

Prudential Indicators and Treasury Management and Investment Strategy 2023/24 – 2025/26

1. Purpose of the Report

To seek approval of the Treasury Management Strategy and the Investment Strategy.

2. Background

- 2.1 The Local Government Act 2003 and supporting regulations require the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and prepare, set and publish prudential indicators and treasury indicators that ensure the Council's capital expenditure plans are affordable, prudent and sustainable in the long-term.

The prudential indicators consider the affordability and impact of capital expenditure plans and set out the Council's overall capital framework. Each prudential indicator either summarises the expected activity or introduces limits upon the activity, and reflects the underlying capital programme.

Within the overall prudential framework there is a clear impact on the Council's treasury management activity, either through borrowing or investment activity. As a consequence, a Treasury Management Strategy is prepared which considers the effective funding of the capital expenditure decisions and complements the prudential indicators.

- 2.2 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return. The Council is required to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions.

This, therefore, means that increases in capital expenditure must be limited to a level whereby charges to revenue remain affordable within the projected income of the Council for the foreseeable future. These increased charges may arise from:

- increases in interest charges and debt repayments caused by increased borrowing to finance additional capital expenditure; and
- any increases in operational running costs from new capital projects.

- 2.3 Treasury management is, therefore, an important part of the overall financial management of the Council's affairs and is defined as:

"The management of the local authority's 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.”

Specific treasury indicators are prepared and included in the Treasury Management Strategy which requires Member approval.

The Council’s treasury activities are strictly regulated by statutory requirements and guidance, including;

- CIPFA Treasury Management Code
- CIPFA Prudential Code
- DLUHC Investment Guidance
- DLUHC Minimum Revenue Provision (MRP) Guidance

2.4 The Council’s Constitution (via Financial and Procurement Procedure Rules) requires the annual Treasury Management Strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. As a minimum a mid-year monitoring report is produced with a further report produced after the year-end to report on actual activity for the year.

Reports on Treasury matters are also required to be adequately scrutinised before being recommended to the Council and this role is undertaken by Audit Committee.

3. Key Issues

3.1 Overview

The Council’s 2022/23 Prudential Indicators and Treasury Management Strategy was approved by Council on 2 March 2022, whilst a Mid-Year report which updated the 2022/23 approved indicators was considered by Audit Committee on the 29 November 2022. This report provides an update for the period 2023/24 to 2025/26.

Section 3.2 of the report details the key elements of the Council’s Capital Expenditure Plans and associated Prudential Indicators. The Treasury Management Strategy (including the Investment Strategy) is detailed in Sections 3.3. Supporting detail is provided in the Appendices.

The Treasury Management Strategy has been drawn up taking account of advice from the Council’s treasury management advisors, Link Treasury Services Ltd.

This is a technical and complex report however the key messages are:

- Investments – the primary governing principle will remain security over return and the criteria for selecting counterparties reflect this. Due to long term borrowing taken out in 2021/22 cash available for investment increased during

2022/23 These cash balances are now reducing as short term borrowing is repaid, this continues to have a positive impact for the Council as it has removed the need to borrow during 2022/23 whilst rates have been high. In addition investment yields have increased significantly during 2022/23 as the Bank of England Base Rate has increased from 0.75% at 31/03/2022 to 3.5% as at 31/12/2022.

- Borrowing – The Council will maintain its strategy of being under-borrowed against the capital financing requirement. The Council borrowed £227m of long term PWLB funds during 2021/22 to take advantage of the low PWLB interest rates available at the time. This was replacing short term borrowing as it matured. No borrowing has taken place during 2022/23 as the council has cash balances remaining from the borrowing taken in 2021/22. The Council has been able to invest on a short term basis to generate additional income; making use of the current financial market conditions which have lifted investment returns.

Crucially, it is not expected that the council will need to borrow any funds for the remainder of the 2022/23 financial year. This is helpful given borrowing rates have risen significantly during 2022/23. As a result the Council has made significant savings on borrowing costs, against the plan set out in the Medium Term Financial Strategy, as the Council has not been required to borrow in the current high interest rate market. Moving forwards the Council will use a short term borrowing strategy if any borrowing is required. This will mitigate costs and enable the Council to lock in long term borrowing at a future date if interest rates fall during 2023 and 2024 as forecast.

- Governance – strategies and risk are reviewed by the Audit Committee with continuous monitoring which includes the Mid-Year and Year End reporting.
- Whilst the Council's approach to Treasury Management in recent years, utilising short term borrowing in particular, has generated significant savings for the Council, the future outlook is more challenging due to the significant uncertainty in the UK and Global economy, caused by inflation and soaring energy prices. This has seen increasing interest rates for borrowing, as a result of the increases in the Bank of England Base Rate. When the Council does need to borrow, it will be at a much higher interest rate than had been assumed in the Council's approved Medium Term Financial Strategy. The increases in borrowing rates could not have been projected by the Council and work is underway to plan how the Council can best navigate through the current challenges presented by the financial markets. It should be noted that it is expected that borrowing rates will reduce over the next couple of years, linked to the projections that inflation will return back to the Bank of England's target 2% level by late 2024.
- The current 50 year PWLB borrowing level is 4.16%. Short term borrowing is available for 3.9% for 6 months. The Council keeps interest rates under constant review along with its borrowing strategies and decisions on the mix of long-term and short-term borrowing.

- The revised CIPFA Treasury Management and Prudential Codes were published on 20th December 2021 and has stated that revisions need to be included in the reporting framework from the 2023/24 financial year. The Council, therefore, has to have regard to these Codes of Practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval. The new requirements reflected in this report are:
 1. Adoption of a new liability benchmark treasury indicator to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained.
 2. An increase in the information that is required to be kept around training of treasury staff and members.
 3. Reporting to members is to be done quarterly. Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The CFO is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Council and should be reported as part of the authority's integrated revenue, capital and balance sheet monitoring.
 4. Environmental, Social and Governance (ESG) issues to be addressed within an authority's treasury management policies and practices (TMP1)
- The CIPFA revised 2021 Prudential and Treasury Management Codes require that all local authorities prepare an additional report, a capital strategy report, which will provide the following:
 - a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
 - an overview of how the associated risk is managed
 - the implications for future financial sustainability

The aim of the capital strategy is to ensure that all elected members fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. The Councils Capital Strategy requirement is included within the Budget and Council Tax 2023/24 and Medium Term Financial Strategy.

3.2 **CAPITAL EXPENDITURE PLANS & PRUDENTIAL INDICATORS 2023/24 TO 2025/26**

3.2.1 **The Capital Expenditure Plans**

The Council's capital expenditure plans are summarised below and form the first of the prudential indicators. A certain level of capital expenditure is grant supported by the Government; any decisions by the Council to spend above this level will be considered unsupported capital expenditure. This unsupported capital expenditure needs to have regard to:

- Service objectives (e.g. strategic planning);
- Stewardship of assets (e.g. asset management planning);
- Value for money (e.g. option appraisal)
- Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
- Affordability (e.g. implications for the council tax and rents)
- Practicality (e.g. the achievability of the Capital Programme).

The revenue consequences of capital expenditure, particularly the unsupported expenditure, will need to be paid for from the Council's own revenue resources.

This capital expenditure can be paid for immediately (by applying capital resources such as capital receipts, capital grants etc., or revenue resources), but if these resources are insufficient any residual expenditure will add to the Council's borrowing need.

3.2.2 The key risks to the plans are that the level of Government support has been estimated and is therefore subject to change. Similarly, some of the estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale. For example, anticipated asset sales resulting from the Council's on-going asset rationalisation programme may be deferred due to the on-going impact of the current economic & financial conditions on the property market.

3.2.3 The revised capital expenditure plans in the updated Capital Strategy and Capital Programme being presented within this report, are summarised in the table below.

It should be noted, that these represent the capital investment forecasts under traditional forms of financing and excludes assets acquired under PFI and finance lease arrangements which are a type of borrowing but which are budgeted for separately outside of the capital financing budget.

	2022/23 Estimated £m	2023/24 Estimated £m	2024/25 Estimated £m	2025/26 Estimated £m
Children and Young People's Services	8.513	13.543	3.040	15.190
Assistant Chief Executive	0.481	0.203	0.210	0.210
Adult Care & Housing	5.638	8.407	14.117	4.273
Finance and Customer Services	5.448	11.908	3.425	18.403
Regeneration and Environment	94.338	123.444	41.550	57.136
Capitalisation Direction	1.000	1.000	1.000	1.000
Total Non HRA	115.418	158.504	63.342	96.212
HRA	40.779	48.902	58.123	29.610
Total HRA	40.779	48.902	58.123	29.610
Total expenditure	156.197	207.406	121.466	125.822
Capital receipts	6.533	8.440	5.287	2.036
Capital grants, capital contributions & other capital funding sources	108.214	120.980	65.149	45.464
Total financing	114.747	129.420	70.436	47.500
Prudential borrowing requirement for the year	41.450	77.986	51.030	78.322

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

The Council's Capital Financing Requirement (CFR) is the total outstanding capital expenditure which has not yet been financed from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need.

As can be seen in the table in 3.2.3 above, the latest revised estimated prudential borrowing requirement over the period 2022/23 to 2025/26 based on the updated Capital Strategy and Capital Programme is £248.787m. This will be reflected in the year on year change to the CFR.

The CFR is then reduced by the amount the Council sets aside from revenue for the repayment of debt and other financing movements.

As explained in 3.2.3, in addition to the underlying borrowing need arising from the Council's capital investment programme, the overall CFR also includes other long term liabilities (OLTL) brought onto the Balance Sheet as a result of the recognition of Private Finance Initiative (PFI) and finance lease assets. This is a technical adjustment to recognise the underlying borrowing facility taken out by the PFI or finance lease provider and does not require the Council to take out any additional borrowing in its own right.

The CFR projections for which approval is being sought are set out in the table below:

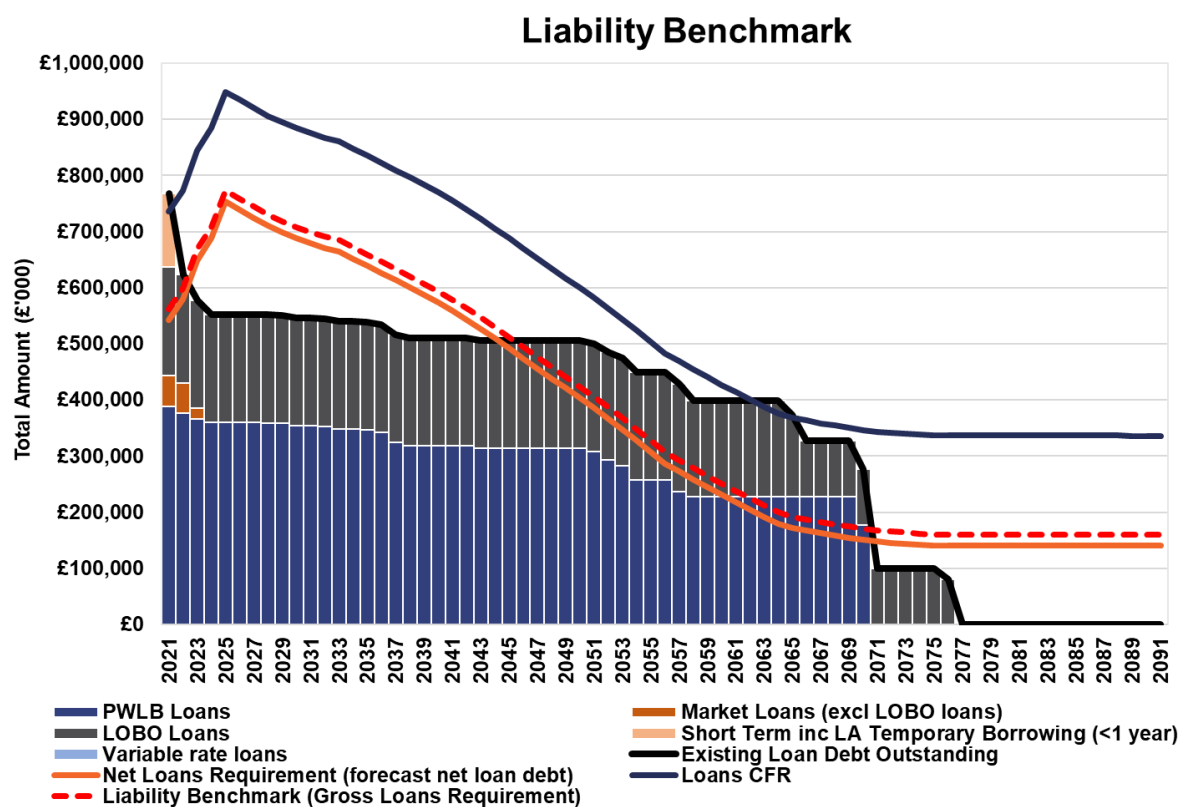
	2022/23 Estimated £m	2023/24 Estimated £m	2024/25 Estimated £m	2025/26 Estimated £m
CFR – General Fund	582.266	647.801	660.209	720.747
CFR – HRA	307.703	309.340	333.155	333.155
Total CFR	889.969	957.141	993.364	1,053.902
Movement in CFR	33.033	67.172	36.223	60.538
Of which:				
CFR – capital investment	773.086	844.337	884.175	949.064
OLTL	116.883	112.804	109.189	104.838
Movement in CFR represented by:				
Prudential borrowing requirement for the year (table at 3.2.3 above)	41.450	77.986	51.030	78.322
Net financing need for the year for OLTL	-3.620	-4.079	-3.615	-4.351
Less Minimum Revenue Provision and other financing movements	-4.797	-6.735	-11.192	-13.433
Movement in CFR	33.033	67.172	36.223	60.538

3.2.5 Liability Benchmark

3.2.5.1 A new prudential indicator for 2023/24 is the Liability Benchmark(LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB: -

1. **Existing loan debt outstanding:** the Council's existing loans that are still outstanding in future years.
2. **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.
3. **Net loans requirement:** this will show the authority's 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.
4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.



3.2.5.2 Any years where actual loans are less than the benchmark indicate a future borrowing requirement; any years where actual loans outstanding exceed the benchmark represent an overborrowed position, which will result in excess cash requiring investment.

3.2.5.3 The index shows that in the short to medium term the net loans requirement exceeds the existing debt so borrowing will be required to finance capital expenditure. In 2045 the level of loans exceeds the gross loan requirement which results in a cash balance to invest. This index is based on the current 4 year capital programme. In reality it is likely that further borrowing will be required to fund the capital programme beyond this 4 year time horizon and the actual loan requirement will be greater than shown on the index.

3.2.6 Minimum Revenue Provision Policy Statement

3.2.6.1 The Council is required to pay off an element of the accumulated General Fund CFR each year through a revenue charge (the Minimum Revenue Provision - MRP). In addition, it is also allowed to make additional voluntary payments (VRP) where it is prudent to do so. Repayments included in annual PFI charges or finance lease payments are also applied as MRP. No MRP charge is currently required for the HRA. The HRA charges depreciation on its assets, which is a revenue charge.

3.2.6.2 DLUHC Regulations require Council to approve an MRP Policy Statement in advance of each financial year setting out how it will discharge its duty to charge an amount of MRP which the Council considers 'prudent'.

The Strategic Director of Finance & Customer Services will, where it is prudent to do so, use discretion to review the overall financing of the capital programme and the opportunities afforded by the regulations to maximise the benefit to the Council whilst ensuring it meets its duty to charge a 'prudent' provision. To provide maximum flexibility the recommended MRP policy includes the use of the annuity method and the equal instalments method.

The wording of the proposed MRP Policy Statement for which Council approval is being sought is shown at Appendix A.

3.2.7 **Affordability Prudential Indicators**

Affordability prudential indicators are used to assess the affordability of the capital expenditure plans by reference to their impact on the Council's finances overall. Cabinet are asked to recommend that Council approve the following indicators.

3.2.7.1 **Actual and Estimates of the ratio of financing costs to net revenue stream**

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream of the Council.

The estimates of financing costs include all current commitments, the proposals contained in the proposed 2023/24 Revenue Budget and updated future years' capital expenditure plans.

Ratio of financing costs to Net Revenue Stream				
	2022/23 Estimated %	2023/24 Estimated %	2024/25 Estimated %	2025/26 Estimated %
Non-HRA	7.59	10.32	12.84	14.45
HRA	16.02	15.35	14.59	14.62

3.2.7.2 **Estimates of the incremental impact of capital expenditure plans on Housing Rent levels**

This indicator identifies the revenue cost of proposed changes in the housing capital programme compared to the Council's existing approved commitments and current plans expressed in terms of the impact on annual rent levels. The latest HRA Business Plan forecasts that borrowing will be taken in the years 2022/23, 2023/24 and 2024/25. The financing costs of this are reflected in the figures below.

Incremental impact of capital expenditure plans on Housing Rent levels				
	Estimated 2022/23 £	Estimated 2023/24 £	Estimated 2024/25 £	Estimated 2025/26 £
Annual Housing Rent Levels	4.82	8.20	66.69	39.45

3.3 TREASURY MANAGEMENT STRATEGY 2023/24 – 2025/26

The Treasury Management Strategy covers:

- a) The Council's borrowing and investment projections (para. 3.3.1);
- b) The Council's estimates and limits to borrowing activity (para. 3.3.2 to 3.3.5);
- c) The expected movement in interest rates (para. 3.3.6);
- d) The Council's borrowing and debt strategy (para. 3.3.7);
- e) The Council's investment strategy (para. 3.3.8);
- f) Treasury Management prudential indicators and limits on activity (para. 3.3.9);
- g) Treasury performance indicators (para. 3.3.10); and
- h) Policy on the use of external service advisers (para. 3.3.12).

3.3.1 Borrowing and Investment Projections 2023/24 – 2025/26

The borrowing requirement comprises the expected movement in the CFR and any maturing debt which will need to be re-financed.

The effect on the treasury position over the next three years for the Council is shown in the table attached at Appendix B. The table also highlights the expected level of investment balances.

3.3.2 Limits to Borrowing Activity

There are a number of key indicators to ensure the Council operates its activities within well-defined limits.

For the first of these, the Council needs to ensure that its total borrowing, does not, except in the short term, exceed the total of the CFR at the end of the previous year plus the estimated additional CFR for the current year (2022/23) and the following three financial years. This is designed to ensure that in the medium term, debt is only for a capital purpose. The purpose of including the estimated additional CFR for the following two financial years, is that it allows some flexibility for limited early borrowing for future years (para. 3.3.4).

The Strategic Director of Finance & Customer Services reports that the Council has complied with this indicator in the current year and does not envisage difficulties for the future (the table below refers). This view takes into account approved commitments and existing plans.

Whilst the forecast changes in the CFR assume significant reductions in the amount of under-borrowing by the Council, the actual change in the year-on-year level of under-borrowing will be determined by the Strategic Director – Finance and Customers Services, after consideration of all relevant factors in determining the appropriate strategy for borrowing levels within the Council’s overall financial strategy.

	2022/23 Estimated £m	2023/24 Estimated £m	2024/25 Estimated £m	2025/26 Estimated £m
CFR – excl. OLTL	773.086	844.337	884.175	949.064
CFR – OLTL	116.883	112.804	109.189	104.838
Total CFR	889.969	957.141	993.364	1053.902
Borrowing (loans outstanding)	739.207	817.194	868.223	946.546
Borrowing - OLTL	116.883	112.804	109.189	104.838
Total Borrowing	856.090	929.998	977.412	1051.384
CFR less Borrowing (underborrowed)	33.879	27.143	15.952	2.518

3.3.3 The Overall Level of Borrowing

A further two prudential indicators control or anticipate the overall level of borrowing. These are:

- The Authorised Limit for External Debt
- The Operational Boundary for External Debt

3.3.3.1 The Authorised Limit for External Debt

The Authorised Limit represents the maximum amount an authority can borrow for capital and cash flow purposes. 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. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Authorised Limit is set by the Council and any breach must be reported. The Government retains an option to control either the total of all councils plans, or those of a specific council, although no such Government control has yet been exercised.

Cabinet is asked to recommend to Council the approval of the following Authorised Limit for RMBC, set at £20m above the Council’s CFR:

Authorised Limit for External Debt (RMBC)	2022/23	2023/24	2024/25	2025/26
	Estimated £m	Estimated £m	Estimated £m	Estimated £m
Borrowing	793.086	864.337	904.175	969.064
OLTL	119.221	115.060	111.373	106.935
Total	912.307	979.397	1,015.548	1,075.999

3.3.3.2 Separately, the Council was limited to a maximum HRA CFR through the HRA self-financing regime debt cap. This cap was removed in the Government's Autumn Budget 2018. The latest iteration of the HRA Business Plan requires additional borrowing to support the Growth Programme, and therefore there has been an increase in the HRA CFR. A prudent debt limit has been applied to the Council's HRA borrowing, allowing for that current need, plus £30m to enable a reaction to any significant development opportunity that arises.

HRA Debt Limit	2022/23 Estimated £m	2023/24 Estimated £m	2024/25 Estimated £m	2025/26 Estimated £m
HRA Debt Limit	337.703	339.340	363.155	363.155
HRA CFR	307.703	309.340	333.155	333.155
HRA Headroom (+)	30.000	30.000	30.000	30.000

3.3.3.3 The Operational Boundary for External Debt

This is the amount beyond which external borrowing (for capital and cash flow purposes) is not normally expected to exceed. Its purpose is to act as a tool for monitoring day to day treasury activity. Occasionally, for operational reasons it may be necessary to breach the limit. Temporary breaches are not a cause for concern but sustained breaches may be an indication that the Council is acting imprudently or experiencing major financial difficulty.

The Operational Boundary for which Council approval is being sought is set out in the table below.

Operational Boundary for External Debt	2022/23 Estimated £m	2023/24 Estimated £m	2024/25 Estimated £m	2025/26 Estimated £m
Borrowing	769.207	847.194	898.223	976.546
Other long term liabilities	116.883	112.804	109.189	104.838
Total	886.090	959.998	1,007.412	1,081.384

3.3.4 Policy on Borrowing in Advance of Need

The Council has some flexibility to borrow funds in advance for use in future years. The Strategic Director of Finance & Customer Services may do this under delegated powers where, for instance, a sharp rise in interest rates is expected,

and so borrowing early at fixed interest rates will be economically beneficial or help meet budgetary constraints.

Whilst the Strategic Director of Finance & Customer Services will adopt a prudent 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 debt maturities.

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

3.3.5 **Debt Rescheduling**

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. These savings will need to be considered in the light of the current treasury position and the value of the cost of debt repayment (premiums incurred).

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; and,
- Enhancing the balance of the portfolio (amending the maturity profile and/or the balance of volatility).

3.3.6 **Expected Movement in Interest Rates**

The Base Rate, currently 3.50%, underpins investment returns. The Council's treasury advisors Link are forecasting that the base rate will rise to 4.5% in the first half of 2023 and then fall during 2024 and 2025 as inflationary pressures ease with a forecast rate of 2.5% in December 2025. There remains a great deal of economic uncertainty affecting growth forecasts for the UK economy and the rate of inflation both of which are key factors influencing the Base Rate.

The PWLB will no longer lend to any local authority that has any plans to buy investment assets primarily for yield anywhere in their capital programme. The current 50 year PWLB borrowing level is 4.16%. Short term borrowing is available for 3.9% for 6 months.

The Council is currently under-borrowed as shown in 3.3.2. The Council borrowed £227m of long term PWLB funds during 2021/22 to take advantage of the low PWLB interest rates available at the time. This was replacing short term borrowing as it matured. No borrowing has taken place during 2022/23 as the council has cash balances remaining from the borrowing taken in 2021/22, that it has been able to invest on a short term basis to generate additional income for the Council (making use of the current financial market conditions, which have lifted investment returns). This has also significantly reduced the Council's cost of borrowing during 2022/23, as the Council hasn't needed to borrow whilst the rates have been rising. The highest return from the Money Market Funds currently is 3.50% and the Debt Management Office is 3.32% for overnight deposits (which

is further reduced as there is a cost of transfer). These rates have increased significantly during the year as the bank Base Rate has increased and have resulted in an increased return on cash balances.

3.3.7 **Borrowing and Debt Strategy 2023/24 – 2025/26**

As shown in the table in 3.3.2, the Council is currently maintaining an under-borrowed position. This means that the CFR has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are lower than the cost of borrowing.

The uncertainty over future interest rates increases the inherent risks associated with treasury activity. As a result, the Council will continue to take a prudent approach to its treasury strategy.

The Strategic Director of Finance & Customer Services, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above. While short term borrowing provides lower cost opportunities in the short to medium term, in a rising interest rate environment it can be advantageous to lock in long term borrowing. In the current situation where interest rates are forecast to fall in the medium term it is advantageous to defer long term borrowing and utilise short term borrowing. Subsequently locking in long term borrowing when rates are lower.

3.3.8 **Investment Strategy 2023/24 – 2025/26**

The primary objectives of the Council's investment strategy are:

- Firstly, to safeguard the timely repayment of principal and interest (security);
- Secondly, to ensure adequate liquidity; and
- Thirdly to produce an investment return (yield).

3.3.8.1 As part of this Strategy, Members need to consider and approve security and liquidity benchmarks in addition to yield benchmarks which are currently widely used to assess investment performance and have previously been reported to Members. The proposed benchmarks are set down in Appendix D.

3.3.8.2 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 of Appendix C.
- 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 as set out in Appendix D.

3.3.8.3 The Strategic Director of Finance & Customer Services will maintain a counterparty list in compliance with the criteria set out in 3.3.8.5 and will revise the criteria and submit them to Council for approval as necessary. These criteria are different to those which are used to select Specified and Non-Specified investments.

The rating criteria use the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria. This is in compliance with the CIPFA Treasury Management Code of Practice.

3.3.8.4 Credit rating information is supplied by our treasury advisors on all active counterparties that comply with the criteria in section 3.3.8.5. Any counterparty failing to meet the criteria would be omitted from the counterparty list. Any rating changes, rating watches (notification of a likely change) and rating outlooks (notification of a possible long term change) are provided to officers almost immediately after they occur and this information is considered before any investment decision is taken.

3.3.8.5 The criteria for providing a portfolio of high quality investment counterparties (both Specified and Non-Specified investments) are:

- **Banks** – The Council will use banks which are rated by at least two rating agencies and have at least the following Fitch, Moody's and Standard and Poors' ratings (where rated):

	Fitch	Moody's	Standards & Poor's
Short-term	F1	P-1	A-1
Long-term	A-	A3	A-

To allow for the day to day management of the Council's cash flow the Council's bankers will also be retained on the list of counterparties if ratings fall below the above minimum criteria.

- **Building Societies** – the Council will use the top 20 Building Societies ranked by asset size but restricted to a maximum of 20% of the investment portfolio
- **Money Market Funds** – AAA (CNAV or LVNAV) – restricted to a maximum investment of £20m per fund. The Council works with its specialist Treasury Advisors to review and select appropriate MMF's to ensure that those selected are AAA rated and therefore highly secure, with cash available for withdrawal each day, therefore these are very low risk accounts.
- **UK Government** – Debt Management Office

- **UK Local Authorities**

A limit of 35% will be applied to the use of Non-Specified investments within the investment portfolio, excluding day to day cash management through the Council's own bank.

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 and sovereign information will continue to be applied before making any specific investment decision from the agreed portfolio of counterparties.

3.3.8.6 The time and monetary limits for institutions on the Council's Counterparty List are as follows (these will cover both Specified and Non-Specified Investments):

	Fitch	Moody's	Standard & Poor's	Money Limit	Time Limit
Upper Limit Category	F1+/AA-	P-1/Aa3	A-1+/AA-	£20m	5 years
Middle Limit Category	F1/A-	P-1/A3	A-1/A-	£10m	364 days
Lower Limit Category *	All Building Soc's ranked 1 to 10 All Building Soc's ranked 11 to 20			£5m £1m	6 mths 3 mths
Debt Management Office	-	-	-	Unlimited **	6 months
Money Market Funds	-	-	-	£20m	n/a
UK LA's	-	-	-	£20m	5 years
Council's Bankers	-	-	-	£20m***	364 days
The above money limits are exclusive of bank balances held by schools					
* Based on maximum of 20% of the investment portfolio					
** Provides maximum flexibility					
*** There may be occasions where the Council has to exceed this limit, where government issues out significant grant funding, such as Covid Business Grants and the Council is unable to invest those resources within the options available on the day. This risk is mitigated by daily review of the cashflow forecast, however, the volume of government funding issued during the pandemic has been significant.					

3.3.8.7 The proposed criteria for Specified and Non-Specified investments and monitoring of counterparties are shown in Appendix C for Member approval.

In the normal course of the Council's cash flow operations, it is expected that both Specified and Non-specified investments will be utilised for the control of liquidity as both categories allow for short term investments.

The use of longer-term instruments (greater than one year from inception to repayment) will fall in the non-specified investment category. These instruments

will only be used where the Council's liquidity requirements are safeguarded. This will also be limited by the long-term investment limits.

3.3.9 **Treasury Management Prudential Indicators and Limits on Activity**

3.3.9.1 There are four further treasury activity limits the purpose of which are to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs. The limits are:

- Upper limits on fixed interest rate exposure – This identifies a maximum limit for fixed interest rates based upon the fixed debt position net of fixed interest rate investments.
- Upper limits on variable interest rate exposure – as above this limit covers a maximum limit on variable interest rates based upon the variable debt position net of variable interest rate investments.
- Maturity structures of borrowing – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.
- Total funds invested for greater than 365 days – These limits are set to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

For the purposes of these indicators the Council's market debt with Financial Institutions is treated as variable where debt may be subject to variation on specific call dates each year. However, over the period covered by this Strategy it is considered unlikely that any market debt will be called as interest rates are forecast to remain below the rate at which debt could be called.

3.3.9.2 The activity limits (prudential indicators) for Member approval are as follows:

RMBC	2022/23	2023/24	2024/25	2025/26
Interest rate Exposures				
	Upper	Upper	Upper	Upper
Limits on fixed interest rate debt based on fixed net debt	100%	100%	100%	100%
Limits on variable interest rate debt based on variable net debt	50%	50%	50%	50%

RMBC Maturity Structure of fixed interest rate borrowing 2023/24		
	Lower	Upper
Under 12 months	0%	35%
12 months to 2 years	0%	35%
2 years to 5 years	0%	45%
5 years to 10 years	0%	45%
10 years to 20 years	0%	45%
20 years to 30 years	0%	50%
30 years to 40 years	0%	50%
40 years to 50 years	0%	100%
50 years and above	0%	100%

RMBC Maximum Funds invested > 365 days			
	1 to 2 years	2 to 3 years	3 to 5 years
Funds invested > 364 days	£m 10	£m 8	£m 6

3.3.10 **Treasury Performance Indicators**

The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. The results of the following two indicators will be reported in the Treasury Annual Report for 2022/23:

- Debt – Borrowing - Average rate of borrowing for the year compared to average available
- Investments – Internal returns above the Sterling Overnight Index Average (SONIA). This index has replaced the London Interbank Bid rate (LIBID) which is no longer published.

3.3.11 **Training**

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. Training will be arranged with the Council's treasury advisors Link for Members of the Audit Committee. The training needs of treasury management officers are periodically reviewed.

The requirements around training have been increased in 2021 Cipfa Treasury Code.

The Code states that it is expected that 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.

The council is required to record attendance at training and prepare learning plans for treasury management officers, board/Council members.

A formal record of the training received by officers central to the Treasury function will be maintained by the Treasury Manager. Similarly, a formal record of the treasury management/capital finance training received by Members will also be maintained by the Finance Manager responsible for Treasury Management.

3.3.12 **Policy on the use of external service advisors**

The Council uses Link Asset Services as its treasury management advisors. In January 2022 the Contract with Link was renewed for a further 3 years.

The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of Member reports;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments; and,
- Credit rating/market information service comprising the three main credit rating agencies.

Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the Council recognises that responsibility for treasury management decisions remains with the Council at all times. The service is provided to the Council under a contractual agreement which is subject to regular review.

Proposed Wording of Minimum Revenue Provision Policy Statement

It is being recommended Council approve the following MRP policy in relation to the charge for the 2023/24 financial year:

- (a) The MRP charge in relation to capital expenditure incurred prior to 2007/08 where the expenditure was funded by either supported or unsupported borrowing will be calculated using the expected useful life of the asset and the calculation of the provision will be by the annuity method;
- (b) The MRP charge in relation to capital expenditure incurred since 2007/08 where the expenditure is funded by either supported or unsupported borrowing will be calculated using the expected useful life of the asset at the point the asset is brought into use. The calculation of the provision will be either the annuity method or the equal instalments method depending on which is most appropriate; and
- (c) The MRP charge in relation to capital expenditure incurred since 2007/08 where the expenditure is funded by a 'capitalisation directive' (e.g. equal pay) will be calculated on the basis of the specified period(s) set down within the regulations. The calculation of the provision will be either the annuity method or the equal instalments method depending on which is most appropriate.
- (d) For the sake of clarity, where MRP has been overcharged in previous years, the recovery of the overcharge will be affected by taking an MRP holiday in full or in part against future years charges that would otherwise have been made. The MRP holiday adjustment to the future years charge will be done in such a way as to ensure that:
 - the total MRP after applying the adjustment will not be less than zero in any financial year
 - the cumulative amount adjusted for will never exceed the amount over-charged;
 - the extent of the adjustment will be reviewed on an annual basis

In order to meet the requirement to make an annual, prudent repayment of debt, the Council may use prior year capital receipts to pay down debt, reducing the level of MRP charged to revenue. This policy has been factored into the planned capital programme and management of capital programme resources.

Borrowing and Investment Projections 2022/23 to 2025/26

RMBC	2022/23 Estimated £m	2023/24 Estimated £m	2024/25 Estimated £m	2025/26 Estimated £m
External Debt				
Borrowing at 1 April - Short Term	143.571	165.537	254.738	315.991
Borrowing at 1 April - Long Term	623.670	573.670	562.456	552.233
Total Borrowing at 1 April	767.241	739.207	817.194	868.223
Expected change in debt	-28.034	77.987	51.029	78.322
Borrowing at 31 March	739.207	817.194	868.223	946.546
Other long-term liabilities (OLTL) at 1 April	120.503	116.883	112.804	109.189
Expected change in OLTL	-3.620	-4.079	-3.615	-4.351
Other long-term liabilities (OLTL) at 31 March	116.883	112.804	109.189	104.838
Total Borrowing & OLTL at 31 March	856.090	929.998	977.412	1,051.384
Investments				
Total Investments at 1 April	234.850	44.400	20.000	20.000
Investment change	-190.450	-24.400	0.000	0.000
Total Investments at 31 March	44.400	20.000	20.000	20.000
Net borrowing at 31 March	811.690	909.998	957.412	1,031.384

Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

1. Overview

1.1 The Council’s investment policy has regard to the following: -

- DLUHC’s Guidance on Local Government Investments (“the Guidance”)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 (“the Code”)
- CIPFA Treasury Management Guidance Notes 2021

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield.

The Prudential Code has also expressed concern that local authorities should ensure that an authority’s approach to commercial activities should be proportional to its overall resources. Any such commercial investments should be appropriately disclosed throughout the Treasury Management Strategy, clearly identifying the related debt, capital financing requirement and terms. However, the Council does not plan on entering into any significant commercial investments.

1.2 In order to facilitate this objective the guidance requires the Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The Council has adopted the Code and will apply its principles to all investment activity.

In accordance with the Code, the Strategic Director of Finance & Customer Services has reviewed and prepared its Treasury Management Practices. This part, TMP 1, covering investment counterparty policy requires approval each year.

2. Annual Investment Strategy

2.1 The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of the following:

- The guidelines for investment decision making, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which investments can be made.
- The specified investments the Council may use.
- The non-specified investments the Council may use.

This strategy is to be approved by Council.

The investment policy proposed for the Council is detailed in the paragraphs below (sections 2.3 and 2.4).

2.2 **Strategy Guidelines**

The main strategy guidelines are contained in the body of the treasury strategy statement.

2.3 **Specified Investments**

2.3.1 These investments are sterling investments of not more than one-year maturity. If they are for a longer period then the Council must have the right to be repaid within 12 months if it wishes.

These are low risk assets where the possibility of loss of principal or investment income is small.

2.3.2 These would include the following investment categories:

1. The UK Government Debt Management Office.
2. UK Local Authorities
3. Money Market Funds that have been awarded AAA credit ratings by Standard and Poor's, Moody's or Fitch rating agencies and restricted to £20m per fund.
4. A bank or a building society that has been awarded a minimum short-term rating of F1 by Fitch, P-1 by Moody's and A-1 by Standard and Poor's rating agencies. For Building Societies investments will be restricted to 20% of the overall investment portfolio and:
 - a maximum of £5m for a period not exceeding 6 months if the society is ranked in the top 10 by asset size; or
 - a maximum of £1m and a period not exceeding 3 months if the society is ranked 11 to 20 by asset size.

2.4 **Non-Specified Investments**

2.4.1 Non-specified investments are any other type of investment not defined as specified above.

The criteria supporting the selection of these investments and the maximum limits to be applied are set out below.

2.4.2 Non specified investments would include any sterling investments with:

1. A bank that has been awarded a minimum long term credit rating of AA- by Fitch, Aa3 by Moody's and AA- by Standard & Poor's for deposits with a maturity of greater than 1 year.
2. The Council's own bank if ratings fall below the above minimum criteria.

3. A Building Society which is ranked in the top 20 by asset size. Investments will be restricted to 20% of the overall investment portfolio and:
- a maximum of £5m for a period not exceeding 6 months if the Society is ranked in the top 10 by asset size; or
 - a maximum of £1m and a period not exceeding 3 months if the Society is ranked 11 to 20 by asset size.

3 The Monitoring of Investment Counterparties

- 3.1 The credit rating of counterparties will be monitored regularly. The Council receives credit rating information from the Council Treasury Management advisors on a daily basis, as and when ratings change, and counterparties are checked promptly.

On occasions ratings may be downgraded after the date on which an investment has been made. It would be expected that a minor downgrading would not affect the full receipt of the principal and interest.

- 3.2 Any counterparty failing to meet the minimum criteria will be removed from the list immediately by the Strategic Director of Finance & Customer Services, and new counterparties will be added to the list if and when they meet the minimum criteria.

4 Policy on Environmental, Social and Governance (ESG) considerations

- 4.1 This Council is supportive of the Principles for Responsible Investment (www.unpri.org) and will seek to bring ESG (environmental, social and governance) factors into the decision-making process for investments. Within this, the Council is also appreciative of the statement on ESG in Credit Risk and Ratings which commits signatories to incorporating ESG into credit ratings and analysis in a systemic and transparent way. The Council uses ratings from Fitch, Moody's and Standard & Poor's to support its assessment of suitable counterparties. Each of these rating agencies is a signatory to the ESG in credit risk and ratings statement.
- 4.2 For short term investments with counterparties, this Council utilises the ratings provided by Fitch, Moody's and Standard & Poor's to assess creditworthiness, which do include analysis of ESG factors when assigning ratings. The Council will continue to evaluate additional ESG-related metrics and assessment processes that it could incorporate into its investment process and will update accordingly.

Security, Liquidity and Yield Benchmarking

These benchmarks are targets and so may be exceeded from time to time with any variation reported, with supporting reasons in Mid-Year & Annual Treasury Reports.

1. Security and liquidity

These benchmarks are already intrinsic to the approved treasury strategy through the counterparty selection criteria and some of the prudential indicators, e.g. the maximum funds which may be invested for more than 364 days, the limit on the use of non-specified investments, etc.

1.1 Security

1.1.1 Security is currently evidenced by the application of minimum criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies. Whilst this approach embodies security considerations, benchmarking the levels of risk is more subjective and therefore problematic.

1.1.2 One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. The default rates are little changed from last year.

Credit Rating	1 year	2 years	3 years	4 years	5 years
AAA	0.04%	0.09%	0.17%	0.25%	0.34%
AA	0.02%	0.04%	0.09%	0.16%	0.23%
A	0.05%	0.14%	0.25%	0.37%	0.52%
BBB	0.13%	0.36%	0.63%	0.96%	1.30%

1.1.3 The Council's minimum long term rating criteria (over one year) is "AAA" meaning the average expectation of default for a three year investment in a counterparty with a "AAA" long term rating would be 0.17% of the total investment (e.g. for a £1m investment the average potential loss would be £1,700).

The Council's minimum long term rating criteria (up to one year) is "BBB" and the average expectation of default for such an investment would be 0.13% (e.g. for a £1m investment the average loss would be £1,430).

These are only averages but do act as a benchmark for risk across the investment portfolio.

The Council's maximum security risk benchmark for the estimated maximum portfolio during 2022/23 is 0.060% which means that for every £1m invested the average potential loss would be £600. This position remains largely unchanged from 2021/22 (benchmark was 0.063% or £630).

1.1.4 The Council's Treasury advisers maintain a continuous review of the risk position by the inclusion of the Council's daily investment position within their online model.

1.2 **Liquidity**

1.2.1 This is defined as "having adequate, though not excessive cash resources, borrowing arrangements, overdrafts or standby facilities to enable the Council at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives" (CIPFA Treasury Management Code of Practice). The Council seeks to maintain:

- Bank overdraft – on a day-to-day basis the Council works to an agreed overdraft limit of £100,000 with the Council's bankers. Whilst a short-term increase could be negotiated less expensive short-term borrowing is accessed through the financial markets to remain within the agreed overdraft.
- Liquid, short term deposits of at least £6m available with a week's notice.

1.2.2 The availability of liquidity and the inherent risks arising from the investment periods within the portfolio is monitored using the Weighted Average Life (WAL) of the portfolio. This measures the time period over which half the investment portfolio would have matured and become liquid

A shorter WAL generally represents less risk and in this respect the benchmark to be used for 2023/24 is:

- 0.25 years which means that at any point in time half the investment portfolio would be available within 90 days.

2. **Yield**

These benchmarks are currently widely used to assess investment performance and the Council's local measure of yield is:

- Internal returns above the Sterling Overnight Index Average (SONIA) which has replaced the London Interbank Bid rate (LIBID).