Report No: 02/2022
PUBLIC REPORT

CABINET

18 January 2022

TREASURY MANAGEMENT STRATEGY AND CAPITAL INVESTMENT STRATEGY

Report of the Portfolio Holder for Finance, Governance and Performance, Change and Transformation

Strategic Aim:	Customer-focussed services	
Key Decision: Yes	Forward Plan Reference: FP/151021	
Exempt Information	No	
Cabinet Member(s) Responsible:	Cllr K Payne, Portfolio Holder for Finance, Governance and Performance, Change and Transformation	
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Ward Councillors	Not Applicable	

DECISION RECOMMENDATIONS
That Cabinet Recommends to Council to approve: a) the Treasury Management Strategy in Appendix 1 including the Investment Strategy, Borrowing strategy, Minimum Revenue Provision statement and Capital Expenditure Prudential indicators. b) the Capital Investment Strategy in Appendix 2

1 PURPOSE OF THE REPORT

1.1 This report sets out the statutory reports expected in relation to treasury and capital investment operations for 2022/23, linked to the Council’s Budget, Medium Term Financial Strategy and Capital Programme.

2 BACKGROUND AND MAIN CONSIDERATIONS

2.1 Statutory guidance

2.1.1 Both the Treasury Management Strategy and the Capital Investment Strategy (CIS) have been prepared in line with relevant legislation and guidance (details are covered in section 6). The Prudential Code and Treasury Management Code produced by CIPFA are the two key documents that Councils follow. Both are under development and have been subject to consultation. Whilst final versions are awaited, any new provisions will not need to be implemented until April 2023.

2.1.2 The Government has raised serious concerns about Councils borrowing to invest in commercial properties for some time. As guardians of the Prudential Code, CIPFA are keen to see it strengthened. Following the significant risk taken to protect this system by a few local authorities with public funds, CIPFA is consulting on not allowing borrowing to invest for yield only. CIPFA believes that without these strengthened provisions, local authorities risk further government intervention in the Prudential Framework.

2.1.3 The updated Prudential Code clearly defines three distinct areas of treasury management that includes all the investments of the organisation:

- **Investments for treasury management purposes** - investments arising from the organisations cash flow and ultimately represent balances which need to be invested until the cash is required for use in the course of the business. The Council's Strategy regarding these investments are covered by Appendix 1 Treasury Management Strategy Statement.
- **Investments for commercial purposes** - are long term investments taken or held primarily for financial return and are not linked to treasury management activity or directly part of delivering services. The Council's strategy is to not invest for commercial purposes.
- **Investments for service purposes** - are taken or held primarily for the provision of delivering public services, including housing, regeneration and infrastructure. Service investments may involve commercial returns but these returns will not be the primary purpose of the investment. The Council's Strategy regarding these investments are covered by Appendix 2 CIS.

2.1.4 The Treasury Management Code was last updated in 2017. Since then the landscape for public services has changed. The increasing profile of the role of treasury management as a result of the pandemic and the increasing complexity of transactions in the sector all underline the importance of the Treasury Management Code and its guidance. In addition, the rise in commercial non-treasury investments (as indicated in 2.1.2) is a contributing factor behind the need to strengthen its provisions to ensure that they are fit for today.

2.1.5 The essence of the changes are therefore around:

- Not allowing borrowing to invest for yield only;
- Increasing the transparency and reporting around decision-making;
- Increasing greater risk awareness of the impact of decisions through performance indicators.

2.1.6 None of the above changes will have a significant impact on the Council's current activity which is fairly conservative.

2.2 Coverage

2.2.1 The two strategies cover a range of issues as set out below:

Treasury Management Strategy (TMS)	**Capital Investment Strategy (CIS)**
Treasury Management Requirements	Capital Investment Strategy objectives
Capital Prudential Indicators	Capitalisation policy
Borrowing	Objectives and priorities
Annual Investment Strategy	Resourcing strategy
MRP Statement	Indicative plans and available funding
Investment Selection Criteria	Appraisal process for Capital Investment
Economic Outlook	Invest to Save Policy (objectives, rules, assessment process, governance and reporting)
	Reporting Requirements
	Performance Indicators

2.3 Treasury Management Strategy (TMS)

2.3.1 The TMS outlines that the Council's approach to treasury investment. The key aspect to the TMS:

2.3.2 **Prudential Indicators** – CIPFA requires publication of a range of prudential indicators which are designed to show Members that treasury and capital matters are being managed appropriately. The table below shows some of the indicators to RCC that could show where the Council is exposed to a higher level of risk and may lead to additional costs.

Indicator	**Description**	**What it shows**	**Where is it**
Operational Boundary	The level of external debt the Council can afford.	This indicator can be exceeded, but only for short term borrowing e.g. borrowing in advance of receiving a capital receipt. If this is continually exceeded then it may indicate the Council is borrowing longer term and it is not affordable.	Appendix 1 3.3.1

Indicator	Description	What it shows	Where is it
Authorised Limit	Level beyond which external debt is prohibited.	Reflects the level of external debt which the Council could be afforded in the short term but is not sustainable in the long term. If the Council is being asked to increase this limit, it could be the sign of difficulties and Council would want to understand why.	Appendix 1 3.3.4
Financing Costs to Net Revenue Stream Actuals and Estimates	An indicator of affordability and shows the revenue implications of existing and proposed capital expenditure	Identifies the proportion of the revenue budget required to meet borrowing costs. Members should seek to understand the reason for change. Positive factors could include commissioning of Invest of Save projects.	Appendix 1 5.3.2
Incremental Impact of Capital Investment Decisions on Band D Council Tax	An indicator of affordability showing the impact of investment decisions on Council Tax	This shows how much Council Tax would need to increase to cover the cost of borrowing. The higher the percentage the greater the risk.	Appendix 1 5.3.3
Debt to net service expenditure	An indicator of affordability showing gross debt as a percentage of net service expenditure.	This shows the level of debt relative to the financial size and strength of the Council.	Appendix 1 5.3.6

2.3.3 Key aspects of the TM Strategy:

- The Council will not borrow to invest solely for commercial gain (Appendix 1, Para 3.6.4);

- The Council will look to repay borrowing if there is a financial business case. It will also only borrow where that borrowing is likely to deliver a positive revenue impact (Appendix 1, Para 3.5.4);

- The Councils focus continues to be on deposits for up to a 12-month period given the uncertainty in the markets, however with base rate rises predicted the Council will review the best investment approach at the time of investment.

- The Council has added a priority around ethical investments. For now, this will be achieved by use of credit ratings which are influenced by

Environmental, Social and Governance (ESG) factors. ESG credit factors can be positive, neutral or negative to creditworthiness, depending on the entity being rated. For example, the written opinion for rating changes will include the various factors we believe are affecting our forward-looking view of creditworthiness (Appendix 1, Para 4.4.5).

- The Council currently uses the 6-month LIBOR rate to assess investment performance. This will cease to exist at the end of 2021. A new benchmark SONIA (Sterling Overnight Index Average) will be used instead. SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

2.3.4 There has been Investment guidance issued from CIPFA and Department for Housing, Levelling Up and Communities (DHLUC). These do not affect the Council's policy. The changes and reasons the Council is not affected are:

- Requirement for publication of range of indicators (the Council already produced these, but these are now required to be published rather than best practice);

- Requirement for new indicators around commercial investments. As the Councils policy is now not to invest in this type of investment they are not required.

2.3.5 There is currently an open consultation on the Minimum Revenue Provision (MRP). The key issues being addressed are:

- local authorities using sales from assets in place of a charge to revenue; and

- local authorities not charging MRP on debt related to certain assets i.e. commercial investments.

2.3.6 The Council's practice is prudent and the proposed changes will not affect its MRP policy.

2.3.7 There has been a change to how the Council must account for leases from 1st April 2022. This requires all arrangements that convey the right for the Council to use an asset – whether or not there is a formal lease agreement in place, and regardless of whether any payment is made – must potentially be considered as a finance lease.

2.3.8 The introduction of this IFRS is fundamentally a technical accounting adjustment and **does not** the financial position of the Council. It may impact some of Prudential Indicators. If this is the case the Council will provide an update in the Annual Treasury Report (published in June/July)

2.4 Capital Investment Strategy (CIS)

2.4.1 The Capital Investment Strategy is intended to bring together the different plans and strategies of the whole organisation and set out the long-term planning and investment required to deliver the outputs and outcomes that lead to healthy, vibrant, green and resilient communities, businesses, organisations and geographic areas.

2.4.2 At the same time, the CIS should outline the Council's approach to management of capital expenditure and its approach to non-financial investment. In doing so, the CIS has been updated to reflect CIPFA's proposed changes to the Prudential Code.

2.4.3 The key points to note on the Capital Investment Strategy are:

- The Council incurs capital expenditure/makes capital investment to deliver on its aims and priorities including statutory objectives;

- The Council does have various approved strategies and plans which set out ambitions. It is also developing a new Corporate Plan which should allow it to bring together the various plans and describe, in one place, what the long term ambition is for the County.

- The Council has indicative investment plans which are approved as part of the budget and updated throughout the year. The Council's current investment plans tend to be short range (span 2-3 years only). Once the Corporate Plan is complete, the Council will be in a position to develop a longer term investment programme covering say the next 10 years.

- The Council holds funds which are available to meet spending plans and can supplement these funds with borrowing if required. The development of the 10 year investment programme will give clarity as to how funds will be used.

- The development of a long term capital investment plan will require a capital prioritisation process as the potential investment projects are likely to exceed available resources. A prioritisation process will be developed alongside the 10 year plan.

- Capital investment/expenditure has traditionally focused on what are called "service investments" – investment in assets held primarily for the delivery of operational services. This is unlikely to change.

- The Council had a Commercial Investment Policy (Appendix 2 – Annexe A1 of Report 05/2020). The Council has never made any investments in line with this Policy. The Policy has now been updated and renamed an "Invest to Save Policy". The Council's commercial investment plans required borrowing which will no longer be allowed under draft CIPFA guidance. The Invest to Save Policy allows the Council to consider investments (with borrowing) which contribute to the achievement of priorities but where financial return is not the key driver e.g. investment in care home to meet local need.

3 CONSULTATION

3.1 No formal consultation is required. However, CIPFA guidance encourages Councils to use Scrutiny to review proposals prior to approval by Council. This report will therefore be presented at the Budget Scrutiny panel in January which will then allow Council to consider any comments before it is presented for approval in February.

4 ALTERNATIVE OPTIONS

4.1 Option 1. To approve the Capital Investment Strategy and Treasury Management Strategy as presented. This is the recommended option.

4.2 Option 2. Not to accept the 2022/23 Treasury Management Strategy and Capital Strategy. This is not recommended as it means that the Council will be in breach of its statutory obligations.

4.3 Option 3. To approve the Strategies with any revisions.

5 FINANCIAL IMPLICATIONS

5.1 The Medium Term Financial Plan includes three amounts for interest payable on loans (this is fixed), interest receivable on investments (changes in the Treasury Management Strategy may result in increased returns) and MRP (which is based on the current capital plans). PWLB loans will be monitored and if it is advantageous for the Council, repayment or restructuring will be considered.

5.2 The implementation of the Invest to Save Policy could in time result in investments which generate a net return for the Revenue Account but the MTFP does not assume any impact.

6 LEGAL AND GOVERNANCE CONSIDERATIONS

6.1 The report meets the requirements of both the CIPFA Code of Practice on Treasury Management, the CIPFA Prudential Code for Capital Finance in Local Authorities and the Council's Financial Procedure Rules. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

6.2 The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken;
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act DHULC has issued Investment Guidance to structure and regulate the Council's investment activities; and
- Under Section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices.

6.3 The Council's Treasury Management Strategy explains how it complies with this legal framework.

6.4 As per Article 4 of the Council's Constitution the Treasury Management Strategy and Capital Investment Strategy form part of the Council's Policy Framework. It therefore requires the approval of Full Council.

7 DATA PROTECTION IMPLICATIONS

7.1 A Data Protection Impact Assessment (DPIA) has not been completed because there are no service, policy or organisational changes being proposed.

8 EQUALITY IMPACT ASSESSMENT

8.1 An Equality Impact Assessment (EqIA) has not been completed because the report does not represent the introduction of a new policy or service or a change / to an existing policy or service that has an impact on any particular group.

9 COMMUNITY SAFETY IMPLICATIONS

9.1 There are no community safety implications.

10 HEALTH AND WELLBEING IMPLICATIONS

10.1 There are no health and wellbeing implications.

11 CONCLUSION AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS

11.1 The Council is required to approve a Treasury Management Strategy and Capital Strategy.

12 BACKGROUND PAPERS

12.1 None

13 APPENDICES

13.1 Appendix 1 Treasury Management Strategy

13.2 Appendix 2 Capital Investment Strategy

A Large Print or Braille Version of this Report is available upon request – Contact 01572 722577.

Appendix 1

Treasury Management Strategy

2022 - 23

Contents

1 INTRODUCTION

1.1 Background to Treasury Management

1.1.1 The Council is required to operate a balanced budget, which means that cash raised during the year should meet cash expenditure. Part of the treasury management operation is to ensure that cash flow is adequately planned, with cash being available when it is needed to meet day-to-day running costs and planned capital expenditure. Any surplus monies are invested in counterparties or instruments commensurate with the Council's risk appetite, providing adequate liquidity initially before considering investment return.

1.1.2 The second main function of the treasury management service is the funding of the Council's capital plans as set out in the Budget and Capital Investment Strategy (CIS). These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.1.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.1.4 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, arising usually from capital expenditure and are separate from the day to day treasury management activities.

1.1.5 CIPFA defines treasury management as "…The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.2 Reporting Requirements

Treasury Management Reporting

1.2.1 The Council is required to receive and approve, as a minimum, three main reports each year which incorporate a variety of policies, estimates and actuals.

1.2.2 **Prudential and treasury indicators and treasury strategy** (this report) **-** The first and most important report covers:

- the capital plans (including prudential indicators) as derived through the budget and CIS;
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy for treasury investments (the parameters on how investments are to be managed).

1.2.3 **A mid-year treasury management report** – This will update members with the progress of the capital position, amending prudential indicators as necessary and whether any policies require revision. In addition, this Council will receive an update on investment returns. In addition, all forward looking prudential indicators will be presented to Cabinet as part of quarterly revenue and capital monitoring.

1.2.4 **An annual treasury report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.2.5 **Scrutiny** – The above reports are required to be adequately scrutinised before being recommended to Council. This role is undertaken by Cabinet and reports are also made available to Scrutiny Panels.

Capital Investment Strategy

1.2.6 The Treasury Management Strategy should be read in conjunction with the Council's Capital Investment Strategy as the Council's debt and MRP policy are directly impacted by capital plans.

1.2.7 The overall aim of the Council, with respect to capital expenditure and investment, is to achieve council objectives and priorities whilst ensuring that capital plans are affordable, prudent and sustainable.

1.2.8 The CIS (Appendix 2) provides a framework that allows that objective to be achieved. It sets out:

- what is capital expenditure/investment and why we incur it (section 2);
- the Council's overall capital objectives, priorities and plans (section 3);
- how the Council's capital expenditure/investment will be funded/ resourced (section 4);
- how the Council's capital expenditure/investment plans will be appraised (section 5) including the Council's Invest to Save policy (Annexe A1);
- how capital plans will be approved (section 6), monitored and reported upon (Section 7); and

- the skills and knowledge required to deliver the capital plans (section 8).

1.3 **Treasury Management Strategy for 2022/23**

1.3.1 The strategy for 2022/23 covers two main areas.

Capital Issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury Management Issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy and policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy (for treasury investments);
- creditworthiness policy; and
- the policy on use of external service providers.

1.3.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, DLUHC MRP Guidance, the CIPFA Treasury Management Code and DLUHC Investment Guidance.

1.4 **Training**

1.4.1 The CIPFA Code requires the Section 151 Officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. The training needs of treasury management officers and members are periodically reviewed.

1.5 **Treasury Management Consultants**

1.5.1 The Council uses Link Group, Treasury solutions as its external treasury management advisors.

1.5.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

1.5.3 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

2 THE CAPITAL PRUDENTIAL INDICATORS 2022/23 – 2024/25

2.1 Capital Expenditure

2.1.1 The Council's capital expenditure plans as set out in the budget are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1.2 The capital expenditure prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously and those forming part of this budget cycle. As at 1 April 2022 the Council estimates that it will have capital projects approved of £18.298m. The details of this are shown in Budget Report (Report No: 1/2022).

2.1.3 The table below shows the indicative spend profile of approved capital projects included in the 2022/23 budget. Whilst the Council may have approved a project in 2022/23 spending may not occur until 2023/24.

Estimates of capital expenditure (Prudential Indicator (PI) 3) and Actual capital expenditure (PI4)

Estimated Capital expenditure	Actuals 2020/21	Projects 2021/22	Projects 2022/23	Projects 2023/24	Projects 2024/25
	£000	£000	£000	£000	£000
Total Service Investments	6,508	12,284	249	249	249
Total Commercial Activities/non-financial investments*	0	0	0	0	0
Total	**6,508**	**12,284**	**249**	**249**	**249**
Non ring fenced grants-unallocated	0	0	1,689	1,689	1,689
Total **	**6,508**	**12,284**	**1,939**	**1,939**	**1,939**

* Commercial activities / non-financial investments relate to areas such as capital expenditure on investment properties, loans to third parties etc with the key driver being financial gain, this strategy does not allow capital investment for financial gain.
**The existing capital programme in the budget for 21/22 is £18.298m. The table above is not replicating the Capital Programme as there are projects that would have been started prior to 2020/21 and some of the future year's projects will not yet be in the approved capital budget. However the 2020/21 outturn and 2021/22 budget do agree with the Statement of Accounts and latest budget report.

2.1.4 These figures do not yet include proposals for new projects being developed. In these areas Cabinet reports are expected in 2022/23. Funding for any future projects will be funded in full or in part from unallocated funding.

2.1.5 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need. The table also shows the percentage of the borrowing need relating solely to commercial investments.

Estimated Capital Programme	Actuals 2020/21	Projects 2021/22	Projects 2022/23	Projects 2023/24	Projects 2024/25
	£000	£000	£000	£000	£000
Grant	6,093	10,837	1,939	1,939	1,939
Capital Receipts	179	61	0	0	0
RCCO	0	77	0	0	0
Oakham North	0	45	0	0	0
S106/CIL	214	913	0	0	0
Total Funding	**6,486**	**11,933**	**1,939**	**1,939**	**1,939**
Borrowing Need	22	351	0	0	0
Borrowing relating to Commercial Investments	0	0	0	0	0
Percentage of total net financing need %	0%	0%	0%	0%	0%

2.2 **The Council's Borrowing Need (the Capital Financing Requirement)**

2.2.1 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

2.2.2 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life and so charges the economic consumption of capital assets as they are used.

2.2.3 The Council is asked to approve the CFR projections below. It should note that the financing need from 22/23 is zero as no borrowing is planned:

Estimates of CFR (PI5) and Actual CFR (PI6)

	2020/21 Actual £000	2021/22 Est £000	2022/23 Est £000	2023/24 Est £000	2024/25 Est £000
Capital Financing Requirement					
CFR – Services 1 Apr	20,630	20,038	19,775	19,146	18,517
Movement in Year	(592)	(263)	(629)	(629)	(629)
Total CFR	20,038	19,775	19,146	18,517	17,888
Movement in CFR represented by					
Net financing need for the year (above)	22	351	0	0	0

Less MRP/VRP and other financing movements	(614)	(614)	(629)	(629)	(629)
Movement in CFR	**(592)**	**(263)**	**(629)**	**(629)**	**(629)**

2.2.4 A key aspect of the regulatory and professional guidance is that members should be aware of the size and scope of any commercial activity in relation to the authority's overall financial position. As the Council's has made no commercial investments the table above shows the Council's CFR relating to service investments only.

2.3 Core Funds and Expected Investment Balances

2.3.1 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated cash flow balances.

Year End Resources	2020/21 Actual £000	2021/22 Est £000	2022/23 Est £000	2023/24 Est £000	2024/25 Est £000
Fund balances / reserves	38,277	26,267	24,202	21,564	21,326
Capital receipts	1,442	1,381	1,431	1,481	1,531
Provisions	1,406	1,406	1,406	1,406	1,406
Total core funds	**41,125**	**29,054**	**27,039**	**24,451**	**24,263**
Working capital*	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
New borrowing	-	-	-	-	-
Expected investments	**39,125**	**27,054**	**25,039**	**22,451**	**22,263**

* Working capital balances shown are estimated year-end; these may be higher mid-year

3 BORROWING

3.1 Borrowing objectives

3.1.1 Councils borrow to fund capital expenditure or refinance/reschedule existing borrowing e.g. replace one loan with one at a lower rate. There are 7 types of borrowing that may be considered under this strategy.

a) Borrowing to fund a scheme that will reduce the Council's ongoing revenue costs in future years or avoid increased costs in future years (this is commensurate with the Council's Invest to Save policy).

b) Borrowing to fund the purchase of essential vehicles, plant and equipment in order to maintain Council functions.

c) Borrowing in advance of anticipated receipts to enable the Council to invest in capital expenditure before it has the income to fund the investment.

d) Borrowing to enable the Council to fund a larger capital programme than it is able to do using Government grant and self-financed borrowing.

e) Borrowing to fund an overspend on a large-scale capital scheme that would otherwise have to be funded from a revenue contribution to capital outlay with major impact on the Council's revenue budget.

f) Borrowing to fund a capital development which the Council believes is so essential to the transformation of Rutland, and able, within the context of setting a robust budget and medium term financial strategy, to allocate to the development a specific, ongoing, relatively secure source of funding that can clearly be seen to be able to cover the cost of debt financing for the project over its expected life. As long as the investment is not solely for financial return.

g) Borrowing to reschedule existing borrowing i.e. replace existing loans with others.

3.1.2 Effectively, the Council works out its capital expenditure plans and then calculates how much it needs to borrow having considered whether it should fund capital expenditure using other options. The Council's objectives are to:

- avoid external borrowing as far as possible (i.e. use other sources of funding first where possible) unless that borrowing yields income or deliver savings beyond the cost of borrowing;
- repay borrowing early if this is financially prudent and viable;
- reduce its borrowing charge if this represents value for money;
- ensure any new borrowing is affordable; and
- work within prudential indicator limits.

3.2 Current borrowing portfolio

3.2.1 The Council currently has loans outstanding of £22.436m of which £21.386m are long term loans with the Public Works Loans Board (PWLB). PWLB is managed as part of the UK Debt Management Office, which is a HM Treasury Executive Agency. The remainder is a £630k Local Enterprise Partnership interest free loan which matures in 2023 and an interest free Salix loan of £420k repayable in 2022. Included within the £21.386m is £8.232m of debt that was inherited from Leicestershire in the Local Government Re-organisation in 1997.

3.2.2 The last time the Council actually borrowed from the PWLB was in 2008 to contribute towards funding the Oakham bypass, the value of this loan was £4m.

3.2.3 All PWLB loans have been borrowed on a maturity basis. Interest payments will be made every six months on equal instalments throughout the term of the loan, with the principal being re-paid on the maturity date.

3.2.4 To be able apply for the PWLB's certainty rate for new borrowing the Council needs to conform to new DLUHC requirements. These requirements are that an authority borrowing for projects for yield schemes would automatically disqualify an authority from being able to borrow from the PWLB.

3.2.5 The external debt projections are shown overleaf. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

ACTUAL EXTERNAL DEBT (PI9) AND GROSS DEBT AND THE CFR (PI10)

Year End Resources	2020/21 Actual £000	2021/22 Est £000	2022/23 Est £000	2023/24 Est £000	2024/25 Est £000
External Debt					
Debt - 1 April	22,226	22,142	22,058	21,386	21,386
Expected Change in Debt	(84)	(84)	(672)	0	0
Actual /projected Gross Debt 31 March	22,142	22,058	21,386	21,386	21,386
Capital Financing Requirement	20,038	19,775	19,146	18,517	17,888
Under / (Over) Borrowing	(2,104)	(2,283)	(2,240)	(2,869)	(3,498)

3.2.6 Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

3.2.7 The overborrowed position has not materialised from borrowing for revenue purposes, which this indicator is a key test of. Whilst the CFR is reduced by MRP charge every year, external debt position has not changed significantly as debt is not due (see 3.3.6). In addition, since 2008 when the Council borrowed £4m PWLB for the by-pass, the Council has taken only two loans i) an interest free loan from the Local Enterprise Partnership to contribute to the purchase and renovation of Oakham Enterprise Park (£630k); and ii) a Salix loan at 0% for Street Lighting upgrades (£420k). This borrowing was for capital purposes and not to fund revenue.

3.2.8 The Section 151 Officer reports that the Council has not complied with this prudential indicator in the current year due to the historic factors detailed in 3.2.7.

3.3 Treasury Indicators: Limits to Borrowing Activity

3.3.1 **Operational boundary for external debt (PI6)** - This is the limit beyond which external debt is not normally expected to exceed. It is not an absolute limit, it can be temporarily breached. In most cases, this would be a similar figure to the CFR but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resource.

Operational boundary	**2021/22 Estimate £000**	**2022/23 Estimate £000**	**2023/24 Estimate £000**	**2024/25 Estimate £000**
Debt	23,000	23,000	23,000	23,000
Commercial activities/non-financial investments	0	0	0	0
Total	23,000	23,000	23,000	23,000

3.3.2 **Authorised limit for external debt (PI7) -** A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term but is not sustainable in the longer term i.e. if the Council borrowed in the short term in advance of a capital receipt being received.

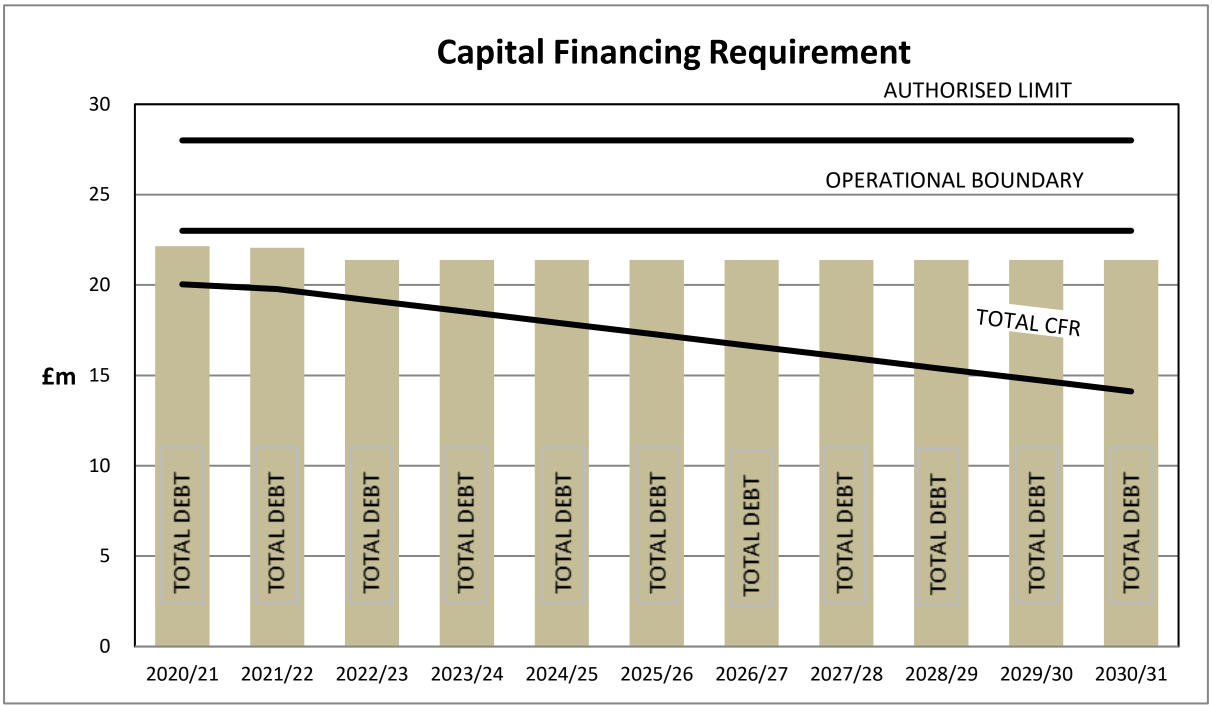
3.3.3 This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

3.3.4 The Council is asked to approve the following authorised limit:

Authorised limit	**2021/22 Estimate £000**	**2022/23 Estimate £000**	**2023/24 Estimate £000**	**2024/25 Estimate £000**
Debt	28,000	28,000	28,000	28,000
Commercial activities/non-financial investments	0	0	0	0
Total	28,000	28,000	28,000	28,000

3.3.5 IFRS16 Leases will be implemented in 2022/23. This requires all arrangements that convey the right for the council to use an asset – whether or not there is a formal lease agreement in place, and regardless of whether any payment is made – must potentially be considered as a finance lease. The introduction of this IFRS is fundamentally a technical accounting adjustment and does not the financial position of the Council. It may impact some of Prudential Indicators, as the data collection for this continues the impact cannot currently be determined; any amendments required to these levels will be reported at the earliest opportunity.

3.3.6 The graph below shows where we currently are against all of the borrowing prudential indicators.



3.4 **Prospects for Interest Rates**

3.4.1 Link Group, Treasury Solutions have provided a view on interest rates as per the table below.

	Dec 2021 %	**Mar 2022 %**	**Jun 2022 %**	**Sep 2022 %**	**Dec 2022 %**	**Mar 2023 %**	**Jun 2023 %**	**Sep 2023 %**	**Dec 2023 %**	**Mar 2024 %**
Bank Rate	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00
3 Month average earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.80	0.90	1.00	1.00
6 Month average earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.10	1.10
12 Month average earnings	0.50	0.60	0.70	0.40	0.80	0.90	1.00	1.10	1.20	1.20
5 Yr PWLB	1.50	1.50	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.80
10 Yr PWLB	1.80	1.90	1.90	2.00	2.00	2.10	2.10	2.20	2.20	2.20
25 Yr PWLB	2.10	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60
50 Yr PWLB	1.90	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40

3.4.2 The Coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings. As shown in the forecast table above, the forecast for Bank Rate now includes four increases between December 2021 and March 2024.

3.4.3 Investment and borrowing rates

- Investment returns are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate hikes, actual economic circumstances may see the MPC fall short of these elevated expectations.
- Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England and still remain at historically low levels. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates which had been increased by 100 bps in October 2019. The standard and certainty margins were reduced by 100 bps but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme. The current margins over gilt yields are as follows: -.

  - PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
  - PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
  - Local Infrastructure Rate is gilt plus 60bps (G+60bps)

3.4.4 Currently the PWLB Certainty Rate is set at gilts + 80 basis points for borrowing. However, consideration may still need to be given to sourcing funding from the following sources at cheaper rates:

a) Local authorities (primarily shorter dated maturities)

b) Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates)

c) Municipal Bonds Agency (no issuance at present but there is potential).

3.5 **Borrowing Strategy**

3.5.1 The Council is maintaining an over-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has been fully funded with loan debt. Cash supporting the Council's reserves, balances and cash flow has not been used as a temporary measure.

3.5.2 The overborrowed position has not materialised from borrowing for revenue purposes, which this indicator is a key test of. Since 2008 when the Council borrowed £4m PWLB for the by-pass, the Council has taken only two loans i) an interest free loan from the Local Enterprise Partnership to contribute to the purchase and renovation of Oakham Enterprise Park (£630k); and ii) a Salix loan at 0% for Street Lighting upgrades (£420k). This borrowing was for capital purposes and not to fund revenue.

3.5.3 Against this background and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Strategic Director of Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

3.5.4 If the Council were to borrow then the Strategic Director for Resources would monitor the market to ensure that the borrowing was undertaken at the optimum time for the Council. If the Strategic Director for Resources thought rates would fall then they may choose to hold off long term borrowing. If they thought rates would rise then they may choose to borrow in advance of need (see section 3.6) to ensure borrowing is secured at a lower rate.

3.5.5 Any decisions will be reported to the Cabinet at the next available opportunity.

3.6 **Prudence in borrowing**

3.6.1 Prudential Code and CIPFA guidance says that the Council must not borrow more than or in advance of their needs purely to profit from the investment of the extra sums borrowed. The Council has some flexibility in utilising legitimate examples of prudent borrowing, this includes refinancing current borrowing, securing affordability by removing exposure to future interest rate and financing capital expenditure primarily related to the delivery of a local authority's functions. The Section 151 Officer may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Section 151 Officer will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities.

3.6.2 Borrowing in advance will be made within the constraints that:

- It will be limited to no more than 50% of the expected increase in borrowing need (CFR) over the three year planning period; and
- The authority would not look to borrow more than 18 months in advance of need.

3.6.3 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6.4 Certain acts are deemed by the Prudential Code to not be prudent, therefore the Council will

- not borrow to invest primarily for financial return
- not make any investment or spending to increase the CFR unless primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project or otherwise incidental to the primary purpose.

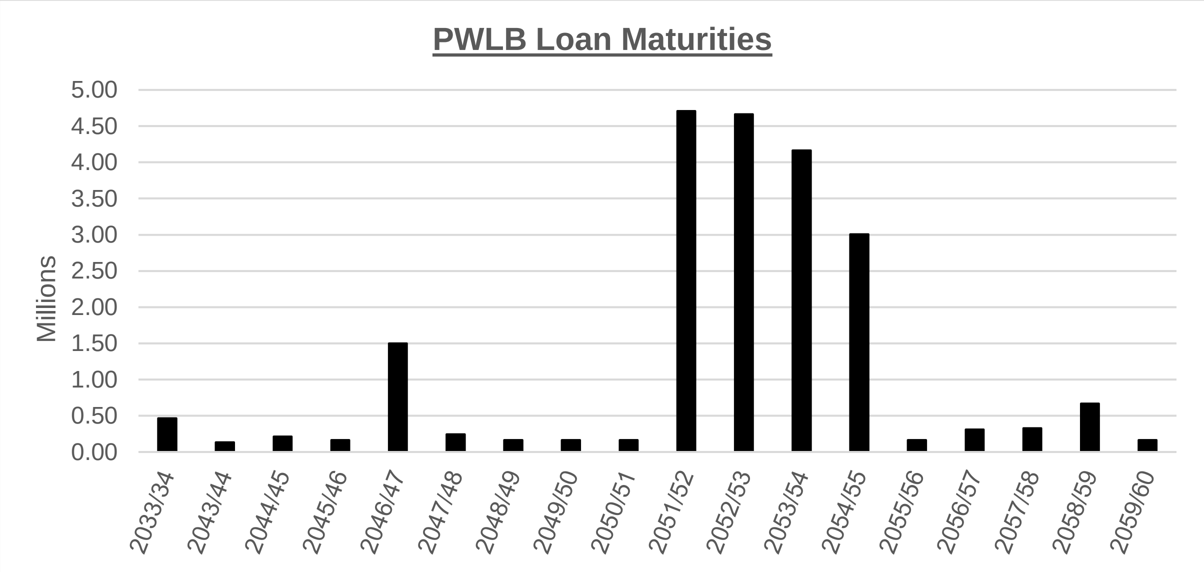
3.7 **Proportionality**

3.7.1 The Council will consider the concept of proportionality, alongside that of affordability needs when analysing funding projects through borrowing. The costs and risks associated with that borrowing will be examined as part of the whole financial position of the Council, so that the Council does not undertake a level of investing which exposes it to an excessive level of risk compared to its financial resources. The Council needs to be aware of the scale and relationship with the asset base and revenue delivery to inform decision making. Potential investments will be subject to the Proportionality Test shown in the Capital Strategy Appendix 2.6.9.

3.7.2 To demonstrate the proportionality between the treasury operations and the non-treasury operation, key indicators are shown for the Council as a whole as well as for non-treasury investments throughout this report e.g. the operational boundary is split to show commercial investments separately.

3.8 Debt repayment and rescheduling

3.8.1 The graph below demonstrates when PWLB debt is due to be repaid.



3.8.2 Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there remains a very large difference between premature redemption rates and new borrowing rates.

3.8.3 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

3.8.4 All rescheduling will be reported to the Cabinet at the earliest meeting following its action.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment overview

4.1.1 The Council receives substantial income from council tax, business rates and central government. The majority of council tax and business rates payments are received between April and January, with expenditure being fairly static throughout the year.

4.1.2 At any point of time in the year, the Council can have between £41m - £57m available to invest. The estimated level of investments at year end based on the current cash flow calculations and for the next few years is shown below. The total investments at Quarter 2 show the estimated level of investment at the mid-point during the financial year. The large movement from £52m to £35m is due to c£25m of investments maturing in the final quarter and although some of these will be re-invested, the Council typically receive less income in the final quarter as Council Tax receipts drop off.

	2021/22 Actual £000	**2021/22 Forecast £000**	**2022/23 Estimate £000**	**2023/24 Estimate £000**	**2024/25 Estimate £000**
Total Investments at Quarter 2	51,785		33,000	29,000	25,000
Total Investments at 31 March		35,000	31,000	27,000	23,000

4.1.3 The Council will invest surplus money in various ways to get a return on balances thus generating extra income.

4.2 **Investment policy objectives**

4.2.1 The DLUHC and CIPFA have extended the meaning of ‘investments’ to include both financial, and non-financial investments. The Treasury Management Strategy deals solely with financial investments, as managed by the treasury management team. Non-financial investments, generally relating to investment in fixed assets either for service delivery or invest to save opportunities are covered in the Capital Investment Strategy.

4.2.2 The Council’s investment policy has regard to the DLUHC’s Guidance on Local Government Investments (“the Guidance”); CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (“the CIPFA TM Code”) and CIPFA Treasury Management Guidance Notes 2018.

4.2.3 The Council’s investment strategy primary objectives, in order of importance are:

- safeguarding the re-payment of the principal and interest of its investments on time – losing any funds like in the case of Icelandic banks would be very significant in this financial climate;
- adequate liquidity – the Council does not want to run short of money so it cannot pay its bills or does not have money available to make investments in capital expenditure;
- maximising the investment return – this is clearly important but the Council does not want to maximise returns at the expense of the first two objectives.

4.2.4 In addition to the above, the Council also has a supplementary aim to be ethically responsible in how it invests. The Council will explore further how this aim may best be achieved e.g. consideration of green investments. For now, the Council will continue to use credit ratings where environmental, social and governance considerations are played into the ratings used.

4.2.5 These objectives filter through this strategy.

4.3 Investment rules

4.3.1 In accordance with the above guidance from the DLUHC and CIPFA and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long term ratings.

4.3.2 The Council engages with its advisors to monitor markets to support the ratings systems which ensures the Council is aware of the standing of the bank / building society.

4.3.3 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4.4 Creditworthiness policy

4.4.1 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

4.4.2 The Section 151 Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. This criteria is separate to that which chooses Specified and Non-Specified investments as it provides an overall pool of counterparties considered high quality the Council may use rather than defining what its investments are.

4.4.3 Typically, the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of F1 and a long term rating of A-. There may be occasions when the counterparty ratings from one or two of the rating agencies are marginally lower than these ratings but may still be used. In these instances, when counterparty ratings from one of the credit rating agencies (Fitch) meet the minimum criteria and also other relevant market data shows a stable position the counterparty can be used. If there is a major disparity between the counterparty ratings issued by Fitch and the other credit rating agencies then the counterparty will not be used.

4.4.4 Credit rating information is supplied by our treasury consultants daily on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance for overseas counterparties a negative rating watch at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market, the negative ratings watch will only be a factor in the selection process for overseas banks or if the negative rating applies only to one or several counterparties

4.4.5 Environmental, Social and Governance (ESG) factors can and do influence credit quality, ESG credit factors are those factors that can materially influence the creditworthiness of a rated entity or issue, examples include:

- Environmental credit factors- climate policy, market changes to address mitigation and adaption requirements related to climate change;

- Social credit factors- social capital including consumer and citizen relationship issues; socioeconomic and demographic issues; and

- Governance credit factors- risk management, cyber risk and governance structure factors- including board skill sets and key person risk.

4.4.6 The criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) is:

- Banks 1 - good credit quality **–** the Council will only use banks which:

a) are UK banks; and/or
b) are non-UK and domiciled in a country which has a minimum sovereign Long Term rating of AA+
c) and have, as a minimum, the following Fitch (where rated): Short Term A-/ Long Term F1

- Banks 2 – Part nationalised UK bank – Royal Bank of Scotland ring-fenced operations. These banks can be included provided they continue to be part nationalised or meet the ratings in Banks 1 above.

- Banks 3 – The Council’s own banker for transactional purposes if the bank falls below the above criteria, in this case balances will be minimised in both monetary size and time invested.

- Building societies. The Council will only use societies which:

a) Meet the ratings for banks outlined above;

b) Have assets in excess of £1bn;

- Money Market Funds (MMFs) CNAV LVNAV
- UK Government (including gilts, Treasury Bills and the DMADF)
- Local authorities, parish councils etc.
- Property Funds

4.5 **Use of additional information other than credit ratings**

4.5.1 Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, rating Watches/Outlooks) will be applied to compare the relative security of differing investment opportunities.

4.6 **Time and monetary limits applying to investments**

4.6.1 The time and monetary limits for institutions on the Council's counterparty list are as follows (for both specified and non-specified investments):

	Fitch Rating (long-term/short-term)	Money Limit	Time Limit
Banks/ Building Society higher quality	AA-/F1+	£7m	3yrs
Banks /Building Society medium quality	A-/F1	£7m	364 days
Banks – part nationalised	N/A	£7m	364 days
Council's banker (not meeting Banks above)	BBB/F2	£1m	overnight
Building Society (not meeting Banks above & minimum assets £1 bn)	Not Rated	£1m	6 months
UK Government Gilts	UK sovereign rating	£5m	3 years
Debt Management Account Deposit Facility managed by the DMO (Debt Management Office)	UK sovereign rating	£5m	364 days
Local authorities	N/A	£7m	364 days
Property Funds	N/A	£2m	No limit set*
	Fund rating	Money Limit	Time Limit
Money Market Funds CNAV	AAA	£5m	liquid
Money Market Funds LVNAV	AAA	£5m	liquid

* No time limit as investment would need to be left to mature to ensure no loss on investments.

4.7 **Other considerations**

4.7.1 Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

- **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA+ from Fitch or equivalent. there has been no changes to the criteria from report 161/2020. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

- **Other limits.**

  - no more than 10% will be placed with any non-UK country at any time;
  - All limits in place will apply to a group of companies.

4.8 **Investment approach**

4.8.1 As per our overall objectives, we ensure that these surplus balances are managed in a way to maximise the income potential whilst having regard to security risk.

4.8.2 The Council's approach is influenced by numerous issues:

- Cash flow – when will the Council need the funds to pay general running costs of the Council or fund capital investment activity;

- The vehicles allowed for investment as outlined in this strategy as referenced on 4.4.6;

- The rate of return on offer - Bank Rate is likely to start to rise from 0.10% and investment returns are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate hikes, as detailed in 3.4.1, actual economic circumstances may see rates fall short of these elevated expectations;

- Link's forecast for the long-term Bank Rate (beyond 10 years) is 2.00%. As some PWLB certainty rates are currently below 2.00%, there remains value in considering long-term borrowing from the PWLB where appropriate. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive as part of a balanced debt portfolio. In addition, there are also some cheap alternative sources of long-term borrowing if an authority is seeking to avoid a "cost of carry" but also wishes to mitigate future re-financing risk.

4.8.3 Our focus is on traditional investments e.g. deposits for up to 12 month period – this is in line with the advice from our consultants (Link Group, Treasury Solutions) We may also consider longer term options (Government bonds, Property Funds etc.). For example, placing funds in long term investments may not be an option depending on capital expenditure and investment plans.

4.8.4 Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

The Council is asked to approve the following treasury indicator and limit:

Upper limit on total principal sums invested for periods of longer than a year (PI12)

£000	2022/23	2023/24	2024/25
Long term treasury management investments; invested for longer than 365 days	10%	10%	10%

4.9 **Investment returns expectations and benchmarking**

4.9.1 The Council currently uses the 6 month LIBOR rate to assess investment performance. The provision of LIBOR and associated LIBID rates will cease to exist at the end of 2021. A new benchmark SONIA (Sterling Overnight Index Average) 6 months rate this is the risk-free rate for sterling markets administered by Bank of England. SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors

4.9.2 Security – Each counterparty the Council invests in has a risk of default (a calculated percentage to demonstrate the potential loss on the investment). The Council's maximum security risk benchmark for the current portfolio, is:

- 0.10% historic risk of default when compared to the whole portfolio. The table below demonstrates a financial representation of how much the Council would stand to lose at 0.10%.

	2021/22 Forecast £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Total Investments at 31 March	35,000	31,000	27,000	23,000
Revenue impact of risk of default at 0.10%	35	31	27	23

4.9.3 Risks arising from commercial investments will be assessed during the evaluation process as detailed in the CIS.

4.9.4 Liquidity – in respect of this area the Council seeks to maintain:

- Bank overdraft - £0m
- Liquid short term deposits of at least £1m available with a week's notice.

4.9.5 Yield - local measures of yield benchmarks

- Investments – internal returns above the 6 month SONIA compounded rate

4.10 **End of Year Investment Report**

4.10.1 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

5 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2022/23 – 2024/25 AND MRP STATEMENT

5.1 **Capital Expenditure**

5.1.1 The Council's capital expenditure plans (see 2.1.3) are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

5.2 **Minimum Revenue Provision Policy**

5.2.1 Minimum revenue provision (MRP) policy statement - The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

5.2.2 DLUHC regulations have been issued which require Council to approve an MRP Statement in advance of each year. A variety of options are provided to Councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement

- For capital expenditure incurred before 1 April 2008, the Council will reduce on a straight line basis over 50 years.
- From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be (either / and):

a) Asset life method – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction);

b) Depreciation method – MRP will follow standard depreciation accounting procedures. These options provide for a reduction in the borrowing need over approximately the asset's life.

5.2.3 There is currently an open consultation on the Minimum Revenue Provision (MRP). The key issues being addressed are:

- local authorities using sales from assets in place of a charge to revenue; and

- local authorities not charging MRP on debt related to certain assets i.e. commercial investments. The Council's practice is prudent and proposed changes will not affect its MRP policy.

5.2.4 **MRP Overpayments** - A change introduced by the revised DLUHC MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision (VRP) or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget i.e. if the Council wanted to reverse the VRP in 2013/14, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2021 the total VRP overpayments were £1.41m in 2013/14 and £0.597m in 2015/16 giving a total MRP overpayment of £2.01m.

5.3 **Affordability Prudential Indicators**

5.3.1 Prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

5.3.2 **Estimates of Financing Costs to Net Revenue Stream (PI1) and Actual financing costs to net revenue stream (PI2)** - This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs) against the net revenue stream (the total income the Council receives i.e. the financing part of the MTFP).

%	2020/21 Actual	2021/22 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Services	4.23	4.20	4.00	3.85	3.73

The estimates of financing costs include current commitments and the proposals in the budget report.

5.3.3 **Incremental Impact of Capital Investment Decisions on Band D Council Tax (PI13)**. This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

Council Tax - Band D	2020/21 Actual £	2021/22 Estimate £	2022/23 Estimate £	2023/24 Estimate £	2024/25 Estimate £
Services	0%	0%	0.07%	0.07%	0.06%

Commercial Investments	0%	0%	0%	0%	0%

5.3.4 **Upper and lower of maturity structure of borrowing (fixed & variable) (PI11)**

These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing all at the same time causing cash flow problems, and are required for upper and lower limits. The Council is asked to approve the following treasury indicators and limits:

Maturity structure of fixed interest rate borrowing 2022/23		
	Lower	**Upper**
Under 12 months	0%	25%
12 months to 2 years	0%	25%
2 years to 5 years	0%	20%
5 years to 10 years	0%	20%
10 years and above	0%	100%
Maturity structure of variable interest rate borrowing 2022/23		
	Lower	**Upper**
Under 12 months	0%	25%
12 months to 2 years	0%	25%
2 years to 5 years	0%	20%
5 years to 10 years	0%	20%
10 years to 20 years	0%	100%

5.3.5 **Interest rate exposure**- the exposure to interest rate movements is managed using the prudential indicator in 5.3.4. If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

£'000	**2022/23**	**2023/24**	**2024/25**
Increase in interest payable on variable rate borrowings	0	0	0
Increase in interest receivable on variable rate borrowings	250	225	223

No variable rate borrowings are held and therefore an increase in interest rate has no impact on borrowing costs.

5.3.6 **Debt to net service expenditure (PI14) -** This indicator shows gross debt as a percentage of net service expenditure. Net service expenditure is considered to be a proxy for the size and financial strength of a local authority.

£'000	Services	Commercial Activities
Gross Debt	21,386	0
Net Service Expenditure	41,925	41,925
Debt to net service expenditure %	51%	0%
Maximum Level	60%	0%*

*Current policy does not allow for investment in commercial activities

5.3.7 **Net income from commercial and service investments to net revenue stream-** this indicator shows the financial exposure of the authority to the loss of income, relates to service investment for which the Council has incurred borrowing cost

£'000	2022/23	2023/24	2024/25
Commercial investments net income	0	0	0
Service investments net income	156	164	171
Total net income	156	164	171
Net Revenue Stream	41,159	42,818	44,122
Net income to revenue stream %	**0.38%**	**0.38%**	**0.39%**

5.3.8 **Liability benchmark-** this a new prudential indicator being introduced; it is a measure of how well the existing loans portfolio matches the Councils' planned borrowing needs. This indicator is made up of the Council's net loans requirement plus an allowance for short term liquidity. Net loans requirement is made up of the Council's gross loan debt, less treasury management investments, at the last financial year end, projected into the future based on its approved prudential borrowing, planned MRP and any other forecast major cash flows. Where actual loans are less than the benchmark indicate a future borrowing requirement; or where actual loans outstanding exceed the benchmark represents excess cash requiring investment.

5.3.9 It is not considered this will be a problem in the short term for the Council, there is no planned borrowing in this Strategy. CIPFA recommend this indicator is produced for at least 10 years. CIPFA has recently released a new software tool to be able to build the required benchmark, the Council will undertake the required data input and analysis in the forthcoming year to meet these requirements. This will be developed alongside the long-term capital plans covering a 10 year period and will be included in the TMSS 2023/24.

ANNEXE A1 - PUBLIC WORKS LOAN BOARD (PWLB) DEBT ANALYSIS

The table below shows the number of outstanding loans with the PWLB, the maturity date, Principal outstanding, interest rate and the premium payable if the council was to settle the outstanding loan.

PWLB 2021-22 Loan Repayment Premiums as at 3-Dec-2021					
Loan Reference	**Start Date**	**Maturity Date**	**Principal Balance**	**Interest Rate %**	**Premium**
461697	27-Mar-1987	31-Dec-2043	132,529.13	9.000	215,859
461698	27-Mar-1987	31-Dec-2044	212,550.13	9.000	361,224
461699	27-Mar-1987	31-Dec-2045	163,500.10	9.000	289,410
461700	27-Mar-1987	31-Dec-2046	196,200.12	9.000	361,133
476645	30-Nov-1995	28-Jul-2053	163,500.10	8.000	332,332
476646	30-Nov-1995	28-Jul-2054	163,500.10	8.000	343,621
476647	30-Nov-1995	28-Jul-2055	163,500.10	8.000	353,960
476842	21-Dec-1995	13-Dec-2052	163,500.10	7.875	320,180
476843	21-Dec-1995	13-Dec-2051	163,500.10	7.875	310,112
476844	21-Dec-1995	13-Dec-2050	163,500.10	7.875	300,055
477672	05-Aug-1996	08-May-2048	163,500.10	8.375	292,315
477673	05-Aug-1996	08-May-2049	163,500.10	8.375	302,978
478210	26-Sep-1996	25-Sep-2047	217,138.76	8.125	366,484
478211	26-Sep-1996	25-Sep-2056	163,500.10	8.125	373,484
478214	26-Sep-1996	25-Sep-2047	28,111.39	8.125	47,446
479404	21-May-1997	08-May-2057	327,000.20	7.125	658,591
479405	21-May-1997	08-May-2056	147,150.09	7.125	287,106
481709	13-Oct-1998	25-Sep-2058	163,500.10	4.625	209,945
482002	14-Jan-1999	25-Sep-2058	320,460.20	4.375	385,448
482386	30-Mar-1999	25-Mar-2059	23,271.98	4.625	30,371
482875	08-Nov-1999	25-Mar-2059	163,500.10	4.500	206,370
483562	18-Nov-1999	25-Sep-2059	163,500.10	4.250	196,076
491043	19-Jan-2006	19-Jan-2034	465,521.00	4.000	174,233
491501	05-Mar-2006	03-Nov-2051	2,689,694.00	4.400	2,581,815
491580	19-May-2006	19-Nov-2046	1,303,000.00	4.250	994,118
492151	20-Sep-2006	20-Mar-2052	1,856,434.00	4.200	1,709,666

PWLB 2021-22 Loan Repayment Premiums as at 3-Dec-2021					
Loan Reference	**Start Date**	**Maturity Date**	**Principal Balance**	**Interest Rate %**	**Premium**
492927	19-Feb-2007	19-Aug-2052	2,000,000.00	4.400	1,981,501
492928	19-Feb-2007	19-Aug-2053	2,000,000.00	4.400	2,047,280
492929	19-Feb-2007	19-Aug-2054	1,427,410.00	4.400	1,514,829
493087	03-Aug-2007	19-Aug-2052	2,500,000.00	4.250	2,374,526
493088	03-Aug-2007	19-Aug-2053	2,000,000.00	4.250	1,962,914
493089	03-Aug-2007	19-Aug-2054	1,414,351.00	4.250	1,439,455
			21,386,323.30		**23,324,837**

ANNEXE A2 TREASURY MANAGEMENT GLOSSARY OF TERMS

Authorised Limit (Also known as the Affordable Limit):

A statutory limit that sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities).

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.

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'.

Basis Point:

A unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent). In most cases, it refers to changes in interest rates and bond yields. For example, if interest rates rise by 25 basis points, it means that rates have risen by 0.25% percentage points. If rates were at 2.50%, and rose by 0.25%, or 25 basis points, the new interest rate would be 2.75%.

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 Receipts:

Money obtained on the sale of a capital asset.

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.

Counterparty List:

List of approved financial institutions with which the Council can place investments with.

Debt Management Office (DMO):

The DMO is an Executive Agency of Her Majesty's Treasury and provides direct access for local authorities into a government deposit facility known as the DMADF.

All deposits are guaranteed by HM Government and therefore have the equivalent of a sovereign triple-A credit rating.
Gilts: 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.
Liability Benchmark: a measure of how well the existing loans portfolio matches the Council’s planned borrowing needs. Net loans requirement (see below) plus an allowance for short term liquidity
LIBID: The London Interbank Bid Rate (LIBID) is the rate bid by banks on Eurocurrency deposits (i.e. the rate at which a bank is willing to borrow from other banks).
LIBOR: The London Interbank Offered Rate (LIBOR) is the rate of interest that banks charge to lend money to each other. The British Bankers' Association (BBA) work with a small group of large banks to set the LIBOR rate each day. The wholesale markets allow banks who need money to be more fluid in the marketplace to borrow from those with surplus amounts. The banks with surplus amounts of money are keen to lend so that they can generate interest which it would not otherwise receive.
Maturity: The date when an investment or borrowing is repaid.
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 (MRP): 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.
Net Loans Requirement: A measure of the authority’s gross loan debt, less treasury management investments, at the last financial year end, projected into the future based on its approved prudential borrowing, planned MRP and any other forecast major cash flows.
Non Specified Investment: Investments which fall outside the CLG Guidance for Specified investments (below).
Operational Boundary: This linked directly to the Council’s estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely prudent but not worst case

scenario but without the additional headroom included within the Authorised Limit.
Prudential Code: Developed by CIPFA and introduced on 1/4/2004 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: Prudential indicators are a set of financial indicators and limits that are calculated in order to demonstrate that councils' capital investment plans are affordable, prudent and sustainable. They are outlined in the CIPFA Prudential Code of Practice. They are indicators that must be used to cover the categories of affordability, prudence, capital spending, external debt/borrowing and treasury management. They take the form of limits, ratios or targets which are approved by Council before 1 April each year and are monitored throughout the year on an on-going basis. A council may also choose to use additional voluntary indicators.
Public Works Loans Board (PWLB): The PWLB 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.
Revenue Expenditure: Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.
(Short) Term Deposits: Deposits of cash with terms attached relating to maturity and rate of return (Interest).
Sterling Overnight Index Average (SONIA): the risk-free rate for sterling markets administered by the Bank of England. SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.
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 one 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.
Temporary Borrowing: Borrowing to cover peaks and troughs of cash flow, not to fund capital spending.
Unsupported Borrowing:

Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.
Yield: The measure of the return on an investment.

A large print version of this document is available on request

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