Rutland
County Council

Appendix 1

Treasury Management Strategy

2023-24

Version & Policy Number	TMS 23/24
Guardian	Andrew Merry, Head of Finance
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Contents

1 INTRODUCTION

1.1 Background to Treasury Management

1.1.1 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."

1.1.2 Another 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.

1.2 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.

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 **Quarterly reports** – In addition to the three major reports detailed above, from 2023/24 quarterly reporting is also required. These additional reports do not have to be reported to Full Council but are requires to be adequately scrutinised. Information will be included in the Corporate Performance report.

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 Training

1.3.1 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.

1.3.2 Furthermore, the Code states that they expect "all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making".

1.3.3 In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management'.

1.3.4 Training for Members will be organised as part of the Induction process for new Members following the May Election. This is likely to take place in September 2023. A formal record of the training received by Members/Officers central to the Treasury function will be maintained by the Finance Business Partner.

1.4 Treasury Management Consultants

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

1.4.2 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.

1.4.3 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 2023/24 – 2025/26

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 2023 the Council estimates that it will have capital projects approved of £16.396m. The details of this are shown in Budget Report (Report No: 02/2023).

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

Estimates of capital expenditure (Prudential Indicator (PI3)) and Actual capital expenditure (PI4)

Estimated Capital expenditure	Actuals 2021/22	Projects 2022/23	Projects 2023/24	Projects 2024/25	Projects 2025/26
	£000	£000	£000	£000	£000
Total Service Investments	5,173	6,663	2,259	2,686	282
Total Commercial Activities/non-financial investments*	0	0	0	0	0
Total	**5,173**	**6,663**	**2,259**	**2,686**	**282**
Ring-fenced grant- allocated	0	0	270	270	0
Non ring-fenced grants-unallocated	0	0	2,381	2,381	2,381
Total **	**5,173**	**6,663**	**4,910**	**5,337**	**2,663**

* 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 22/23 is £16.396m. The table above is not replicating the Capital Programme as there are projects that would have been started prior to 2021/22 and some of the future year's projects will not yet be in the approved capital budget. However, the 2021/22 outturn and 2022/23 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 2023/24. Funding for any future projects will be funded in full or in part from unallocated funding.

2.1.5 The table below shows 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 2021/22	Projects 2022/23	Projects 2023/24	Projects 2024/25	Projects 2025/26
	£000	£000	£000	£000	£000
Grant	5,021	6,257	4,445	4,185	2,663
Capital Receipts	32	100	465	30	0

RCCO	46	199	0	44	0
Oakham North	0	45	0	0	0
S106/CIL	72	62	0	728	0
Total Funding	**5,171**	**6,663**	**4,910**	**4,987**	**2,663**
Borrowing Need	2	0	0	350	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 be noted that the financing need from 2023/24 is zero as no external borrowing is planned. The borrowing need in 2024/25 is prudential borrowing for the Digital Rutland Full Fibre project.

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

	2021/22 Actual £000	**2022/23 Est £000**	**2023/24 Est £000**	**2024/25 Est £000**	**2025/26 Est £000**
Capital Financing Requirement					
CFR – Services 1 Apr	20,038	19,426	18,811	18,196	17,931
Movement in Year	(612)	(615)	(615)	(265)	(629)
Total CFR	19,426	18,811	18,196	17,931	17,302
Movement in CFR represented by					

Net financing need for the year (above)	2	0	0	350	0
Less MRP and other financing movements	(614)	(615)	(615)	(615)	(629)
Movement in CFR	**(612)**	**(615)**	**(615)**	**(265)**	**(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.

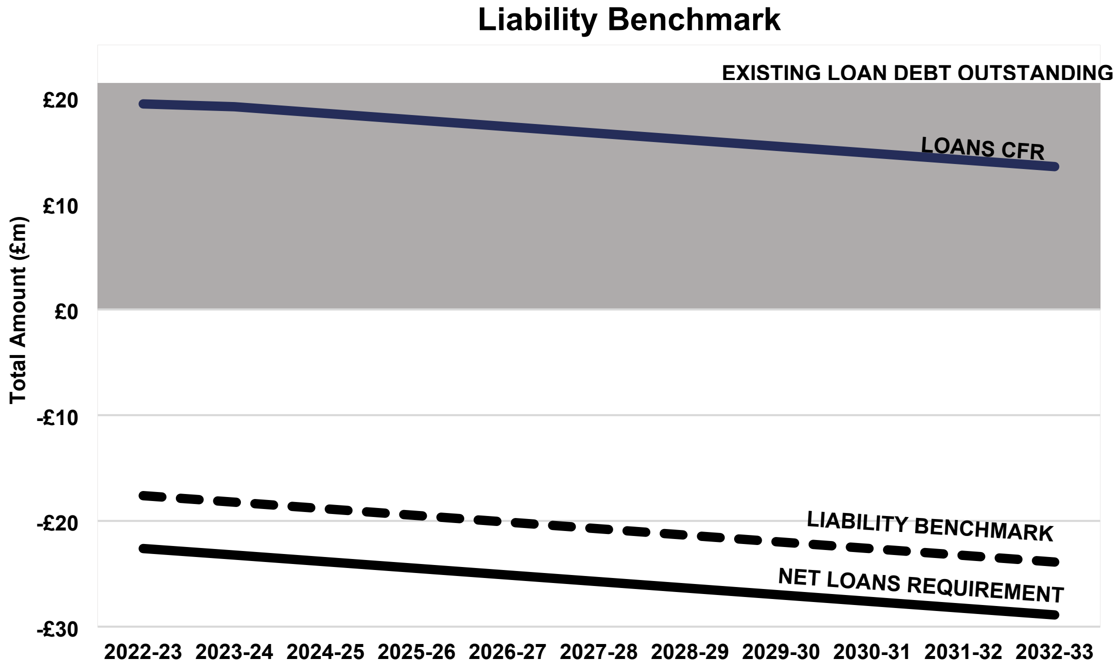
2.3 **Liability Benchmark**

2.3.1 A third and new prudential indicator for 2023/24 is the Liability Benchmark. The Council is required to estimate and measure the liability benchmark for the forthcoming financial year and the following two financial years, as a minimum. CIPFA strongly recommends the benchmark is produced for at least 10 years as a minimum.

2.3.2 There are four components to the liability benchmark:

- Existing loan debt outstanding: loans outstanding in future years.
- Loans CFR: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
- Net loans requirement: this will show the gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

- Liability benchmark: this equals net loans requirement plus short-term liquidity allowance.



2.3.3 If the liability benchmark is less than the existing external loan debt outstanding, it means that the Council has no new borrowing needs and excess cash should be invested in line with the investment strategy. Conversely, if the liability benchmark is more than external debt outstanding then there is a need to borrow.

2.4 Core Funds and Expected Investment Balances

2.4.1 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	2021/22 Actual £000	2022/23 Est £000	2023/24 Est £000	2024/25 Est £000	2025/26 Est £000
Fund balances / reserves	42,014	29,738	26,875	22,431	21,298
Capital receipts	1,591	1,491	1,541	1,591	1,641
Provisions	2,054	2,054	2,054	2,054	2,054
Total core funds	**45,659**	**33,283**	**30,470**	**26,076**	**24,993**
Working capital*	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
New borrowing	-	-	-	-	-
Expected investments	**43,659**	**31,283**	**28,470**	**24,076**	**22,993**

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

3 BORROWING

3.1 Borrowing objectives

3.1.1 There are six 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 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 £21.386m (this assumes the LEP loan is repaid in early 2023) which 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. Included within the £21.386m is £8.232m of debt that was inherited from Leicestershire in the Local Government Re-organisation in 1997. Annexe A1 shows the details of these loans.

3.2.2 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.

3.2.3 The external debt projections are shown below. 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	2021/22 Actual £000	2022/23 Est £000	2023/24 Est £000	2024/25 Est £000	2025/26 Est £000
External Debt					
Debt - 1 April	22,226	22,058	21,386	21,386	21,386
Expected Change in Debt	(168)	(672)	0	0	0
Actual /projected Gross Debt 31 March	22,058	21,386	21,386	21,386	21,386
Capital Financing Requirement	19,426	18,811	18,196	17,931	17,302
Under / (Over) Borrowing	(2,632)	(2,575)	(3,190)	(3,455)	(4,084)

3.2.4 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 2023/24 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.

3.2.5 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 3.3.5).

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	**2022/23 Estimate £000**	**2023/24 Estimate £000**	**2024/25 Estimate £000**	**2025/26 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

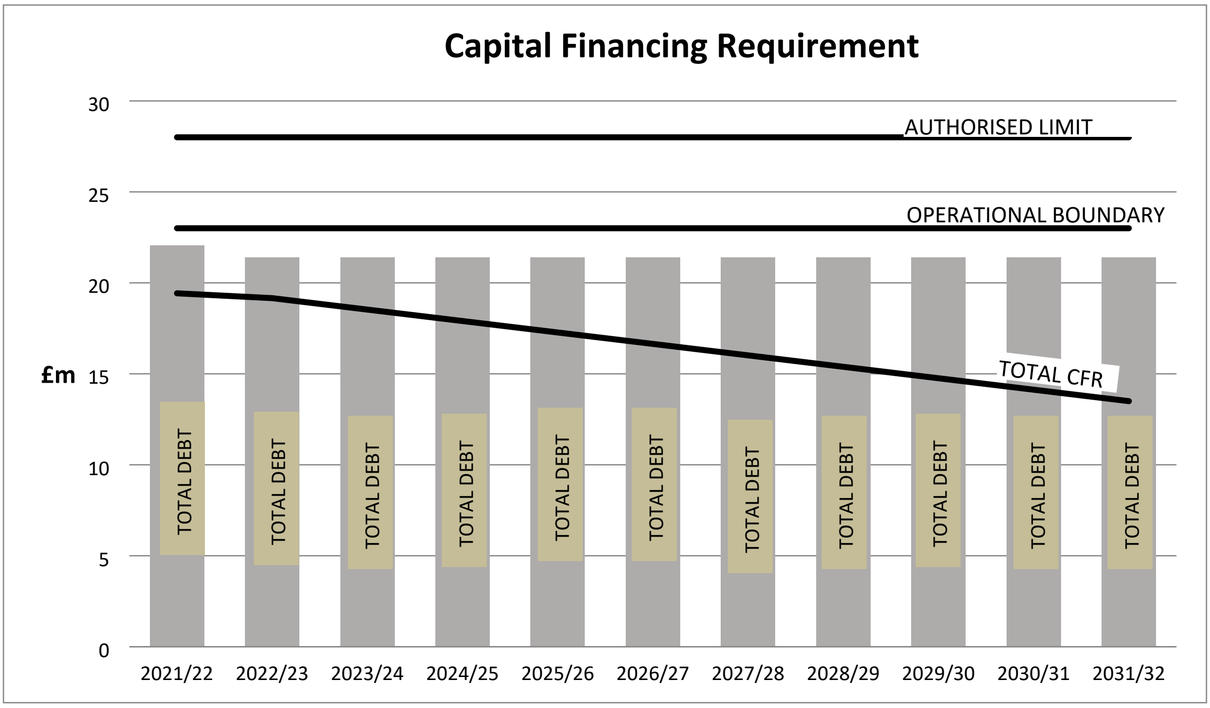
3.3.2 **Authorised limit for external debt (PI7) -** A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited and this limit needs to be set or revised by the full Council. It reflects the level of external 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	**2022/23 Estimate £000**	**2023/24 Estimate £000**	**2024/25 Estimate £000**	**2025/26 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 The graph on the following page shows where we currently are against all of the borrowing prudential indicators.



3.4 **Borrowing Strategy**

3.4.1 There are no plans to borrow but 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 3.5.2) to ensure borrowing is secured at a lower rate.

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

3.5 **Prudence in borrowing**

3.5.1 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.

3.5.2 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.

3.5.3 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.

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

- not borrow to invest primarily for financial return; and

- 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.

3.6 **Proportionality**

3.6.1 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 (Annexe A1, 6.7).

3.6.2 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.

3.7 **Debt repayment and rescheduling**

3.7.1 The list of debt and repayment dates are shown in Annexe A1.

3.7.2 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.

3.7.3 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).

3.7.4 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. At any point of time in the year, the Council can have between £50m - £62m 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 movement from £54m to £31m is due to c£38m of investments maturing in the final quarter and although some of these will be re-invested, the Council typically receives less income in the final quarter as Council Tax receipts drop off.

	2021/22 Actual £000	**2022/23 Forecast £000**	**2023/24 Estimate £000**	**2024/25 Estimate £000**	**2025/26 Estimate £000**
Total Investments at Quarter 2	54,205		30,000	26,000	23,000
Total Investments at 31 March		31,000	28,000	24,000	23,000

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 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.

4.2.3 In addition to the above, the Council also has a supplementary aim to be ethically responsible in how it invests. The Council uses credit ratings where environmental; social and governance considerations are played into the ratings used.

4.3 **Investment rules**

4.3.1 In accordance with 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.

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.

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 credit rating criteria is shown below alongside the time and monetary limits for institutions on the Council's counterparty list (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.

4.5 **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.

4.5.2 For local authorities, in terms of credit risk they receive a risk score of 1, equivalent to government credit quality. There are a number of local authorities where DLUHC have intervened, due to concerns about financial management. An additional check will be undertaken before lending to other local authorities to confirm at the time of investment the Authority is not subject to DLUHC intervention.

4.6 **Other considerations**

4.6.1 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. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

- The UK sovereign debt rating has been placed on Negative Outlook by the three major rating agencies in the wake of the previous Government leadership (Truss/Kwarteng) policy of unfunded tax-cuts. Although the current Government leadership (Sunak/Hunt) has calmed markets, the outcome of the rating agency reviews is unknown at present, but it is possible the UK sovereign debt rating will be downgraded. Accordingly, as detailed above, when setting minimum sovereign debt ratings, the Council will not set a minimum rating for the UK.

- **Other limits.**

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

4.6.2 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.

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

£000	2023/24	2024/25	2025/26
Long term treasury management investments; invested for longer than 365 days	10%	10%	10%

4.7 Investment Approach

4.7.1 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.

4.7.2 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; and
- The rate of return on offer – the forecast bank rate is expected to peak at 4.50% in Q2 2023.
- Liquidity – The Council seeks to maintain liquid short-term deposits of at least £1m available with a week's notice and no bank overdraft.

4.7.3 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 Investment returns expectations and benchmarking

4.8.1 The benchmark SONIA (Sterling Overnight Index Average) 6-month rate was used following the discontinuation of the LIBOR index. 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. In order to take advantage of the changing base rate the Council is undertaking a laddering approach to investments. Currently all maturities are less than 6 months, to reflect this approach the SONIA 1 month rate is a more appropriate benchmark and will be adopted from 2023/24.

4.8.2 The investment income budget proposed for approval in the Budget 2023/24 (Report 02/2023) is £1.68m. This is based on expected balances and forecast interest rate based on the anticipated base rate changes during 2023/24. This will be regularly monitored during the year and variances to budget will be reported in line with the reporting requirements detailed in section 1.2.

4.8.3 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%.

	2022/23 Forecast £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
Total Investments at 31 March	38,000	35,000	31,000	30,000
Revenue impact of risk of default at 0.10%	38	35	31	30

5 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2023/24 – 2025/26 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.

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

5.2.5 **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).

%	2021/22 Actual	2022/23 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Services	4.01	4.15	3.85	3.76	3.66

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	2021/22 Actual £	2022/23 Estimate £	2023/24 Estimate £	2024/25 Estimate £	2025/26 Estimate £
Services	0.01%	0.01%	0.01%	0.01%	0.01%
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 per the table below. No variable rate borrowings are held and therefore an increase in interest rate has no impact on borrowing costs.

£'000	2023/24	2024/25	2025/26
Increase in interest payable on variable rate borrowings	0	0	0
Increase in interest receivable on variable rate borrowings	349	305	296

5.3.6 **Debt to net service expenditure (PI14) -** This indicator shows gross debt as a percentage of net service expenditure, this helps to explain the relationship between gross debt and resources available to deliver services. Net service expenditure is considered to be a proxy for the size and financial strength of a local authority. The Council has set the maximum level for this indicator to be 60%, which the Council is currently below at 47%.

£'000	Services	Commercial Activities
Gross Debt	21,386	0
Net Service Expenditure	45,693	45,693
Debt to net service expenditure %	47%	0%
Maximum Level	60%	0%*

*Current policy prohibits 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, the higher the percentage, the greater reliance on income arising from assets on which borrowing costs have been incurred. The figures shown relates to service investment (Oakham Enterprise Park) for which the Council has incurred borrowing cost, the indicator is less than 1%, therefore the Council is not reliant on this income.

£'000	2023/24	2024/25	2025/26
Commercial investments net income	0	0	0

Service investments net income	97	114	133
Total net income	97	114	133
Net Revenue Stream	42,829	43,755	44,992
Net income to revenue stream %	**0.23%**	**0.26%**	**0.29%**

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 2022-23 Loan Repayment Premiums as at 8-Dec-2022					
Loan Reference	**Start Date**	**Maturity Date**	**Principal Balance**	**Interest Rate %**	**Premium**
461697	27-Mar-1987	31-Dec-2043	132,529.13	9.000	109,419
461698	27-Mar-1987	31-Dec-2044	212,550.13	9.000	181,083
461699	27-Mar-1987	31-Dec-2045	163,500.10	9.000	143,455
461700	27-Mar-1987	31-Dec-2046	196,200.12	9.000	177,475
476645	30-Nov-1995	28-Jul-2053	163,500.10	8.000	146,395
476646	30-Nov-1995	28-Jul-2054	163,500.10	8.000	150,150
476647	30-Nov-1995	28-Jul-2055	163,500.10	8.000	153,879
476842	21-Dec-1995	13-Dec-2052	163,500.10	7.875	139,973
476843	21-Dec-1995	13-Dec-2051	163,500.10	7.875	136,264
476844	21-Dec-1995	13-Dec-2050	163,500.10	7.875	132,522
477672	05-Aug-1996	08-May-2048	163,500.10	8.375	136,511
477673	05-Aug-1996	08-May-2049	163,500.10	8.375	140,719
478210	26-Sep-1996	25-Sep-2047	217,138.76	8.125	169,463
478211	26-Sep-1996	25-Sep-2056	163,500.10	8.125	162,334
478214	26-Sep-1996	25-Sep-2047	28,111.39	8.125	21,939
479404	21-May-1997	08-May-2057	327,000.20	7.125	262,676
479405	21-May-1997	08-May-2056	147,150.09	7.125	114,921
481709	13-Oct-1998	25-Sep-2058	163,500.10	4.625	49,186
482002	14-Jan-1999	25-Sep-2058	320,460.20	4.375	79,432

PWLB 2022-23 Loan Repayment Premiums as at 8-Dec-2022					
Loan Reference	Start Date	Maturity Date	Principal Balance	Interest Rate %	Premium
482386	30-Mar-1999	25-Mar-2059	23,271.98	4.625	7,113
482875	08-Nov-1999	25-Mar-2059	163,500.10	4.500	45,431
483562	18-Nov-1999	25-Sep-2059	163,500.10	4.250	37,369
491043	19-Jan-2006	19-Jan-2034	465,521.00	4.000	39,093
491501	05-Mar-2006	03-Nov-2051	2,689,694.00	4.400	509,053
491580	19-May-2006	19-Nov-2046	1,303,000.00	4.250	171,196
492151	20-Sep-2006	20-Mar-2052	1,856,434.00	4.200	289,112
492927	19-Feb-2007	19-Aug-2052	2,000,000.00	4.400	393,045
492928	19-Feb-2007	19-Aug-2053	2,000,000.00	4.400	413,722
492929	19-Feb-2007	19-Aug-2054	1,427,410.00	4.400	307,130
493087	03-Aug-2007	19-Aug-2052	2,500,000.00	4.250	421,119
493088	03-Aug-2007	19-Aug-2053	2,000,000.00	4.250	356,261
493089	03-Aug-2007	19-Aug-2054	1,414,351.00	4.250	262,822
			21,386,323.30		**5,860,262**

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.

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