is around 1.5% and is considered prudent and proportionate, and is not considered to expose the Council to undue risk if any one income stream was compromised. To assist in managing this risk the Council holds reserves for its commercial investments that look to further mitigate the factors that may impact upon future income generation.

Governance

- 12.4. The Council paused any further active consideration of commercial investments activity as a consequence of the pandemic and the resultant uncertainty in property and investment markets. No investments have been made subsequent to the strengthening of the

Prudential code and confirmation has been provided on an annual basis to the DMO that no PWLB borrowing is intended for the purpose of acquiring investment assets primarily for the purposes of yield.

- 12.5. A residual capital budget of £1.85m is held to support any further capital investment required on existing investments, in order to maintain value and maximise return on investment.
- 12.6. As a result of the Council's risk appetite any further new investment will only be considered in order to support the core policy objectives contained within the Council's latest Community and Corporate Plan, and where deemed prudent, sustainable and affordable.
- 12.7. In terms of any future investment proposals, these can be considered in line with the Council's current constitution and decision-making processes through Council, Cabinet or otherwise.
- 12.8. The Investment Committee, as an existing sub-committee of Council, has been retained but put in abeyance. This therefore allows Council in future, and if it so wishes, to request the Investment Committee to preside over an investment proposal before making recommendation back to Council for consideration. In such circumstances this will retain the cross-party scrutiny and consideration of any such investment proposals.
- 12.9. The Performance & Overview Scrutiny Committee now focuses on maintaining oversight and scrutiny of the performance of the Council's property investment portfolio on a six-monthly basis.
- 12.10. The Governance and Audit Committee looks to seek ongoing assurance on overall governance arrangements of the commercial and property investments as part of the Council's overall land and property portfolio.

13. Knowledge & skills

Internal expertise

- 13.1. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Section 151 officer, deputy Section 151 officer, and Head of Commercial and Integrated Landlord Services are professionally qualified with extensive Local Government experience between them.
- 13.2. The central finance team who manage day-to-day cashflow activities and monitor capital investment activity consists of experienced qualified and part-qualified accountants who

maintain Continuous Professional Development (CPD) and attend courses on an ongoing basis to keep abreast of new developments and obtain relevant skills.

External expertise

- 13.3. Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisors, and Alder King as property investment advisors. This approach is more cost effective than employing such staff directly and ensures that the Council has access to expert knowledge and skills commensurate with its risk appetite.

Members

- 13.4. Training is offered to members to ensure they have up to date skills to make capital and treasury decisions. The most recent training was provided in November 2022, with a number of new members attending for the first time. A register is also kept on member attendance.

2025/26 Treasury Management Strategy

1. Economic background and forecasts for interest rates

- 1.1. **Economic background:** The impact on the UK from the government's Autumn Budget, slower expected interest rate cuts, a short-term boost to but modestly weaker economic growth over the medium term, together with the impact from President-elect Trump's second term in office and uncertainties around US domestic and foreign policy, will be major influences on the Authority's treasury management strategy for 2025/26.
- 1.2. The Bank of England's (BoE) Monetary Policy Committee (MPC) held Bank Rate at 4.75% at its December 2024 meeting, having reduced it to that level in November and following a previous 25bp cut from the 5.25% peak at the August MPC meeting. At the December meeting, six Committee members voted to maintain Bank Rate at 4.75% while three members preferred to reduce it to 4.50%.
- 1.3. The November quarterly Monetary Policy Report (MPR) expected Gross Domestic Product (GDP) growth to pick up to around 1.75% (four-quarter GDP) in the early period of the BoE's forecast horizon before falling back. The impact from the Budget pushes GDP higher in 2025 than was expected in the previous MPR, before becoming weaker. Current GDP growth was shown to be zero (0.0%) between July and September 2024 and 0.4% between April and June 2024, a further downward revision from the 0.5% rate previously reported by the Office for National Statistics (ONS).
- 1.4. ONS figures reported the annual Consumer Price Index (CPI) inflation rate at 2.6% in November 2024, up from 2.3% in the previous month and in line with expectations. Core CPI also rose, but by more than expected, to 3.6% against a forecast of 3.5% and 3.3% in the previous month. The outlook for CPI inflation in the November MPR showed it rising above the MPC's 2% target from 2024 into 2025 and reaching around 2.75% by the middle of calendar 2025. This represents a modest near-term increase due to the ongoing impacts from higher interest rates, the Autumn Budget, and a projected margin of economic slack. Over the medium-term, once these pressures ease, inflation is expected to stabilise around the 2% target.
- 1.5. The labour market appears to be easing slowly, but the data still require treating with some caution. The latest figures reported the unemployment rate rose to 4.3% in the three months to October 2024 and economic inactivity fell to 21.7%. Pay growth for the same period was reported at 5.2% for both regular earnings (excluding bonuses) and for total earnings. Looking ahead, the BoE MPR showed the unemployment rate is expected to increase

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

- 1.6. The US Federal Reserve has continued cutting interest rates, bringing down the Fed Funds Rate by 0.25% at its December 2024 monetary policy meeting to a range of 4.25%-4.50%, marking the third consecutive reduction. Further interest rate cuts are expected, but uncertainties around the potential inflationary impact of incoming President Trump's policies may muddy the waters in terms of the pace and magnitude of further rate reductions. Moreover, the US economy continues to expand at a decent pace, rising at an (upwardly revised) annual rate of 3.1% in the third quarter of 2024, and inflation remains elevated suggesting that monetary policy may need to remain more restrictive in the coming months than had previously been anticipated.
- 1.7. Euro zone inflation rose above the European Central Bank (ECB) 2% target in November 2024, hitting 2.2% as was widely expected and a further increase from 2% in the previous month. Despite the rise, the ECB continued its rate cutting cycle and reduced its three key policy rates by 0.25% in December. Inflation is expected to rise further in the short term, but then fall back towards the 2% target during 2025, with the ECB remaining committed to maintaining rates at levels consistent with bringing inflation to target, but without suggesting a specific path.
- 1.8. **Credit outlook:** Credit Default Swap (CDS) prices have typically followed a general trend downwards during 2024, reflecting a relatively more stable financial period compared to the previous year. Improved credit conditions in 2024 have also led to greater convergence in CDS prices between ringfenced (retail) and non-ringfenced (investment) banking entities again.
- 1.9. Higher interest rates can lead to a deterioration in banks' asset quality through increased loan defaults and volatility in the value of capital investments. Fortunately, the rapid interest rate hikes during this monetary tightening cycle, while putting some strain on households and corporate borrowers, has not caused a rise in defaults, and banks have fared better than expected to date, buoyed by strong capital positions. Low unemployment and robust wage growth have also limited the number of problem loans, all of which are positive in terms of creditworthiness.
- 1.10. Moreover, while a potential easing of US financial regulations under a Donald Trump Presidency may aid their banks' competitiveness compared to institutions in the UK and other regions, it is unlikely there will be any material impact on the underlying creditworthiness of the institutions on the counterparty list maintained by Arlingclose, the authority's treasury adviser.
- 1.11. Overall, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration

remain under constant review and will continue to reflect economic conditions and the credit outlook.

- 1.12. **Interest rate forecast (December 2023):** The Authority's treasury management adviser Arlingclose expects the Bank of England's MPC will continue reducing Bank Rate through 2025, taking it to around 3.75% by the end of the 2025/26 financial year. The effect from the Autumn Budget on economic growth and inflation has reduced previous expectations in terms of the pace of rate cuts as well as pushing up the rate at the end of the loosening cycle.
- 1.13. Arlingclose expects long-term gilt yields to remain broadly at current levels on average (amid continued volatility), but to end the forecast period modestly lower compared to now. Yields will continue remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will be short-term volatility due to economic and (geo)political uncertainty and events.
- 1.14. A more detailed economic and interest rate forecast provided by Arlingclose is in Appendix A.
- 1.15. For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate/yield of 4.25%, and that new long-term loans will be borrowed at an average rate of 5.5%.

2. Local Context

- 2.1. On 31st December 2024, the Council held £184.5m of borrowing and £15.5m of treasury investments as demonstrated below:

Table 1: Current debt and investment levels

	31st Dec 2023 Actual Portfolio £m's	Average Rate %	31st Dec 2024 Actual Portfolio £m's	Average Rate %
External borrowing:				
Public Works Loan Board	122.2	3.3%	135.8	3.52%
LOBO loans from banks	3.0	4.5%	0.0	0.0%
Welsh Government Loans	5.3	0.0%	4.7	0.0%
Council to Council & other ST loans	43.0	4.4%	44.0	5.06%
Total external borrowing	173.5	3.5%	184.5	3.71%
Treasury investments:				
Banks & building societies (unsecured)	1.5	1.5%	0.0	0.0%
Government (incl. local Councils)	3.0	4.84%	9.0	4.99%
Money Market Funds	5.1	4.88%	2.5	4.78%

Strategic pooled funds	4.0	5.77%	4.0	5.44%
Total treasury investments	13.6	4.76%	15.5	5.03%
Net debt	159.9		169.0	

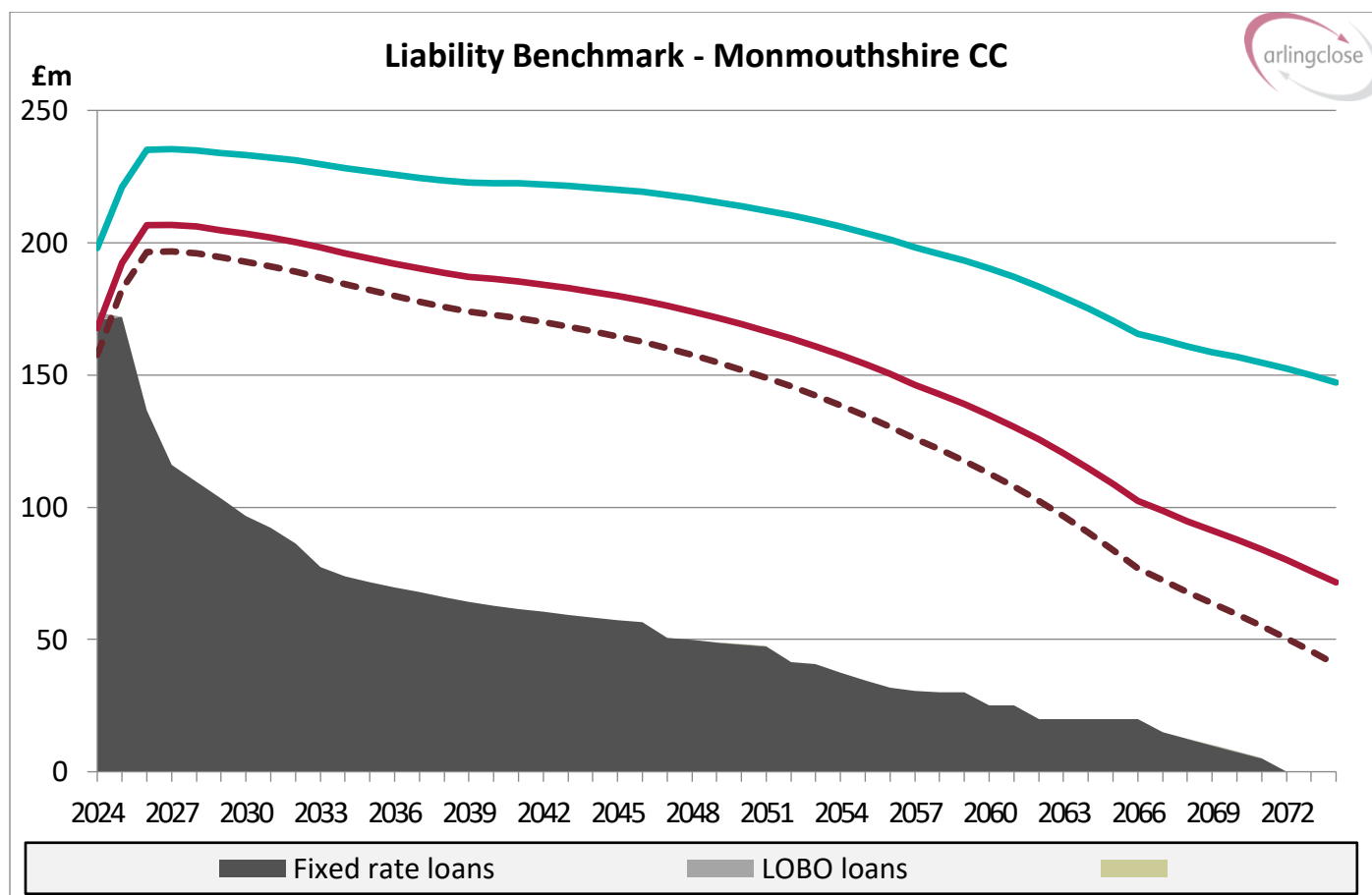
- 2.2. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.
- 2.3. The Council has an increasing CFR due to the indicative capital programme, but minimal investments and will therefore be required to borrow additional sums over the longer term.
- 2.4. **Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.
- 2.5. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 2: Liability benchmark

	31.3.24 Actual	31.3.25 Forecast	31.3.26 Forecast	31.3.27 Forecast	31.3.28 Forecast	31.3.29 Forecast
Loans CFR	198.0	220.0	234.4	234.4	234.5	238.0
Less: Balance sheet resources	(40.3)	(38.7)	(38.7)	(38.7)	(38.7)	(38.7)
Net loans requirement	157.7	181.3	195.7	195.7	195.7	199.3
Plus: Liquidity allowance	16.2	10.0	10.0	10.0	10.0	10.0
Liability benchmark	173.9	191.3	205.7	205.7	205.7	209.3
Current loan profile**	(173.9)	(172.5)	(137.0)	(116.5)	(110.1)	(103.8)
Borrowing requirement	0.0	18.8	68.7	89.2	95.7	105.5

** shows only loans to which the Council is committed and excludes optional refinancing

- 2.6. The long-term liability benchmark assumes capital expenditure funded by borrowing is in line with the medium-term financial plan, minimum revenue provision on new capital expenditure is based on the annuity method, and expenditure and reserves all increasing by inflation of 2.5% p.a. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing:



- 2.7. Our underlying need to borrow is shown by the top blue line and increases sharply over the short term due to the current approved capital programme. However, due to the use of reserves and working capital, the Council is expected to need total external borrowing between the full and dotted red lines. As our existing loans portfolio (shown in grey) reduce as loans mature, new loans will therefore be required to fill the gap between the grey area and the red lines over the longer term. The Council intends to maintain a level of short term loans which will partly fill this gap, but we will still need to take out longer term loans, mainly to fund the long-term capital investment built into the Capital MTFP.
- 2.8. The Council does not intend to borrow in advance of need and will not do so just to gain financially from short term investment of that borrowing. However, this option may be considered if it is felt that borrowing in advance allows opportunities to lock into favourable long-term rates as part of risk mitigation. This will be limited to no more than the expected increase in the Council's Capital Financing Requirement over its medium term financial plan.

3. Borrowing Strategy

- 3.1. The Council currently holds £184.5m of loans, an increase of £11.0m on the previous year, as part of its strategy for funding previous years' capital programmes. The liability benchmark above shows that the Council expects to borrow up to £68.7m in 2025/26. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing.
- 3.2. **Objectives:** The Council'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 Council's long-term plans change is a secondary objective.
- 3.3. **Strategy:** Given the constraints on public expenditure over recent years and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term interest rates are currently higher than in the recent past, but are expected to fall in the coming year and it is therefore likely to be more cost effective over the medium-term to either use internal resources, or to borrow short-term loans instead. The risks of this approach will be managed by keeping the Authority's interest rate exposure within the limit set in the treasury management prudential indicators, see below.
- 3.4. By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years.
- 3.5. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2025/26 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.
- 3.6. The Council has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local Councils, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local Councils planning to buy investment assets primarily for yield; the Council intends to avoid this activity in order to retain its access to PWLB loans.
- 3.7. Alternatively, the Council 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.

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

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

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- National Wealth Fund Ltd (formerly UK Infrastructure Bank Ltd)
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except the Greater Gwent Pension Fund)
- Capital market bond investors
- Retail investors via a regulated peer-to-peer platform
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local Council bond issues
- CSC Foundry Ltd

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

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback
- similar asset based finance

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

3.11. **LOBOs:** The Council no longer holds LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost.

3.12. **Short-term and variable rate loans:** These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in

the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

- 3.13. **Debt rescheduling:** The PWLB allows Councils 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 Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.
- 3.14. Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen in the table above, the Council expects to comply with this over the medium term window based on current estimates of future debt levels.
- 3.15. **Authorised limit:** The Council is legally obliged to approve an affordable borrowing limit (also termed the 'authorised limit' for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.
- 3.16. Based on the capital programme proposed, it is recommended that the Council approve the following authorised limits and operational boundaries. The undertaking of other long-term liabilities, within the overall limit, is delegated to the Section 151 Officer based on the outcome of financial option appraisals and best value considerations.
- 3.17. The operational boundary remains an internal management tool to monitor borrowing levels and exceeding the boundary would not represent a compliance failure.

Table 3: Authorised limit and operational boundary for external debt in £m

Operational boundary and Authorised limit	2025/26 Estimate £m's	2026/27 Estimate £m's	2027/28 Estimate £m's	2028/29 Estimate £m's
Operational Boundary - borrowing	248.2	264.1	265.6	267.2
PFI, leases & right of use assets/Headroom	17.8	17.8	17.8	17.8
Operational Boundary - total external debt	266.0	281.9	283.4	285.0
Authorised Limit - borrowing	263.6	279.5	281.0	282.6
PFI, leases & right of use assets/Headroom	18.8	18.8	18.8	18.8
Authorised Limit - total external debt	282.4	298.2	299.8	301.4

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

Table 4: (Treasury management indicator) - Maturity structure of borrowing

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	50%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	30%	0%
10 years and within 20 years	30%	0%
20 years and within 30 years	30%	0%
30 years and within 40 years	30%	0%
40 years and within 50 years	30%	0%
50 years and above	30%	0%

4. Treasury investments

Treasury Investment strategy

- 4.1. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the year to date, the Council's treasury investment balance has ranged between £10.2m and £50.1m million. It is anticipated that the level of investments held in 2025/26 will be lower, as cash balances are used in lieu of external borrowing, in line with the authority's internal borrowing strategy.
- 4.2. **Objectives:** Both the CIPFA Code and the WG Guidance require the Council 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 Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.
- 4.3. **Strategy:** As demonstrated by the liability benchmark above, the Council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds currently provides a degree of risk diversification into different sectors, however the Council will closely monitor the returns on these investments in light of a heightened interest rate environment.
- 4.4. The CIPFA Code does not permit local Councils to both borrow and invest long-term for cash flow management. But the Council may make long-term investments for treasury risk

management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by adding diversification to the strategic pooled fund portfolio.

- 4.5. **ESG policy:** Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council 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.
- 4.6. An updated list of signatories to the three charters is provided by the Authority's treasury advisors each quarter and will continue to be monitored. Any counterparties not signed up to all three charters will be removed from the Authorities investment portfolio.
- 4.7. The Council will continue through 2025/26 to engage with its advisors Arlingclose to evaluate its existing investments and assess whether a more sophisticated ESG policy can be applied. Governance and Audit Committee will be kept informed of progress through the regular reporting of treasury performance into committee.
- 4.8. **Business models:** Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council 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.
- 4.9. **Approved counterparties:** The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the limits shown.

Table 5: Treasury investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local Councils & other government entities	25 years	£4m	Unlimited
Secured investments *	5 years	£4m	75%
Banks (unsecured) *	13 months	£2m (£3m total for the Councils operational bank)	Unlimited

Sector	Time limit	Counterparty limit	Sector limit
Building societies (unsecured) *	13 months	£2m	50%
Registered providers (e.g. Housing Associations (unsecured) *)	5 years	£2m	50%
Money market funds *	n/a	£4m	Unlimited
Strategic pooled funds	n/a	£5m	£10m
Real estate investment trusts	n/a	£5m	£10m
Other Investments*	5 years	£5m	£10m

*** 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 where external advice indicates the entity to be of similar credit quality.

Credit rating	Banks unsecured	Secured investments	Government	Corporates
UK Govt	n/a	n/a	n/a	n/a
AAA – AA+	£3m	£4m	n/a	£4m
	13 months	5 years		5 years
AA – AA-	£3m	£4m	n/a	£4m
	13 months	5 years		5 years
A+ - A	£3m	£4m	n/a	£4m
	13 months	2 years		2 years
A-	£3m	£4m	n/a	£4m
	13 months	13 months		13 months

This table must be read in conjunction with the notes below

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

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

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

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

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

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

Strategic pooled funds: Bond, equity and property funds, including exchange traded funds, that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date but can be either withdrawn after a notice period or sold on an exchange, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

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

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

Operational bank accounts: The Council may incur operational exposures, for example through 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 £3m 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 Council maintaining operational continuity.

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

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

4.10. 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.

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

4.12. 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 Council 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 Council's cash balances, then the surplus will be deposited with the UK Government, or with other local Councils. This will cause investment returns to fall but will protect the principal sum invested.

4.13. **Investment limits:** The Council's revenue reserves available to cover investment losses currently stand at £18.8m. In order that no more than a third 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 £5m. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

4.14. 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 6: Additional investment limits

	Cash limit
Any group of pooled funds under the same management	£5m per manager
Negotiable instruments held in a broker's nominee account	£5m per broker
Foreign countries	£4m per country

- 4.15. **Liquidity management:** The Council uses its own cash flow forecasting system 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 Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.
- 4.16. The Council 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 Indicators

- 4.17. The Council measures and manages its exposures to treasury management risks using the following indicators.
- 4.18. **Security:** The Council 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.

Credit risk indicator	Target
Portfolio average credit rating / score	A-/5.0

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

Price risk indicator	2025/26	2026/27	2027/28	No fixed date
Limit on principal invested beyond year end	£5m	£4m	£2m	£10m

- 4.20. 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.

5. Related matters

- 5.1. The CIPFA Code requires the Council to include the following in its treasury management strategy:
- 5.2. **Financial derivatives:**) Local Councils 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 Councils' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).
- 5.3. The Council 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 Council 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.
- 5.4. 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.
- 5.5. In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.
- 5.6. **External Funds:** The Council will from time to time hold fund on behalf of external organisations, companies or individuals. Unless a specific agreement is in place for the investment of the funds held, the Council will normally allocate interest returns based on a calculation of the average returns achieved from an overnight deposit rate with the Debt Management Office over the period held.
- 5.7. **Markets in Financial Instruments Directive:** The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory

protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Section 151 officer or deputy believes this to be the most appropriate status.

- 5.8. **Government Guidance:** Further matters required by the WG Guidance are included in Section 6 below.

Financial Implications

- 5.9. The budget for investment income in 2025/26 is £788k, based on an average investment portfolio of £10m and existing pooled fund investments. Returns are expected to come from pooled fund investments, from shorter term investments with the Government, from secured/unsecured investments, or from Money Market Funds.
- 5.10. The budget for debt interest paid in 2025/26 is £7.6m, based on existing loans and assumed new borrowing at an average rate of 5.5%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecasts, performance against budget will be correspondingly different.

Other Options Considered

- 5.11. The WG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local Councils to adopt. The Section 151 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. Additional requirements of Welsh Government Investment Guidance

- 6.1. The Welsh Government (WG) published revised Investment Guidance in November 2019 which places additional reporting requirements upon local Councils that are not integral to this Council'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.
- 6.2. **Contribution:** The Council's investments contribute to its service delivery objectives and/or to promote wellbeing as follows:
- treasury management investments support effective treasury management activities,
 - loans to local organisations provide financial support to those organisations to enable them to deliver local public services that would otherwise be provided directly by the Council, and
 - investment property provides a net financial surplus that is reinvested into local public services and supports economic regeneration.
- 6.3. **Climate change:** The Authority's investment decisions consider long term climate risks to support a low carbon economy to the extent that the Council has invested in, as part of the overall capital programme, a number of energy efficiency related schemes, including LED lighting and Solar PV, as well as ultra-low emission vehicles. In addition, the new Abergavenny 3-19 school is being constructed on a net carbon zero basis.
- 6.4. **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 counterparty is a local Council,
 - not defined as capital expenditure by legislation, and
 - invested with one of:
 - the UK Government,
 - a UK local Council, parish council or community council, or
 - a body or investment scheme of "high credit quality".

- 6.5. The Council 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.
- 6.6. **Loans:** The WG Guidance defines a loan as a written or oral agreement where the Council 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 Council.
- 6.7. The Council 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 Council has appropriate credit control arrangements to recover overdue repayments in place.
- 6.8. **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 18; the Council confirms that its current non-specified investments remain within these limits.

Table 7: Non-specified investment limits

	Cash limit
Units in pooled funds without credit ratings or rated below [A-]	£10m
Shares in real estate investment trusts	£10m
Shares in local organisations	£5m
Total non-specified investments	£25m

- 6.9. **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. Based on current information, the Council’s investment property portfolio does not currently provide sufficient security for capital investment since its fair value is below its purchase price. The Council is therefore continue to closely review options to secure the capital invested, including:

- Retaining the asset and increasing net returns

- Disposing of the asset
- Retaining the asset for future capital gains
- Maximising return on capital in another way

- 6.10. The Council consider that the scale of its commercial investments including property are proportionate to the resources of the Council since gross income from such investments represent around 1.5% of the overall net revenue budget stream.
- 6.11. **Liquidity:** The Council's liquidity management has been detailed in the main Treasury report with regard to treasury activities. Before supporting local entities or placing a commercial investment the impact on liquidity is fully addressed, most commonly by taking out loans of an appropriate maturity to ensure funds are available for the life of the activity.
- 6.12. 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 Council will follow its Investment strategy for Commercial assets which ensures that any borrowed capital will be repaid with annual income earned from the investment or that an exit strategy identified during the due diligence will be followed.
- 6.13. **Investment advisers:** The Council has appointed Arlingclose Limited as treasury management advisers with the current contract running until 31st March 2025, and has used Alder King as advisers for the last two Commercial investment Property Acquisitions. The quality of these services is controlled by the Finance and Estates teams and also the Investment Committee appointed to oversee the Commercial Investments.
- 6.14. **Borrowing in advance of need:** Welsh Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Authority, after having regard to the guidance, will only borrow in advance of need as part of a strategy for reducing risk of future interest rate rises and would not undertake such activity purely in order to profit from an investment.
- 6.15. **Capacity and skills:** The Section 151 officer is responsible for ensuring that those elected members and statutory officers involved in the investment decision making process have appropriate capacity, skills and information to enable them to:
- take informed decisions as to whether to enter into a specific investment;
 - assess individual investments in the context of the strategic objectives and risk profile of the local Council; and
 - understand how the quantum of these decisions have changed the overall risk exposure of the local Council.

- 6.16. Steps taken include relevant training for elected members and a minimum level of qualification for statutory officers, as well as ensuring continuing professional development, via attendance at relevant training courses. Officers will always take advice from its independent advisers regarding investment and borrowing activity.
- 6.17. **Commercial deals:** The investment committee is responsible for ensuring that those tasked with negotiating commercial deals have the appropriate skills and access to information to allow them to operate with regard to the principles of the prudential framework and regulatory regime within which the Council operates.
- 6.18. **Corporate Governance:** The Council has a clear corporate governance framework set out within its constitution, delegation framework and Annual Governance Statement. This ensures that decisions regarding investment are taken at the appropriate level. For example, the overarching treasury strategy and framework is approved by full Council. Operational decisions, such as day to day cashflow management, including borrowing, are delegated to the Section 151 officer or Deputy.

7. Advisors Economic & Interest Rate Forecast – December 2024

Underlying assumptions:

- As expected, the Monetary Policy Committee (MPC) held Bank Rate at 4.75% in December, although, with a 6-3 voting split and obvious concerns about economic growth, presented a much more dovish stance than had been expected given recent inflationary data.
- The Budget measures remain a concern for policymakers, for both growth and inflation. Additional government spending will boost demand in a constrained supply environment, while pushing up direct costs for employers. The short to medium-term inflationary effects will promote caution amongst policymakers.
- UK GDP recovered well in H1 2024 from technical recession, but underlying growth has petered out as the year has progressed. While government spending should boost GDP growth in 2025, private sector activity appears to be waning, partly due to Budget measures.
- Private sector wage growth and services inflation remain elevated; wage growth picked up sharply in October. The increase in employers' NICs, minimum and public sector wage levels could have wide ranging impacts on private sector employment demand and costs, but the near-term impact will likely be inflationary as these additional costs get passed to consumers.
- CPI inflation rates have risen due to higher energy prices and less favourable base effects. The current CPI rate of 2.6% could rise further in Q1 2025. The Bank of England (BoE) estimates the CPI rate at 2.7% by year end 2025 and to remain over target in 2026.

- The MPC re-emphasised that monetary policy will be eased gradually. Despite recent inflation-related data moving upwards or surprising to the upside, the minutes suggested a significant minority of policymakers are at least as worried about the flatlining UK economy.
- US government bond yields have risen following strong US data and uncertainty about the effects of Donald Trump's policies on the US economy, particularly in terms of inflation and monetary policy. The Federal Reserve pared back its expectations for rate cuts in light of these issues. Higher US yields are also pushing up UK gilt yields, a relationship that will be maintained unless monetary policy in the UK and US diverges.

Forecast:

- In line with our forecast, Bank Rate was held at 4.75% in December.
- The MPC will reduce Bank Rate in a gradual manner. We see a rate cut in February 2025, followed by a cut alongside every Monetary Policy Report publication, to a low of 3.75%.
- Long-term gilt yields have risen to reflect both UK and US economic, monetary and fiscal policy expectations, and increases in bond supply. Volatility will remain elevated as the market digests incoming data for clues around the impact of policy changes.
- This uncertainty may also necessitate more frequent changes to our forecast than has been the case recently.
- The risks around the forecasts lie to the upside over the next 12 months but are broadly balanced in the medium term.

	Current	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.75	4.50	4.25	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.90	4.60	4.35	4.10	3.90	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
5yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.34	4.30	4.20	4.10	4.00	3.90	3.90	3.95	4.00	4.05	4.05	4.05	4.05
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
10yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.56	4.55	4.45	4.30	4.20	4.20	4.20	4.20	4.25	4.25	4.25	4.25	4.25
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
20yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	5.05	5.00	4.90	4.80	4.70	4.65	4.65	4.65	4.65	4.65	4.65	4.65	4.65
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
50yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.52	4.70	4.60	4.50	4.40	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80

PWLB Standard Rate = Gilt yield + 1.00%

PWLB Certainty Rate = Gilt yield + 0.80%

PWLB HRA Rate = Gilt yield + 0.40%

UK Infrastructure Bank Rate = Gilt yield + 0.40%

- 8.1. Where the Council 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 Council to have regard to Welsh Government's Guidance on Minimum Revenue Provision (the WG Guidance) most recently issued in 2018.
- 8.2. 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.
- 8.3. The WG Guidance requires the Council to approve an Annual MRP Statement each year and provides a number of options for calculating a prudent amount of MRP but does not preclude the use of other appropriate methods. The following statement only incorporates options recommended in the Guidance.
- 8.4. MRP is calculated by reference to the capital financing requirement (CFR) which is the total amount of past capital expenditure that has yet to be permanently financed, noting that debt must be repaid and therefore can only be a temporary form of funding. The CFR is calculated from the Authority's balance sheet in accordance with the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Expenditure in Local Authorities, 2021 edition.
- 8.5. MRP options recommended in the Guidance include:

Option 1	For capital expenditure incurred before 1st April 2008, and for supported capital expenditure incurred on or after that date, MRP will be determined in accordance with the former regulations that applied on 31st March 2008.
Option 2	For General Fund capital expenditure incurred before 1st April 2008, and for supported capital expenditure incurred on or after that date, MRP will be determined as 4% of the capital financing requirement in respect of that expenditure.
Option 3	For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset 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 will be charged over 20 years.

Option 4	For capital expenditure incurred after 31st March 2008, MRP will be determined as being equal to the accounting charge for depreciation and impairment on those assets (or parts of) continuing until the expenditure has been fully funded.
Option 5	Where former operating leases have been brought onto the balance sheet due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the MRP charges will be adjusted so that the overall charge for MRP over the life of the lease reflects the value of the right-of-use asset recognised on transition rather than the liability.
Option 6	For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement 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.

Note: This does not preclude other prudent methods.

MRP in 2025/26:

8.6. The following MRP policy will be applied in 2025/26:

Type of Expenditure	Option Applied	MRP Calculation
Supported Borrowing funded Expenditure	Option 3	Calculated on an annuity basis over the expected useful life of an asset, whereby the MRP element increases over time to reflect a consistent charge over life of the assets taking into account the real value of money
Unsupported Borrowing funded Expenditure	Option 3	Calculated on an annuity basis over the expected useful life of an asset, whereby the MRP element increases over time to reflect a consistent charge over life of the assets taking

		into account the real value of money
Leases and PFI	Option 5	MRP charges will be adjusted so that the overall charge for MRP over the life of the lease reflects the value of the right-of-use asset recognised on transition rather than the liability.
Loans classed as capital expenditure	Option 6	As prescribed

- 8.7. For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council may 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.
- 8.8. In all cases Capital expenditure incurred during 2025/26 will not be subject to an MRP charge until 2026/27. The 2025/26 budget proposals reflect these outlined positions.

9. Glossary of treasury terms

Authorised Limit	The affordable borrowing limit determined in compliance with the Local Government Act 2003 (English and Welsh Councils) and the Local Government in Scotland Act 2003. This Prudential Indicator is a statutory limit for total external debt. It is set by the Council and needs to be consistent with the Council's plans for capital expenditure financing and funding. The Authorised Limit provides headroom over and above the <i>Operational Boundary</i> to accommodate expected cash movements. Affordability and prudence are matters which must be taken into account when setting this limit. (see also <i>Operational Boundary</i>, below)
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Balances and Reserves	Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.
Bail-in	Refers to the process which the banking regulatory Councils will use to restructure a financial institution which is failing or likely to fail. Unsecured creditors of and investors in that financial institution will participate in its restructure who will, as a consequence, incur a non-recoverable loss (commonly referred to as a 'haircut') on their obligation/investment. Local Council investments with banks and building societies such as term deposits, certificates of deposit, call accounts and non-collateralised bonds are unsecured investments and are therefore vulnerable to bail-in.
Bank Rate	The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.
Bond	A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.
Capital Expenditure	Expenditure on the acquisition, creation or enhancement of capital assets
Capital Financing Requirement (CFR)	The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local Council that has not been financed.
Capital growth	Increase in the value of the asset (in the context of a collective investment scheme, it will be the increase in the unit price of the fund)
Capital receipts	Money obtained on the sale of a capital asset.
CIPFA	Chartered Institute of Public Finance and Accountancy
Constant Net Asset Value (CNAV)	Also referred to as Stable Net Asset Value. A term used in relation to the valuation of 1 share in a fund. This means that at all times the value of 1 share is £1/€1/US\$1 (depending on the currency of the fund). The Constant NAV is maintained since dividend income (or interest) is either added to the shareholders' account by creating shares equal to the value of interest earned or paid to the

	shareholder's bank account, depending on which option is selected by the shareholder.
Collective Investment Schemes	Funds in which several investors collectively hold units or shares. The assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'Pooled Funds'). Unit Trusts and Open-Ended Investment Companies are types of collective investment schemes / pooled funds.
Corporate Bonds	Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
Corporate Bond Funds	Collective Investment Schemes investing predominantly in bonds issued by companies and supranational organisations.
CPI <i>Also see RPI</i>	Consumer Price Index. (This measure is used as the Bank of England's inflation target.)
Credit Default Swap (CDS)	A Credit Default Swap is similar to an insurance policy against a credit default. Both the buyer and seller of a CDS are exposed to credit risk. Naked CDS, i.e. one which is not linked to an underlying security, can lead to speculative trading.
Credit Rating	Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.
Cost of carry	When a loan is borrowed in advance of requirement, this is the difference between the interest rate and (other associated costs) on the loan and the income earned from investing the cash in the interim.
Credit default swaps	Financial instrument for swapping the risk of debt default; the buyer effectively pays a premium against the risk of default.
Diversification / diversified exposure	The spreading of investments among different types of assets or between markets in order to reduce risk.

Derivatives	Financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded on a regulated exchange or traded 'over the counter'.
ECB	European Central Bank
Federal Reserve	The US central bank. (Often referred to as "the Fed")
Floating Rate Notes	A bond issued by a company where the interest rate paid on the bond changes at set intervals (generally every 3 months). The rate of interest is linked to LIBOR and may therefore increase or decrease at each rate setting
GDP	Gross domestic product – also termed as "growth" in the economy. The value of the national aggregate production of goods and services in the economy.
General Fund	This includes most of the day-to-day spending and income. (All spending and income related to the management and maintenance of the housing stock is kept separately in the HRA).
Gilts (UK Govt)	Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged': being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.
Housing Revenue Account (HRA)	A ring-fenced account of all housing income and expenditure, required by statute
IFRS	International Financial Reporting Standards
Income Distribution	The payment made to investors from the income generated by a fund; such a payment can also be referred to as a 'dividend'
Investments - Secured - unsecured	Secured investments which have underlying collateral in the form of assets which can be called upon in the event of default Unsecured investments do not have underlying collateral. Such investments made by local Councils with banks and building societies are at risk of bail-in should the regulator determine that the bank is failing or likely to fail.

Liability Benchmark	Term in CIPFA's Risk Management Toolkit which refers to the minimum amount of borrowing required to keep investments at a minimum liquidity level (which may be zero).
LOBOs	LOBO stands for 'Lender's Option Borrower's Option'. The underlying loan facility is typically long term and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at predetermined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the 'option' to either accept the new imposed fixed rate or repay the loan facility.
LVNAV (Low Volatility Net Asset Value)	From 2019 Money Market Funds will have to operate under a variable Net Value Structure with minimal volatility (fluctuations around £1 limited to between 99.8p to 100.2p)
Maturity	The date when an investment or borrowing is repaid.
Maturity profile	A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. The amount or percent maturing could be shown on a year-by-year or quarter-by-quarter or month-by-month basis.
MiFID II	MiFID II replaced the Markets in Financial Instruments Directive (MiFID I) from 3 January 2018. It is a legislative framework instituted by the European Union to regulate financial markets in the bloc and improve protections for investors.
Money Market Funds (MMF)	Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.
Minimum Revenue Provision	An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets
Non-Specified Investments	Term used in the Communities and Local Government Guidance and Welsh Assembly Guidance for Local Council Investments. It includes any investment for periods greater than one year or those with bodies that do not have a high credit rating, use of which must be justified.
Net Asset Value (NAV)	A fund's net asset value is calculated by taking the current value of the fund's assets and subtracting its liabilities.

Operational Boundary	This is the limit set by the Council as its most likely, i.e. prudent, estimate level of external debt, but not the worst case scenario. This limit links directly to the Council's plans for capital expenditure, the estimates of the Capital Financing Requirement (CFR) and the estimate of cashflow requirements for the year.
Permitted Investments	Term used by Scottish Councils as those the Council has formally approved for use.
Pooled funds	See Collective Investment Schemes (above)
Premiums and Discounts	In the context of local Council borrowing, (a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and (b) the discount is the gain arising when a loan is redeemed prior to its maturity date. If on a £1 million loan, it is calculated* that a £100,000 premium is payable on premature redemption, then the amount paid by the borrower to redeem the loan is £1,100,000 plus accrued interest. If on a £1 million loan, it is calculated that a £100,000 discount receivable on premature redemption, then the amount paid by the borrower to redeem the loan is £900,000 plus accrued interest. PWLB premium/discount rates are calculated according to the length of time to maturity, current market rates (plus a margin), and the existing loan rate which then produces a premium/discount dependent on whether the discount rate is lower/higher than the coupon rate. *The calculation of the total amount payable to redeem a loan borrowed from the Public Works Loans Board (PWLB) is the present value of the remaining payments of principal and interest due in respect of the loan being repaid prematurely, calculated on normal actuarial principles. More details are contained in the PWLB's lending arrangements circular.
Private Finance Initiative (PFI)	Private Finance Initiative (PFI) provides a way of funding major capital investments, without immediate recourse to the public purse. Private consortia, usually involving large construction firms, are contracted to design, build, and in some cases manage new projects. Contracts can typically last for 30 years, during which time the asset is leased by a public Council.
Prudential Code	Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local Council capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.

Prudential Indicators	Indicators determined by the local Council to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators between Councils.
PWLB	Public Works Loans Board. It is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local Councils and other prescribed bodies, and to collect the repayments.
Quantitative Easing	In relation to the UK, it is the process used by the Bank of England to directly increase the quantity of money in the economy. It "does not involve printing more banknotes. Instead, the Bank buys assets from private sector institutions – that could be insurance companies, pension funds, banks or non-financial firms – and credits the seller's bank account. So the seller has more money in their bank account, while their bank holds a corresponding claim against the Bank of England (known as reserves). The end result is more money out in the wider economy". Source: Bank of England
Registered Provider of Social Housing	Formerly known as Housing Association
Revenue Expenditure	Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges
RPI	Retail Prices Index. A monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. Pensions and index-linked gilts are uprated using the CPI index.
SORP	Statement of Recommended Practice for Accounting (Code of Practice on Local Council Accounting in the United Kingdom).
Specified Investments	Term used in the CLG Guidance and Welsh Assembly Guidance for Local Council Investments. Investments that offer high security and high liquidity, in sterling and for no more than 1 year. UK government, local Councils and bodies that have a high credit rating.

Supported Borrowing	Borrowing for which the costs are supported by the government or third party.
Supranational Bonds	Instruments issued by supranational organisations created by governments through international treaties (often called multilateral development banks). The bonds carry an AAA rating in their own right. Examples of supranational organisations are those issued by the European Investment Bank, the International Bank for Reconstruction and Development.
Treasury Management Code	CIPFA's Code of Practice for Treasury Management in the Public Services. The current Code is the edition released in autumn 2011.
Temporary Borrowing	Borrowing to cover peaks and troughs of cash flow, not to fund spending.
Term Deposits	Deposits of cash with terms attached relating to maturity and rate of return (interest)
Unsupported Borrowing	Borrowing which is self-financed by the local Council. This is also sometimes referred to as Prudential Borrowing.
Usable Reserves	Resources available to finance future revenue and capital expenditure
Variable Net Asset Value (VNAV)	A term used in relation to the valuation of 1 share in a fund. This means that the net asset value (NAV) of these funds is calculated daily based on market prices.
Working Capital	Timing differences between income/expenditure and receipts/payments
Yield	The measure of the return on an investment instrument

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SUBJECT: INTERNAL AUDIT
Progress Report for Quarter 3 (2024/25)

DIRECTORATE: Resources
MEETING: Governance & Audit Committee
DATE: February 2025
DIVISION/WARDS AFFECTED: All

1. PURPOSE

To consider the adequacy of the internal control environment within the Council based on the outcomes of audit reviews and subsequent opinions issued to the 31st December 2024 (Quarter 3).

To consider the performance of the Internal Audit Section over the first 6 months of the current financial year.

2. RECOMMENDATION(S)

That the Committee consider and note the audit opinions issued.

That the Committee note the progress made by the Section towards meeting the 2024/25 Operational Audit Plan and the Section's performance indicators at the 9 month stage of the financial year.

3. KEY ISSUES

- 3.1 Audit work has started in line with the 2024/25 agreed audit plan, considered and approved by the Governance & Audit Committee in April 2024.
- 3.2 This report gives brief details of the work undertaken in the year to date. The report also gives details of the Section's performance indicators for the months to 31st December 2024.
- 3.3 The Public Sector Internal Audit Standards came into force in April 2013 (updated March 2017) which the Internal Audit team needs to demonstrate compliance with.
- 3.4 The new Global Internal Audit Standards (GIAS) were issued in January 2024. They will replace the International Professional Practice Framework, the mandatory elements of which are the basis for the current UK public sector internal auditing standards (the PSIAS). The PSIAS are issued under the authority of the Relevant Internal Audit

Standard Setters (RIASS). The RIASS have agreed to use the new GIAS as the basis for internal auditing for the UK Public Sector and have asked the UK Public Sector Internal Auditing Standards Advisory Board (IASAB) to carry out a review of the new standards with a view to identifying and producing any sector specific interpretations or other material needed to make them suitable for UK public sector use.

The effective date of the new material developed by IASAB will be 1st April 2025. Until then, the existing PSIAS based on the old International Professional Practices Framework will continue to apply.

- 3.5 The year end opinion for 2024/25 will be based on the audit work undertaken during the year, cumulative audit knowledge from previous years on key financial systems along with any assurance gained from other parties where relevant.

4. REASONS

- 4.1 Since the start of the financial year, the Internal Audit Section has completed 35 audit jobs to draft stage from its 2024/25 Operational Audit Plan; 22 of these being opinion related and are shown in the table at Appendix 1.
- 4.2 In relation to audit opinion related reports, 8 had been issued in draft during the third quarter of the year;
1. Corporate Sundry Debtors – Reasonable Assurance
 2. Property Services Helpdesk/ Reactive Maintenance – Reasonable Assurance
 3. Commissioning & Contracts (Follow-up) – Reasonable Assurance
 4. Registration Services – Reasonable Assurance
 5. Private Sector Leasing (Follow-up) – Reasonable Assurance
 6. Waste Collections – Reasonable Assurance
 7. Usk Post Office – Reasonable Assurance
 8. Contact Centre – Reasonable Assurance
- 4.3 It is pleasing to report that no 'unfavourable' audit opinions have been issued during Quarter 3.
- 4.4 However, as detailed during the previous progress report, 1 opinion job had been issued during the year with a Limited audit opinion and not reported to the Committee. This was the audit review undertaken at **Caldicot School**.

The delay in reporting this to the Governance & Audit Committee was due to HR investigations being undertaken following the Acting Chief Internal Auditor being appointed by the School as the independent investigating officer. These investigations have now concluded, and the matter was dealt with in accordance with the Welsh Government

Disciplinary and Dismissal Procedures for School Staff and the Schools Disciplinary Policy. The outcome of the process is confidential.

As this process has now concluded, we are now in a position to share the findings from the audit review with the Committee. These can be found within Appendix 4 of this report.

- 4.5 Two reactive unplanned reviews were completed during Quarter .
- Anti-Fraud, Corruption & Bribery Risk Assessment
 - Financial Assessments of Domiciliary Care Tenders
- 4.6 At the end of quarter 3, 65% of the agreed audit plan has been deemed as being started or in progress.
- 4.7 Eight special investigations / reactive pieces of work have been undertaken during the first 3 quarters of the year. 6 of these have been closed / completed during the quarter, the other 2 remain outstanding and are subject to further investigation.
- 4.8 Appendix 3 of the report gives details of the Section's performance indicators as at the 31st December 2024. Overall, 49.3% of the 2024/25 Audit Plan has been completed. This is slightly behind target (50%) although projections are such that this will be made up during quarter 4.

5. SERVICE MANAGEMENT RESPONSIBILITIES

- 5.1 Heads of Service and service managers are responsible for addressing any weaknesses identified in internal systems and demonstrate this by including their management responses within the audit reports. When management agree the audit action plans, they are accepting responsibility for addressing the issues identified within the agreed timescales.
- 5.2 Ultimately, managers within MCC are responsible for maintaining adequate internal controls within the systems they operate and for ensuring compliance with Council policies and procedures. All reports, once finalised, are sent to the respective Chief Officers and Heads of Service for information and appropriate action where necessary.

6. FOLLOW UP AUDIT REVIEWS

- 6.1 Where 'unfavourable' (Limited Assurance / No Assurance) audit opinions are issued, they are followed up within a twelve month timescale to ensure that the agreed actions have been taken by management and that the internal control systems are improved.
- 6.2 As at the end of quarter 3, five follow-up reviews had commenced during the quarter with two reports and revised opinions being issued as at the 31st December 2024.

Year	Assignment	Opinion	Status
2023/24	Chepstow School	Limited	Work in Progress
	Till Float	Limited	Work in Progress
	Commissioning & Contracts	Limited	Reasonable
	Mileage	Limited	2024/25 – Q4
	General Expenses	Limited	2024/25 – Q4
	Children Looked After Savings	Limited	2024/25 – Q4
	Private Sector Leasing	Limited	Reasonable
	Democratic Services & Governance	Limited	Work in Progress

- 6.3 It is pleasing to report that the 2 follow-up reviews completed during quarter 3 of the 2024/25 financial year (Adult Services Commissioning & Contracts & Private Sector Leasing) both received more favourable audit opinions following the review.
- 6.4 The timing of a follow-up review is based on when the previous final report was issued plus enough time for management to successfully implement their management actions along with sufficient time to pass to ensure the changes are fully embedded within the service.
- 6.5 During the 2024/25 financial year the following unfavourable opinions have been issued. These reviews have not yet been followed up, this will take place during the 2025/26 financial year.

Year	Assignment	Opinion	Status
2024/25	Job Evaluation	Limited	2025/26
	Procurement Cards (2023/24)	Limited	2025/26
	Caldicot School	Limited	2025/26
	Mardy Park Residential	Limited	2025/26
	Facilities & Building Cleaning	Limited	2025/26
	Bank Imprest - Severn View Residential	Limited	2025/26

7. RESOURCE IMPLICATIONS

None.

8. CONSULTEES

Deputy Chief Executive / Chief Officer Resources
Chair of Governance & Audit Committee

Results of Consultation:

N/A

9. BACKGROUND PAPERS

Draft Operational Audit Plan 2024/25

10. AUTHORS AND CONTACT DETAILS

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INTERNAL AUDIT SECTION PROGRESS REPORT 2024/25 – 9 MONTHS

APPENDIX 1

Internal Audit reviews from the 2024/25 Draft Operational Audit Plan where fieldwork has been completed and/or final reports issued since 01/04/24 are listed in the table below.

Internal Control Opinions give the auditor's overall conclusion on the control environment operating in each system/establishment under review. Opinions range from Substantial Assurance through to No Assurance (Appendix 2).

Draft issued indicates that a draft report has been issued and a response is awaited from the client before the report can be finalised.

Status of reports as at 31st December 2024

Internal Audit Services - Quarter 3

Opinion Summary	Number
Substantial Assurance	2
Reasonable Assurance	13
Limited Assurance	6*
No Assurance	0
Unqualified	2
Qualified	0
Total	23*

* Severn View Bank Imprest was an Unplanned / Reactive Review.

Job number	Directorate	Service	Job Name	Risk Rating / Priority	Final / Draft	Opinion given
P2425-43	Communities & Place	Enterprise and Community Animation	Homelessness Assessment & Prevention	High	Final	Substantial
P2425-52	Customer, Culture and Wellbeing - Mon Life	Environment & Culture	Active Travel	High	Draft	Substantial
P2425-02	Resources	Finance - Revenues, Systems & Exchequer	Corporate Sundry Debtors	Medium	Draft	Reasonable
P2425-04	Resources	Landlord & Commercial Services	Property Services Helpdesk/ Reactive Maintenance	Medium	Draft	Reasonable

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Job number	Directorate	Service	Job Name	Risk Rating / Priority	Final / Draft	Opinion given
P2425-12	Children & Young People	Achievement & Attainment	Flying Start (2023/24)	Medium	Final	Reasonable
P2425-16	Children & Young People	Primary Schools	Rogiet Primary	Medium	Final	Reasonable
P2425-27	Social Care, Safeguarding & Health	Adult Services	Commissioning & Contracts (Follow-up)	High	Draft	Reasonable
P2425-32	Social Care, Safeguarding & Health	Childrens Services	Youth Offending Service (2023/24)	Medium	Final	Reasonable
P2425-34	Social Care, Safeguarding & Health	Public Protection	Registration Services	High	Final	Reasonable
P2425-40	Communities & Place	Placemaking, Housing, Highways and Floods	Car Parks	Medium	Final	Reasonable
P2425-44	Communities & Place	Enterprise and Community Animation	Private Sector Leasing (Follow-up)	High	Draft	Reasonable
P2425-45	Communities & Place	Neighbourhood Services	Waste Collections	Medium	Draft	Reasonable
P2425-50	Customer, Culture and Wellbeing - Mon Life	Community Hubs, Community Education & Libraries	Usk Post Office	Medium	Final	Reasonable
P2425-51	Customer, Culture and Wellbeing - Mon Life	Community Hubs, Community Education & Libraries	Contact Centre	Medium	Draft	Reasonable
P2425-60	People, Performance and Partnerships	Performance & Data Insight	Service Business Plans	Medium	Final	Reasonable
P2425-03	Resources	Finance - Revenues, Systems & Exchequer	Procurement Cards (2023/24)	Medium	Final	Limited

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Job number	Directorate	Service	Job Name	Risk Rating / Priority	Final / Draft	Opinion given
P2425-20	Children & Young People	Secondary Schools	Caldicot School	Medium	Draft	Limited
P2425-29	Social Care, Safeguarding & Health	Adult Services	Mardy Park Residential	Medium	Draft	Limited
P2425-38	Communities & Place	Decarbonisation, Transport & Support Services	Facilities & Building Cleaning	Medium	Draft	Limited
P2425-57	People, Performance and Partnerships	Human Resources	Job Evaluation / Equal Pay	High	Final	Limited
U2425-01	Social Care, Safeguarding & Health	Adult Services	Bank Imprest - Severn View Residential	High	Final	Limited
P2425-13	Children & Young People	CYP Finance & Support Services	School Improvement Grant	Medium	Final	Unqualified
P2425-42	Communities & Place	Enterprise and Community Animation	Housing Support Grant	Medium	Final	Unqualified

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Non – opinion / Added Value Audit Work

Job number	Directorate	Service	Job Name
P2425-05	Resources	Resources General	Audit Advice
P2425-08	Law & Governance	Law & Governance General	Audit Advice
P2425-25	Children & Young People	CYP General	Audit Advice
P2425-35	Social Care, Safeguarding & Health	Social Care, Safeguarding & Health General	Audit Advice
P2425-46	Communities & Place	Communities & Place General	Audit Advice
P2425-55	Customer, Culture and Wellbeing - Mon Life	Customer, Culture and Wellbeing - Mon Life General	Audit Advice
P2425-62	People, Performance and Partnerships	People, Performance and Partnerships General	Audit Advice
P2425-64	Corporate	Corporate	Annual Governance Statement
P2425-65	Corporate	Corporate	National Fraud Initiative (NFI)
P2425-67	Corporate	Corporate	Financial Monitoring Board
P2425-68	Corporate	Corporate	Fleet Management Board
P2425-69	Corporate	Corporate	Anti Fraud, Corruption & Bribery training
P2425-71	Corporate	Corporate General	Audit Advice

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APPENDIX 2

Internal Audit Opinions

Each report contains an opinion which is an overall assessment of the control environment reviewed.

OPINION	DESCRIPTION
SUBSTANTIAL ASSURANCE	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
REASONABLE ASSURANCE	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
LIMITED ASSURANCE	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
NO ASSURANCE	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

The table below summarises the risk ratings used during our audits:

RISK RATING	DESCRIPTION
CRITICAL	Major or unacceptable risk which requires immediate action.
SIGNIFICANT	Important risk that requires attention as soon as possible.
MODERATE	Risk partially mitigated but should still be addressed.
STRENGTH	No risk. Sound operational controls and processes confirmed.

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For grant claim audits:

Unqualified opinion - the terms and conditions of the grant were generally complied with;

Qualified opinion - the terms and conditions of the grant were not fully complied with; the identified breaches of terms and conditions will be reported to the grantor and internally to relevant Head of Service/Chief Officer.

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APPENDIX 3

Performance Indicators

	2023/24	Q1	Q2	Q3	Q4	Target
1	Percentage of planned audits completed	15%	36%	50%	82%	80% pa
2	Average no. of days from audit closing meeting to issue of a draft report	2	4	2.5	1.8 days	15 days
3	Average no. of days from receipt of response to draft report to issue of the final report	N/A	4.2	1.6	1.4 days	10 days
4	Percentage of recommendations made that were accepted by the clients	N/A	100%	100%	100%	95%
5	Percentage of clients at least 'satisfied' by audit process	N/A	100%	100%	100%	95%

	2024/25	Q1	Q2	Q3	Q4	Target
1	Percentage of planned audits completed	10%	32%	49%		50% in Q3 80% pa
2	Average no. of days from audit closing meeting to issue of a draft report	2.7 days	1.7 days	2.3 days		15 days
3	Average no. of days from receipt of response to draft report to issue of the final report	N/A*	3.3 days	3.0 days		10 days
4	Percentage of recommendations made that were accepted by the clients	N/A*	100%	100%		95%
5	Percentage of clients at least 'satisfied' by audit process	N/A*	100%	100%		95%

**INTERNAL AUDIT SECTION PROGRESS REPORT
2024/25 – 9 MONTHS**

APPENDIX 4**SUMMARY OF WEAKNESSES – CALDICOT SCHOOL (2024/25)**

The objective of the audit was to evaluate the financial and administrative controls and the effectiveness of the governance framework at Caldicot School using a risk-based approach.

A Local Authority Warning Notice was issued to the Chair of Governors at Caldicot School on the 19th April 2024, due to concerns about the management and governance of the school. Internal Audit site visits were conducted in April and May 2024, during which key leaders at the school were absent. A Control Risk Self-Assessment (CRSA) completed by the school in February 2024 indicated high compliance with expected controls, but the audit findings significantly disagreed with this self-assessment.

The audit identified several critical, significant, and moderate risks, leading to a Limited Assurance rating. This indicates significant gaps, weaknesses, or non-compliance that require improvement to effectively manage risks.

The report includes an Action Plan detailing 37 weaknesses of a critical or significant nature, along with a summary of less significant issues.

RISK RATING	DESCRIPTION	TOTAL IDENTIFIED
CRITICAL	Major or unacceptable risk which requires immediate action.	3
SIGNIFICANT	Important risk that requires attention as soon as possible.	34
MODERATE	Risk partially mitigated but should still be addressed.	27
STRENGTH	No risk. Sound operational controls and processes confirmed.	24

The tables below summarise the individual weaknesses identified during the review.

Ref.	CRITICAL
3.01	A segregation of duties was not always in place within the HR & Payroll processes at the School.
3.02	A Market Forces payment had been paid to an employee which had not been authorised by the Governing Body.
6.06	Payments were made from the School Private Fund to an employee rather than through the payroll system. These payments did not appropriately account for tax, national insurance and pension contributions. There was no evidence to confirm that the Governing Body had considered these payments and if they were justified.

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Ref.	SIGNIFICANT
1.05	The annual SLA between the School and MonLife was out of date and had not been reviewed.
2.03	The Headteacher did not have a spend or virement limit agreed by the Full Governing Body.
2.04	The School did not have an up-to-date School Improvement Plan (SIP), and the plan that was in place was not of a satisfactory standard. The SIP (or summary) was not published on the School's website.
2.05	Full Governing Body minutes did not detail any discussion around the Schools anticipated deficit position. Governors have expressed concerns regarding the lack of sufficient oversight over expenditure activity.
2.06	There was a significant overspend resulting in a large deficit budget position. A recovery plan was not in place as at the time of the audit. There was a significant swing in budget forecast variances from those reported at month 9 with no significant reason identified as to why the forecast changed by £150k.
2.07	The School had not taken out any supply insurance, as a result they have needed to cover the full cost of any agency workers needed to cover staff absences.
3.03	Recruitment and Retention allowances paid to two members of teaching staff had not been authorised or reviewed by the Governing Body.
3.04	Appointment, termination and payroll amendment forms had not been signed by the Headteacher or a delegated officer. eForms had not always been sent to payroll in accordance with the monthly deadlines. This resulted in underpayments.
3.05	The procedure for the payment of additional hours was not consistent and, in some instances, did not have the appropriate level of authorisation.
3.06	Sickness documentation (Return to Work forms) was not always completed. As a result there was no evidence of discussions around the instance of sickness, any necessary adjustments and absence management reviews.
3.07	Sickness absences were not always recorded on the MyView HR & Payroll system in a timely manner. This resulted in an overpayment to a former member of staff which is currently outstanding.
3.08	Register of Employee Disclosure Forms which form part of the Employee Code of Conduct had not been completed. There were a number of undeclared conflicts of interest.
3.09	Signed copies of New Post Request Forms were not available on site.
3.10	Annual leave records had not been maintained for all LGE 52-week employees.
4.08	Procurement decision making and authorisation was not always apparent.

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Ref.	SIGNIFICANT
4.09	Purchase orders were sometimes raised retrospectively and after invoice date.
5.04	A complete inventory register covering all assets was not maintained. Departmental records were inconsistent, incomplete or not held. There was no central check of department records.
5.05	Records to support who had access to the School were not adequate: • No key holding record was held by the School; and • Records held for PAC access cards issued did not demonstrate that access to the School was well controlled.
5.06	Records of IT equipment allocated to staff included some former employees. There was no evidence to support assets had been returned when staff left the School.
5.07	Vehicle checks were not completed for each day the School minibus was in use.
5.08	Driver checks were not undertaken for all staff who had undertaken business mileage and/or drove the School minibus.
6.07	Income due to the Authority was received into private fund rather than directly into the School budget. This money was not transferred into the budget promptly.
6.08	Employees were reimbursed for budget purchases made through the School Private Fund rather than MyView or by purchasing from the budget direct.
6.09	Payments were made to suppliers / individuals that should have been made from budget with the necessary checks undertaken (IR35).
6.10	Additional Learning Needs (ALN) expenditure had been recorded against the private fund where reimbursement contributions had been received into the School budget.
6.11	The School was using the imprest account to move monies between the budget and the School Private Fund.
6.12	Incorrect treatment of VAT had occurred where budget purchases had been made through the private fund.
6.13	Inappropriate payments had been made out of the School Private Fund. Payments were not always within the scope of the Fund.
6.14	Private fund purchases were not always supported with enough detail. Money currently was unaccounted for.
6.15	There was no documented overview of trip balances (including surpluses), and the School held a balance of circa £6.5k of surplus trip funds where no consideration for refunds had been documented. Trip accounts did not account for the ParentPay transaction fees.
7.03	The School did not hold a complete set of business interests forms for School Governors. There were undeclared interests.
7.04	Governing Body and Sub-Committee Minutes were recorded as verbatim versions of conversations and were of insufficient quality to record key decisions, required actions, questions and to demonstrate challenge.
8.02	The appointment of volunteers used by the School did not always comply with the Authority's safeguarding protocol.

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INTERNAL AUDIT SECTION PROGRESS REPORT 2024/25 – 9 MONTHS

Ref.	SIGNIFICANT
8.03	Safeguarding and Child Protection Training records did not indicate that training was provided to all staff.

Ref.	MODERATE
1.06	Refunds made by the School using Parent Pay were not always supported by documented authorisation.
1.07	Records from the Cunninghams system, operated by the catering provider, did not reflect the Free School Meal entitlement information held by the Authority's Shared Benefits team.
1.09	Staff duty meals, refreshments and hospitality were administered without an eligibility policy / Governing Body approval being in place.
2.08	A benchmarking exercise showed that Caldicot School is paying more for some key services compared to other Monmouthshire Schools.
2.09	The deadline for the School to return the Service Level Agreement (SLA) from the Directory of Traded and Non-Traded Services to Schools to the Local Authority was missed.
3.11	Regular establishment checks of actual payroll information could not be ascertained.
3.12	Governor Support payments for an employee were paid against their main post.
3.13	The School could not evidence that the Governing Body had adopted MCC's Special Leave Policy for School Based Employees. Authorised forms could not always be located for all Special Leave granted and there was one instance where paid leave was inappropriately authorised.
4.10	The cleaning contract was unsigned.
4.11	For the sample tested, delivery notes were not consistently present where one may have been expected.
4.12	A number of queries were identified around open purchase orders e.g. duplicate orders on system, order not receipted but paid, open orders requiring closure.
4.13	Signatory names recorded on the central bank mandate for the imprest account were found to be out of date.
4.14	The bank reconciliations for the imprest bank account were not secondarily checked by an officer not involved in the day to day running of the fund.
4.15	The School did not have a Purchasing Card.
5.09	The School did not have a CCTV Policy and CCTV signage at the School required improving.
5.10	The School were not utilising a fuel card for the minibus diesel and using an inefficient process to ensure the charges were recharged to the budget.
6.16	The former Chair of Governors was a signatory on the School Private Fund.

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Ref.	MODERATE
6.17	Records to support cash income received into the School Private Fund were not supported by 2 officers' signatures to demonstrate an agreed cash handover.
6.18	School Private Fund banking was not always undertaken in a timely manner and banking undertaken did not have a secondary check.
6.19	Audited School Private Fund accounts were not presented to the Governing Body.
6.20	A summary document detailing the internal funds held within the main School Private Fund had not always reconciled to the statement balance. Adjustments totalling circa £30k had been made in January 2024 to balance the fund.
7.05	Not all statutory Governing Body Sub-Committees had been established.
7.06	Statutory policies regarding Staff Discipline, Conduct, Capability and Grievance Procedures were not recorded as being adopted by the Governing Body. Dates of ratification by the Governing Body for some policies marked as adopted was not available. The Governing Body minutes did not always specify which policies were adopted.
8.04	Safeguarding information was not made available to visitors.
8.05	The School did not always use supply agencies off the agreed Welsh Government framework. There was no evidence to confirm this arrangement had been agreed by the Governing Body.
8.06	Not all new Governors had DBS clearance within 5 weeks of their appointment. DBS record keeping did not always show date of issue.
8.07	Trips were not always approved within the timeframes set out in the MCC Educational Visits policy.

AUDIT COMMITTEE FEBRUARY 2025
INTERNAL AUDIT SECTION PROGRESS REPORT
2024/25 – 9 MONTHS

GOVERNANCE & AUDIT COMMITTEE WORK PROGRAMME 2024-25

29TH APRIL 2024

Reports to be with Peter by – 15th April 2024

Reports to be with Wendy Barnard/Chair prior to pre-meeting – 17th April 2024

Pre-meeting – 19th April 2024

Finalised reports to committee section – 19th April 2024

Despatch by committee section – 19th April 2024

Report Title	Report Author	Terms of reference category				
		Financial Affairs	Risk, Internal Control, Performance & Corporate Governance	Complaints	Internal Audit	External Audit
Audit Wales Work Programme: Council Progress Update	Richard Jones		✓			
Effectiveness of Strategic Risk Management Framework	Richard Jones		✓			
Internal Audit Plan 24/25	Jan Furtek				✓	
Implementation of Internal Audit agreed recommendations	Jan Furtek				✓	
Proposed future delivery model for the Internal Audit Service	Peter Davies				✓	
Audit Wales Performance Data Review	Charlotte Owen					✓

6TH JUNE 2024

Reports to be with Peter by – 17th May 2024

Reports to be with Wendy Barnard/Chair prior to pre-meeting – 21st May 2024

Pre-meeting – 23rd May 2024

Finalised reports to committee section – 28th May 2024

Despatch by committee section – 29th May 2024

Report Title	Report Author	Terms of reference category				
		Financial Affairs	Risk, Internal Control, Performance & Corporate Governance	Complaints	Internal Audit	External Audit
Draft Freedom of Information (FOI) & Data Protection Act (DPA) Breaches & Date Subject Access Request (DSARs)	Sian Hayward		✓			
CPR Exemptions - 6 monthly update to 31st March 2024	Jan Furtek				✓	
Internal Audit Annual Report 2023/24	Jan Furtek				✓	
2023/4 Treasury Outturn report	Jonathan Davies	✓				
Draft Financial Strategy	Jon Davies/Peter Davies	✓				
People Strategy	Matt Gatehouse		✓			

Annual Audit Plan 24-25	Audit Wales					✓
Audit Wales Capital Programme Management Review	Audit Wales					✓
Audit Wales MCC Annual Audit Summary 2023	Audit Wales					✓
Audit Wales Work Programme and Timetable quarterly update - March 2024	Audit Wales					✓

10TH JULY 2024

Reports to be with Peter by – 21st June 2024

Reports to be with Wendy Barnard/Chair prior to pre-meeting – 25th June 2024

Pre-meeting – 27th June 2024

Finalised reports to committee section – 1st July 2024

Despatch by committee section – 2nd July 2024

Report Title	Report Author	Terms of reference category				
		Financial Affairs	Risk, Internal Control, Performance & Corporate Governance	Complaints	Internal Audit	External Audit
Financial Strategy	Jon Davies/Peter Davies	✓				
Draft Annual Governance Statement 2023/24	Jan Furtek				✓	
Internal Audit Plan and Annual Report for Shared Resource Service (SRS)	TCBC IA Team				✓	
Governance & Audit Committee Annual report 2023/4	Chair – Andrew Blackmore		✓			
Audit Wales Digital Review	Charlotte Owen					✓

31st July 2024

Reports to be with Peter by – 9th July 2024

Reports to be with Wendy Barnard/Chair prior to pre-meeting – 11th July 2024

Pre-meeting – 15th July 2024

Finalised reports to committee section – 22nd July 2024

Despatch by committee section – 23rd July 2024

Report Title	Report Author	Terms of reference category				
		Financial Affairs	Risk, Internal Control, Performance & Corporate Governance	Complaints	Internal Audit	External Audit
2024/5 Q1 - Treasury report	Jon Davies	✓				
2023/4 Draft WCF/Mon Farm Statement of Accounts	Jon Davies	✓				
2023/24 MCC Draft Statement of Accounts	Jon Davies	✓				

5TH SEPTEMBER 2024

Reports to be with Peter by – 2nd August 2024

Reports to be with Wendy Barnard/Chair prior to pre-meeting – 6th August 2024

Pre-meeting – 8th August 2024

Finalised reports to committee section – 27th August 2024

Despatch by committee section – 28th August 2024

Report Title	Report Author	Terms of reference category				
		Financial Affairs	Risk, Internal Control, Performance & Corporate Governance	Complaints	Internal Audit	External Audit
Initial assessment of corporate risk control arrangements	Richard Jones		✓			
Internal Audit Quarterly progress report (Q1)	Jan Furtek				✓	
Draft Self Assessment Report	Richard Jones		✓			

17TH OCTOBER 2024

Reports to be with Peter by – 1st October 2024

Reports to be with Wendy Barnard/Chair prior to pre-meeting – 3rd October 2024

Pre-meeting – 7th October 2024

Finalised reports to committee section – 8th October 2024

Despatch by committee section – 9th October 2024

Report Title	Report Author	Terms of reference category				
		Financial Affairs	Risk, Internal Control, Performance & Corporate Governance	Complaints	Internal Audit	External Audit
Audit Wales Work Programme: Council Progress update	Richard Jones		✓			
Audit Grants report	Audit Wales - Rachel Freitag					✓
Audit Wales Financial Sustainability Review	Audit Wales					✓
Annual Audit Plan 22-23 Welsh Church Funds	Rachel Freitag					✓

28TH NOVEMBER 2024

Reports to be with Peter by – 12th November 2024

Reports to be with Wendy Barnard/Chair prior to pre-meeting – 14th November 24

Pre-meeting – 18th November 2024

Finalised reports to committee section – 19th November 2024

Despatch by committee section – 20th November 2024

Report Title	Report Author	Terms of reference category				
		Financial Affairs	Risk, Internal Control, Performance & Corporate Governance	Complaints	Internal Audit	External Audit

Report Title	Report Author	Financial Affairs	Risk, Internal Control, Performance & Corporate Governance	Complaints	Internal Audit	External Audit
24/25 Q2 Treasury report	Jon Davies	✓				
2023/24 MCC Statement of Accounts Final	Jon Davies	✓				
ISA260 response to accounts	Rachel Freitag/Jon Davies					✓
Effectiveness of Strategic Risk Management Framework and summary of wider arrangements	Richard Jones		✓			
CPR Exemptions - 6 monthly update to 30th September 2024	Jan Furtek				✓	
Whole Authority annual complaints report	Annette Evans			✓		
Internal Audit quarterly progress report (Q2)	Jan Furtek				✓	
The Ombudsmans's Annual Letter - 2022/23	Annette Evans			✓		

16TH JANUARY 2025

Reports to be with Peter by – 20th December 2024
 Reports to be with Wendy Barnard/Chair prior to pre-meeting – 2nd January 2025
 Pre-meeting – 6th January 2025
 Finalised reports to committee section – 7th January 2025
 Despatch by committee section – 8th January 2025

Report Title	Report Author	Terms of reference category				
		Financial Affairs	Risk, Internal Control, Performance & Corporate Governance	Complaints	Internal Audit	External Audit
2023/4 WCF/Mon Farm Statement of Accounts Final	Jon Davies	✓				
ISA260 for trust funds	Rachel Freitag/Jon Davies					✓
Anti Fraud, Bribery & Corruption Risk Assessment	Jan Furtek				✓	
Audit Wales review of performance management arrangements	Audit Wales					✓

20TH FEBRUARY 2025

Reports to be with Peter by – 4th February 2025
 Reports to be with Wendy Barnard/Chair prior to pre-meeting – 6th February 2025
 Pre-meeting – 10th February 2025
 Finalised reports to committee section – 11th February
 Despatch by committee section – 12th February 2025

		Terms of reference category				
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Report Title	Report Author	Financial Affairs	Risk, Internal Control, Performance & Corporate Governance	Complaints	Internal Audit	External Audit
2024/25 Q3 Treasury report	Jon Davies	✓				
		✓				
2025/26 Capital Strategy and Treasury Strategy	Jon Davies	✓				
Cyber Security	Sian Hayward		✓			
Update of Contract Procedure Rules	Scott James/Peter Davies					
Internal Audit Quarterly Progress report (Q3)	Jan Furtek					✓

13TH MARCH 2025

Reports to be with Peter by –
 Reports to be with Wendy Barnard/Chair prior to pre-meeting –
 Pre-meeting –
 Finalised reports to committee section –
 Despatch by committee section –

Report Title	Report Author	Terms of reference category				
		Financial Affairs	Risk, Internal Control, Performance & Corporate Governance	Complaints	Internal Audit	External Audit
Draft Internal Audit Plan 2025/26	Jan Furtek				✓	
Self Assessment of Performance Management arrangements	Richard Jones		✓			
Statement on the robustness of the budget process and the adequacy of reserves	Peter Davies					

TO BE PUT ON A FUTURE MEETING AGENDA BUT DATES NOT YET CONFIRMED

Presentation on Global Internal Audit Standards/Update of Public Sector Internal Audit Standards
 Review of MCC Internal Audit Charter

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Public Document Pack Agenda Item 10

MONMOUTHSHIRE COUNTY COUNCIL

Minutes of the meeting of Governance and Audit Committee held
at County Hall, The Rhadyr, Usk, NP15 1GA on Thursday, 16th January, 2025 at 2.00 pm

PRESENT: Andrew Blackmore, (Chairman)
County Councillor Tony Easson, (Vice Chairman)

Lay Members: Colin Prosser, Martin Veale, Rhodri Guest

County Councillor: Sara Burch, John Crook, David Jones,
Malcolm Lane, Phil Murphy, Peter Strong and Ann Webb

OFFICERS IN ATTENDANCE:

Jan Furtek	Acting Chief Internal Auditor
Wendy Barnard	Democratic Services Officer
Charlotte Owen	Audit Wales Officer
Richard Jones	Performance and Data Insight Manager
Jonathan Davies	Head of Finance
Emma Tapper	Governance & Assurance Officer
Gareth Lucey	Audit Wales Engagement Director
Elinor Hallett	Audit Wales Officer
Jemma Trivett	Audit Wales Officer

APOLOGIES:

None

1. Declarations of Interest

No declarations of interest were made.

2. Public Open Forum

No members of the public were present.

3. To note the Action List from the previous meeting.

The Action List from the previous meeting was noted.

<https://www.youtube.com/live/ViMsZa0GS68?si=KNpdlaZ4PZpoJloU&t=47>

1. Treasury Report: Details of the 3 charters that organisations can voluntarily sign up for to ensure that the minimum level of Environmental, Social and Governance responsibility are being met will be circulated following. CLOSED

4. 2023/24 Welsh Church Fund and Monmouthshire Farm School Endowment Trust Statement of Accounts (Final)

MONMOUTHSHIRE COUNTY COUNCIL

Minutes of the meeting of Governance and Audit Committee held at County Hall, The Rhadyr, Usk, NP15 1GA on Thursday, 16th January, 2025 at 2.00 pm

The Head of Finance presented the Statement of Accounts for the Charitable Trust Funds, and the Audit Wales Financial Audit Manager presented the ISA260. In doing so, the work and co-operation of the Finance Team and Audit Wales officers was recognised. Following presentation of the reports, questions were invited from Committee Members:

<https://www.youtube.com/live/ViMsZa0GS68?si=OxWW7osmZHDhvXy&t=94>

The recommendations were agreed, and the Committee agreed the Chair should sign the Letter of Representation:

- 1.1 That the audited 2023/24 statement of accounts for The Welsh Church Act Fund (**Appendix 1**) are approved in light of the Audit Wales ISA260 Audit of Accounts report for The Welsh Church Act Fund.
- 1.2 That the independently examined financial statements for The Monmouthshire Farm School Endowment Trust Fund for 2023/24 (**Appendix 2**) are approved in light of the Independent Examination Report for The Monmouthshire Farm School Endowment Trust Fund.

ACTION: Head of Finance was requested to circulate information in relation to the land assets owned by the Welsh Church Fund (WCF) , and during the meeting confirmed the below is the full list of assets and value as at 31st March 2024. These are all owned outright by the WCF and are located in both Newport and Monmouthshire. CLOSED

Land Asset	Value
Christchurch (a) Glebe	22,000
Christchurch (b) Glebe	6,500
Llandewi Skirid (a) Glebe	55,000
Llanmartin (a) Glebe	84,000
Penallt (a) Glebe	142,500
Rogiet (e) Glebe*	8,000
St Brides Netherwent (b) Glebe	95,000
Whitson (b) Glebe	80,000

5. ISA260 for Trust Funds

This item was considered at the same time as the previous item.

6. Anti Fraud, Bribery and Corruption Risk Assessment

The Acting Chief Internal Auditor presented the Anti Fraud, Bribery and Corruption Risk Assessment report. Following presentation of the report, Members were invited to ask questions:

<https://www.youtube.com/live/ViMsZa0GS68?si=yRUVh7A9TImVwPVk&t=1075>

As per the report recommendations,

1. The Governance and Audit Committee commented on and endorsed the Council's Counter Fraud, Corruption and Bribery Risk Assessment.
2. The Governance & Audit Committee recognised the Council's commitment to a zero-tolerance approach to Fraud, Corruption and Bribery and requires that all Members, Lay Members and Officers of the Council complete the required e-Learning in this area as soon as possible and at the latest by the end of June 2025; and

MONMOUTHSHIRE COUNTY COUNCIL

Minutes of the meeting of Governance and Audit Committee held at County Hall, The Rhadyr, Usk, NP15 1GA on Thursday, 16th January, 2025 at 2.00 pm

3. The Governance and Audit Committee will receive an updated report and assessment during the 2025/26 financial year (September 2025).

7. Audit Wales Review of Performance Management Arrangements

The Audit Wales Officer presented the Audit Wales Review of Performance Management Arrangements report. The Performance and Data Insight Manager presented the Management Response to the report. Following presentation of the report, Members were invited to ask questions:

https://www.youtube.com/live/ViMsZa0GS68?si=jmPvN3Ta_06NNHDI&t=2359

The Audit Wales report and the Management Response were noted.

8. Governance and Audit Committee Forward Work Plan

The Governance and Audit Committee Forward Work Plan was noted.

<https://www.youtube.com/live/ViMsZa0GS68?si=vjfm-Fgn5EcfsfRA&t=2974>

9. To approve the minutes of the previous meeting held on 28th November 2024

The minutes of the previous meeting held on 28th November 2024 were confirmed as an accurate record.

https://www.youtube.com/live/ViMsZa0GS68?si=wT2y3m1hFUmzc_ls&t=3019

10. Date of Next Meeting: 20th February 2025

ACTION: The Chair requested that the Lay Members have sight of meeting dates proposed for 2025/26 before the Council Calendar is considered by Council on 23rd January 2025.

Meeting ended at 2.50 pm

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SCHEDULE 12A LOCAL GOVERNMENT ACT 1972 EXEMPTION FROM DISCLOSURE OF DOCUMENTS

Meeting and Date of Meeting: Audit Committee, 20.02.25

Report: Cyber Resilience

Author: Sian Hayward

I have considered grounds for exemption of information contained in the background paper for the report referred to above and make the following recommendation to the Proper Officer:-

Exemptions applying to the report:

This report will be exempt under paragraph 18 of Schedule 12A of the Local Government Act – Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime

Factors in favour of disclosure:

Openness & transparency in matters concerned with the public

Prejudice which would result if the information were disclosed:

This report looks to provide Audit Committee with assurance around the cyber security arrangements that the Council has in place and to confirm its levels of resilience. In light of the sensitive information contained in the report around the Council's information security arrangements it is appropriate for this report to be exempt from public disclosure.

My view on the public interest test is as follows:

Factors in favour of disclosure are outweighed by those against.

Recommended decision on exemption from disclosure:

Maintain exemption from publication in relation to report

Date: 30.01.25

Signed:

Post:

Head of Information Security and Technology

I accept/I do not accept the recommendation made above

Signed:

Peter Davies, Deputy Chief Officer / Chief Officer for Resources

Date: 30.01.25

By virtue of paragraph(s) 18 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

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