

REPORT

SUBJECT:	2023/24 Capital Strategy and 2023/24 Treasury Management Strategy
DIRECTORATE:	Resources
MEETING:	Council
DATE:	9th March 2023
DIVISION/WARDS AFFECTED:	Countywide

1. PURPOSE

- 1.1. The purpose of this report is to approve the Capital and Treasury management strategies including the Minimum revenue provision policy and borrowing & investment strategies for the 2023/24 financial year. This report summarises and highlights the key areas relating to the strategies, alongside those areas of key implications and risks resulting from it.

2. RECOMMENDATIONS

- 2.1. That Council approves the Capital strategy for 2023/24 as found at **Appendix 1**.
- 2.2. That Council approves the Treasury management strategy for 2023/24 as found at **Appendix 2**, including the:
- 2023/24 Minimum Revenue Provision Policy Statement
 - 2023/24 Investment & Borrowing Strategies
- 2.3. To approve the Prudential Indicators as outlined throughout the strategies and summarised in **Appendix 3** that will be used in the performance monitoring of the treasury function during 2023/24.
- 2.4. That Council receive confirmation that the Governance & Audit Committee reviewed the draft 2023/24 Strategies and subsequently endorsed them to full Council at its meeting on the 16th February 2023, and provided the feedback as noted in paragraph 5 of this report.
- 2.5. That Council agrees that Governance & Audit Committee should continue to review the Council's treasury activities for 2023/24 on behalf of the Council by receiving and considering quarterly treasury update reports and a year-end report.

3. KEY ISSUES

Overview

- 3.1. The Capital Strategy and Treasury Management Strategy are inherently linked and the main issues and observations arising from these strategies are summarised in the following sections. In light of the requirement for full Council to ultimately approve these strategies, the Governance & Audit Committee were asked, as part of their delegated responsibility, to review and consider both strategies.
- 3.2. The strategies were considered by Governance & Audit Committee on 16th February 2023 and a summary of the feedback provided by the Committee is provided in paragraph 5 of this report. There were no significant changes or amendments to the strategies proposed and the committee endorsed the strategies for onward consideration by Council.
- 3.3. Subsequent to Governance & Audit Committee considering the report, the strategies have been updated to reflect:
 - The draft capital budget being updated to align with the final budget proposals considered by Cabinet on the 1st March and Council on the 2nd March. These changes mainly related to an increase in the budget for Public Rights of Way of £50,000 funded from general capital grant, alongside a transfer in borrowing backed budget from Grant match funding schemes into Highways improvements of £500,000 per annum.
 - An update to the forecast useable capital receipts balances to reflect the balances being called upon as part of the final budget proposals
 - An update to the economic data in section 1 of the Treasury Strategy to reflect more up-to-date information available
- 3.4. These changes have no material impact of any of the prudential indicators such as borrowing limits or net financing costs that are included within both strategies.

2023/24 Capital Strategy

- 3.5. 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.
- 3.6. 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.
- 3.7. The main considerations arising from the Capital strategy shown in **Appendix 1** are summarised in this report below.
- 3.8. 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.

3.9. The Cabinet’s draft 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, making a positive contribution to addressing the climate and nature emergency;
- A thriving and ambitious place, full of hope and enterprise;
- 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, are valued and connected;
- A learning place where everybody has the opportunity to reach their potential.

3.10. 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.

3.11. Whilst Cabinet make recommendations regarding the capital investment to be included within the programme, it is full Council that approves the borrowing limits that the overall programme must adhere to. 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. 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 financing costs sometimes for as long as 50 years. These costs are comprised of the external loan interest costs, and the provision made for financing the principal repayment of the loans, known as Minimum Revenue Provision (MRP).

3.12. In the current climate of financial constraints and a continued medium term 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.

3.13. Within the context of significant demands for capital resources and limited availability, there is the need to develop 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 and corporate visibility and assessment of demand for schools, highways and other operational assets.

3.14. **Setting Capital Budgets**

Capital Medium Term Financial Plan (MTFP)

Scheme type	Indicative Budget 2023/24	Indicative Budget 2024/25	Indicative Budget 2025/26	Indicative Budget 2026/27
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Asset Management Schemes	2,230,049	2,230,049	2,230,049	2,230,049
School Development Schemes	29,324,638	19,456,606	4,151,797	0
Infrastructure & Transport Schemes	6,822,740	4,147,740	4,047,740	4,047,740
Regeneration Schemes	602,900	730,200	730,200	730,200
Inclusion Schemes	1,200,000	1,200,000	1,200,000	1,200,000
ICT Schemes	413,000	413,000	413,000	413,000
Vehicles Leasing	1,500,000	1,500,000	1,500,000	1,500,000
Capitalisation Directive	3,007,500	507,500	507,500	507,500
Other Schemes	570,000	570,000	570,000	570,000
TOTAL EXPENDITURE	45,670,828	30,755,096	15,350,287	11,198,490

3.15. 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. When considering the relative merits of further capital investment, the Capital and Asset Management Working Group (CAMWG) will apply the priority matrix in the capital strategy, either endorsing or amending the proposal for onward consideration by SLT and Members through the agreed mechanisms in place.

3.16. Council approve the overall revenue and capital budgets following recommendations from Cabinet. They also approve the borrowing limits that 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.

3.17. Capital Financing

3.18. 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).

Capital financing in £m

Source of funding	2023/24 budget	2024/25 budget	2025/26 budget	2026/27 budget
External sources	21.6	16.3	6.2	2.5
Capital Receipts	4.3	1.7	1.6	1.6
Revenue Reserves	0.1	0.1	0.1	0.1
Leasing	1.5	1.5	1.5	1.5
Debt	18.2	11.1	6.0	5.5
Total	45.7	30.8	15.4	11.2

3.19. Approval of capital expenditure funded through borrowing locks the Council into committing revenue funding to service this borrowing over a very long period (as long as 50 years). Minimum Revenue Provision (MRP) is required to be funded from revenue budgets to set aside funds to cover expected borrowing principal repayments, and with the level of MRP increasing over the medium-term 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	2022/23 Estimate £m's	2023/24 Estimate £m's	2024/25 Estimate £m's	2025/26 Estimate £m's	2026/27 Estimate £m's
Net Interest payable	3.9	6.4	6.7	6.9	7.1
MRP	6.7	7.0	7.1	7.5	7.6
Total Financing costs	10.6	13.4	13.8	14.4	14.7
Net Revenue Stream	175.1	189.4	195.8	199.4	203.1
Proportion of net revenue stream %	6.06%	7.07%	7.06%	7.20%	7.24%

3.20. The table above compares borrowing 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 static 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.

3.21. 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 revenue budgets.

Ongoing Capital Programme Development

3.22. In light of continuing local government 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. As noted previously, there will be a range of priorities originating from these plans, particularly the draft Community and Corporate Plan which will look to deliver on aspirational long term objectives such as the decarbonisation agenda and affordable housing.

3.23. Alongside this, it is important to consider the requirement to maintain the Councils current asset base. Constrained funding levels in previous years has resulted in a maintenance backlog 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.

3.24. 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.

3.25. Capital Receipts

3.26. Any assets which are deemed to be surplus to service requirements will be identified for possible sale/income generation in consultation with the Estates department. The procedures governing disposals are captured in the Council's Surplus asset disposal policy.

Forecast Capital receipts

	2022/23	2023/24	2024/25	2025/26	2026/27

	£000	£000	£000	£000	£000
Balance as at 1st April	8,773	9,890	7,112	6,051	4,590
Less: capital receipts used for financing	(3,975)	(1,725)	(1,158)	(1,058)	(1,058)
Less: capital receipts used to support capitalisation directive	(3,410)	(3,008)	(508)	(508)	(508)
Less: Reserve cover for redundancies	0	(1,000)	0	0	0
Capital receipts: Received	7,072	0	0	0	0
Capital receipts: Forecast	1,430	2,954	604	104	104
Forecast Balance as at 31st March	9,890	7,112	6,051	4,590	3,129

- 3.27. The value of Capital receipts forecast after 2023/24 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 a substantial impact on the balance of receipts available to fund future capital investment demands. It is therefore important that reliance on capital receipts used to support capitalisation direction (to fund one-off revenue costs eligible to be met from capital resources) is seen as a short term measure only.
- 3.28. 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.

4. 2023/24 Treasury Management Strategy

Overview

- 4.1. 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.
- 4.2. It includes how it will manage and invest its surplus cash which also have various indicators and limits set as part of prudential indicators and treasury management indicators, and will also include additional guidance of the Welsh Government Investment Guidance and the Minimum Revenue Provision Policy.
- 4.3. 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 2021 Edition (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.

- 4.4. The Governance & Audit Committee in its role as the Council's delegated body to review and scrutinise the authority's financial affairs must, for 2023/24, receive as a minimum a quarterly treasury update report including an annual report after its close on treasury management activities during the year.
- 4.5. 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.
- 4.6. The detailed Treasury strategy for 2023/24 is included at **Appendix 2**. Key points of interest are summarised below.
- 4.7. In broad terms, the Treasury strategy remains very similar to previous years, such that the Council remains a net borrower from the market, and utilises internal resources to reduce net borrowing costs, known as internal borrowing.
- 4.8. In order to keep the Authority's borrowing costs lower, the external borrowing total is split fairly equally between long and short term recurrent borrowing. At current market levels short term borrowing achieves a reduction in cost but causes an increase in interest rate risk. Although interest rates are expected to rise marginally in the near term, it is not expected that short term rates over the MTFP window will exceed current long term rates. The Treasury team continues to optimise its loans and investments to reduce the net cost of borrowing while ensuring that security and liquidity levels are maintained at a suitable level and the various risks are properly managed.

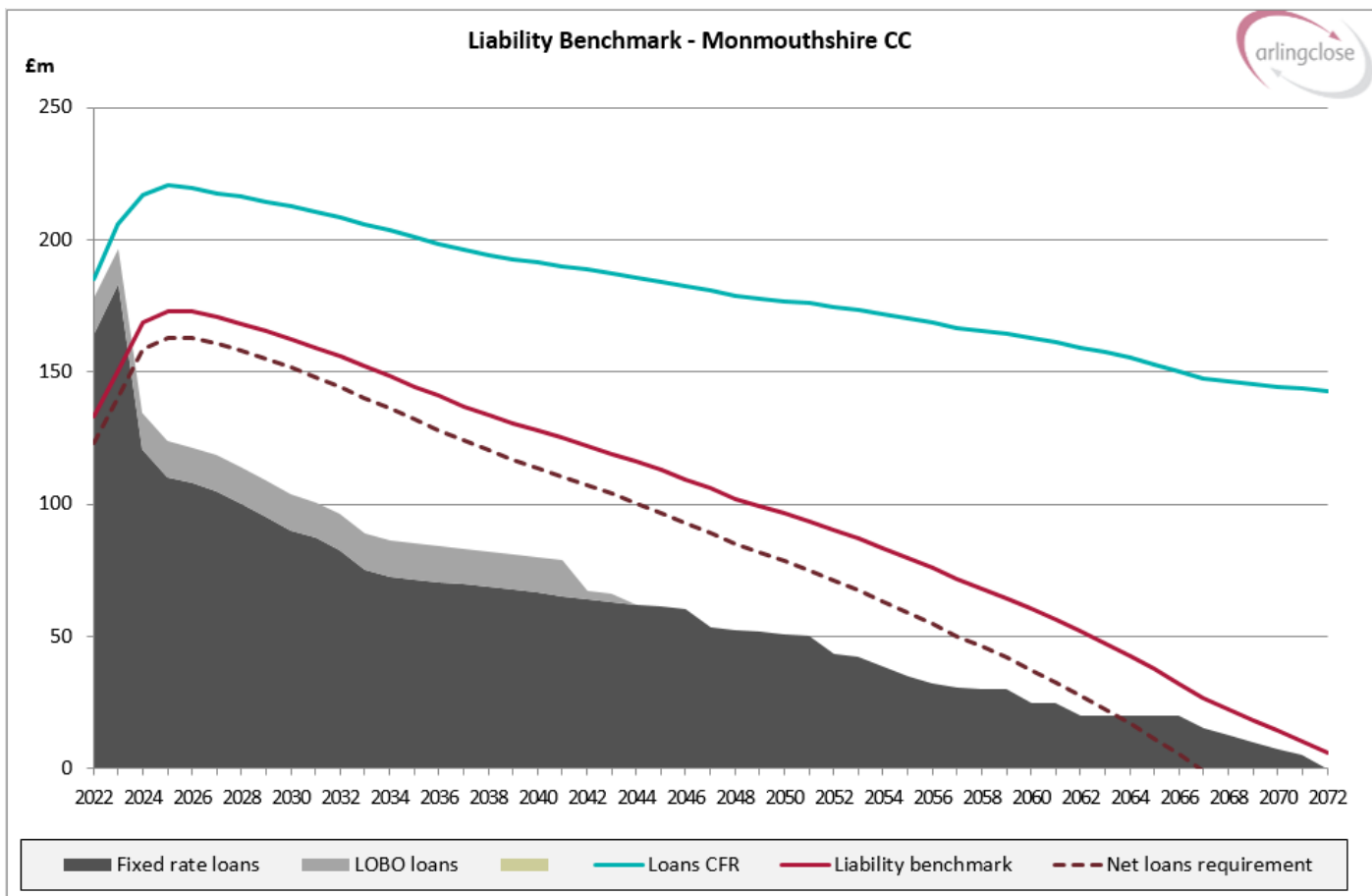
Borrowing Strategy

- 4.9. 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. This is known as internal borrowing and will form a key part of the borrowing strategy for 2023/24, as it has done over recent years.
- 4.10. 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 when long-term borrowing rates are currently forecast to rise modestly.

- 4.11. The Council has previously raised the majority of its long-term borrowing from the PWLB and expects to continue to do so during 2023/24. 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.
- 4.12. Short term borrowing has traditionally been sourced from the inter-Local authority market and this is expected to continue during 2023/24 as it provides a low administration cost option for borrowing at competitive rates of interest.

Liability benchmark

- 4.13. To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing.
- 4.14. 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.
- 4.15. The long-term liability benchmark below assumes capital expenditure funded by borrowing is maintained as per the capital MTFP and thereafter £5.5m per year; that minimum revenue provision on new capital expenditure is based on the current policy, and; income, expenditure and reserves held are not increasing or decreasing beyond the MTFP window. This is shown in the chart below:



4.16. 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, and notably the new King Henry school which is part funded by borrowing. However, over time the requirement reduces gradually because the amount of borrowing modelled per annum (£5.5m) is less than the amount of funds being set aside within the revenue budget to meet future borrowing repayments (MRP).

4.17. The use of reserves and working capital in lieu of debt reduces the overall need to borrow and therefore 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 total of the grey areas and the red lines over the longer term. The Council intends to maintain about a 50% level of short term loans which will partly fill this gap, but we will still need to take out longer term loans, mainly to replace existing borrowing that is maturing or if longer term interest rate projections are significantly higher.

Gross Debt and the Capital Financing Requirement

4.18. Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen in the table below, the Council expects to comply with this over the medium term window based on current estimates of future debt levels.

Gross Debt Forecast compared to CFR	2022/23 Estimate £m's	2023/24 Estimate £m's	2024/25 Estimate £m's	2025/26 Estimate £m's	2026/27 Estimate £m's
Debt (Inc. PFI, leases, right of use assets)	194.4	190.2	190.4	193.6	195.7
Capital Financing Requirement (Total)	206.9	223.2	227.3	225.9	223.8
(Under) / Over borrowed	(12.5)	(33.0)	(36.9)	(32.3)	(28.1)

Authorised limit and Operational boundary

- 4.19. The Council is legally required to approve an Authorised Limit for external debt each year. The Authorised Limit is the absolute maximum amount of borrowing that can be undertaken, in order to manage the overall, day to day, cash requirements of the Council. It also allows for a level of borrowing in advance of need to be undertaken, where appropriate and affordable. In addition, the Council sets an 'Operational Boundary', which is the expected level of borrowing required to finance the current Capital Programme. Any increase required to the Authorised Limit needs to be approved by full Council.
- 4.20. Based on the capital programme proposed, it is recommended that the Council approve the following authorised limits and operational boundaries:

Authorised limit and operational boundary for external debt in £m

Authorised limit and Operational boundary	2022/23 Estimate £m's	2023/24 Estimate £m's	2024/25 Estimate £m's	2025/26 Estimate £m's	2026/27 Estimate £m's
Authorised limit - borrowing	251.4	263.9	255.5	244	245.9
Authorised limit - PFI, leases & right of use assets	4.4	4.4	4.4	4.4	4.3
Authorised Limit - total external debt	255.8	268.3	259.9	248.4	250.2
Operational Boundary - borrowing	227.4	239.9	231.5	220	221.9
Operational Boundary - PFI, leases & right of use assets	2.9	2.9	2.9	2.9	2.8
Operational Boundary - total external debt	230.3	242.8	234.4	222.9	224.7

Investment Strategy

- 4.21. 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
- 4.22. 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.

- 4.23. 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.
- 4.24. The approved counterparty list and limits are shown in table 17 of 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.
- 4.25. 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

- 4.26. 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.
- 4.27. In 2023/24, 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.
- 4.28. A commitment was made by full Council in September 2022 to investigate how responsibly the Council invests its cash balances, and to develop a sustainable investment policy that is compatible with the Council's declaration of a Climate Emergency and the Well Being of Future Generations Act. As noted above, the current framework and data sources available to enable a robust assessment of investments are still immature. Alongside this, many of the investments funds or bodies are multifaceted which makes current evaluation increasingly difficult. The Council will continue through 2023/24 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.

Annual Minimum Revenue Provision (MRP) Policy Statement

- 4.29. 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.

- 4.30. The MRP policy remains unchanged from 2022/23, which for supported borrowing is the asset life method with equal instalments over 50 years, and for unsupported borrowing the asset life method on an annuity basis.

Prudential Indicators

- 4.31. The prudential indicators as recommended under the Prudential Code are outlined within the strategy documents and summarised in **Appendix 3** and set out the limits and indicators that the treasury function will operate under for 2023/24.

5. Summary of Governance & Audit Committee consideration

- 5.1. The Governance & Audit Committee has delegated responsibility to consider the Capital and Treasury strategies before endorsing to full Council for approval. The strategies were considered by Governance & Audit Committee on 16th February 2023 and the Committee were asked to review and provide comments on both strategies, including the embedded borrowing and investment strategies and the Minimum Revenue Provision policy statement.
- 5.2. The Committee resolved to endorse the Strategies to full Council and provided the following comments and observations, for which the management response is shown alongside if appropriate:

Capital strategy feedback

- Capital receipts levels are continuing to decline and will consequently mean that additional borrowing will need to be taken to further any capital investment plans the Council has. How close are we to the limit of affordability in terms of the revenue cost of servicing borrowing?
Response: Need to keep close monitoring of treasury costs as a proportion of net revenue budget. The level is increasing marginally over MTFP reflective of investment in Abergavenny 3-19 school, but is considered affordable in light of overall revenue budget. The Council has been successful in attracting significant grant funding in recent years which has avoided the need for further significant borrowing, but moving forward, capital pressures and investment aspirations will inevitably lead to a further call on borrowing, and this will need to be weighed carefully against other options and priorities.
Affordability of borrowing also needs to be weighed against the potential for further investment to reduce the future revenue maintenance burden.
- Clarification was given around the variability of capital investment in the indicative medium term capital budget which is primarily due to the one-off investment in the new Abergavenny 3-19 school over the first 3 years of the MTFP. It was noted that the

core programme of funding is comparatively small and represented by £5.5m of borrowing, alongside £2.5m from external sources and £1.7m of internal resources.

- Clarification was provided over the timing and development of a medium term financial strategy and how this will align with the capital strategy and other enabling plans of the Council.

Treasury Strategy feedback

- Commercial assets – the committee noted that a breakdown of gross income over the various assets would have been more helpful to the reader, rather than the consolidated position shown in table 10. It was also noted that reporting gross income as opposed to net is not particularly helpful to the reader.

Response: Format of the report is heavily prescribed by guidance and code requirements. The reporting of gross income is to enable the monitoring of the Council's overall reliance on commercial asset income as a funding source for the revenue budget. Monitoring of this indicator will enable the risk to be weighed of any one funding source being significantly relied upon.

The net returns of commercial assets are reported regularly through periodic revenue monitoring reports.

- Clarification was given over the Investment Committee responsibility for monitoring and overseeing commercial investment performance and that the intention remains for revised governance arrangements around commercial investment assets to be considered and as required to be reported subsequently to Council for approval.
- In relation to commercial investment assets, it was noted that a trend analysis of the value of assets and income received per asset over time would be useful to the overseeing committee and it was requested if this could be considered moving forward.
- How regular are option appraisals and exit strategies carried out on the Commercial asset portfolio? Where does responsibility for this lie?
Response: Current responsibility with Investment committee who meet regularly to consider options. Outside of that regular dialogue between commercial landlord and finance teams to monitor financial performance and risk, as well as being included in the periodic revenue budget monitoring. Need to be mindful that despite challenging economic conditions the commercial portfolio still returns a net income to the revenue budget, and if disposed of will need to be replaced with reduced cost or additional income in alternative areas.
- Clarification over the future intentions to expand Solar Farm capacity through the RLDP or otherwise, and the fit with wider policy objectives.

- Clarification that exit strategies for Newport leisure park are being considered regularly, and confirming the ability to secure further PWLB loan funding to enhance or maintain the asset as part of alternative strategies.
- ESG investment policy – one member noted that whilst conscious of the pressures in internal finance resources over the recent period, there was disappointment that the ESG policy is not further developed and there isn't a commitment to timing of when it will be further enhanced.

Response: Discussion ongoing with treasury advisors around development of ESG policy and will update G&AC accordingly as we move through the year. Development will need to be weighed against wider finance resources, and the availability of data and frameworks that will allow a suitably developed approach to be taken.

6. REASONS

- 6.1. This report, and the Capital and Treasury Management strategies appended highlight the revenue implications from capital expenditure, and for the need for the capital plans of the authority to be affordable, prudent and sustainable. The Capital Strategy highlights the anticipated increase in borrowing required over the longer term and the revenue costs resulting from the current Capital programme.
- 6.2. Whilst the current Capital programme is considered affordable, and the necessary capital financing budgets included as part of the 2023/24 revenue budget, it is important that expenditure is kept within the financing limits within the programme. If further borrowing is required, this will need to be approved by full Council.
- 6.3. The Authority is required to produce a Treasury Management Strategy including annual investment and borrowing strategies in order to comply with the Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code").
- 6.4. The Authority is required to produce an MRP policy statement in order to comply with the Local Authorities (Capital Finance and Accounting) (Wales) Regulations.

7. OPTIONS APPRAISAL

- 7.1. As contained within the strategies shown at ***Appendix 1 and 2.***

8. EVALUATION CRITERIA

- 8.1. Not applicable.

9. RESOURCE IMPLICATIONS

- 9.1. The medium term treasury budgets, contained within the 2023/24 revenue budget proposals were constructed in accordance with the strategy documents appended to this report. Consequently, there are no additional resource implications directly arising from this report.

9.2. The Council's indicative treasury budgets for the next 4 years are:

	Indicative Base 2023/24	Indicative Base 2024/25	Indicative Base 2025/26	Indicative Base 2026/27
Total Interest & Investment Income	(635,148)	(582,790)	(555,379)	(552,913)
Total Interest Payable & Similar Charges	6,756,791	7,317,224	7,481,264	7,628,285
Total Charges Required Under Regulation	6,877,043	7,124,560	7,462,557	7,599,833
Total	12,998,686	13,858,994	14,388,442	14,675,205

9.3. However, there are some key future financial risks on medium-term treasury budgets concerning:

- The indicative capital medium term financial plan for 2023/27 has been shared with members as part of the capital budget setting process. Should future additions to the programme be required that are funded from borrowing, then treasury costs, affordability considerations, and impacts on the capital financing requirement and external borrowing requirement would need to be updated.
- The Authority continues to make plans to assess the capital receipts which can be obtained from selling property assets. Without these receipts being available to fund capital expenditure, further capital investment over and above the core programme will need to be funded by additional borrowing.
- Base and short-term interest rates are expected to remain at lower levels in the medium term and the Treasury strategy allows for the use of short term borrowing once investment funds are exhausted to take advantage of these low rates. However, the current and future UK and global economic environments remains extremely uncertain and will need to continue to be closely monitored.

10. WELLBEING OF FUTURE GENERATIONS (INCORPORATING EQUALITIES, SUSTAINABILITY, SAFEGUARDING AND CORPORATE PARENTING):

10.1. There are no implications directly arising from the recommendations and decisions highlighted in this report.

11. CONSULTEES:

Deputy Chief Executive (Section 151 officer)
 Arlingclose – Treasury Management Advisors to Monmouthshire CC
 Cabinet
 SLT
 Governance & Audit Committee

12. BACKGROUND PAPERS:

Appendix 1 – 2023/24 Capital strategy

Appendix 2 - 2023/24 Treasury Management Strategy including the Minimum Revenue Provision policy statement and Investment & Borrowing Strategies

Appendix 3 – Prudential Indicators

13. AUTHORS:

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