

## **Urgent Item**

HAVANT BOROUGH COUNCIL  
CABINET  
WEDNESDAY, 13TH APRIL, 2022

The attached Item has been agreed as urgent, as there is a need for a decision to be made on this issue before the next scheduled meeting of the Cabinet.

**Agenda No    Item**

7        **Treasury Management Strategy 2022/23 (Pages 1 - 20)**

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NON-EXEMPT

## HAVANT BOROUGH COUNCIL

CABINET

Date: 13 April 2022

### Treasury Management Strategy 2022/23

#### FOR DECISION

Portfolio Holder: Councillor Tony Denton

Key Decision: No

Report Number: HBC/040/2022

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#### 1. Purpose

- 1.1. The Council approved its 2022/23 Treasury Management Strategy as part of the budget process in February 2022. This strategy has now been revised to enable the Council to make better use of its cash balances through building a structured investment portfolio.

#### 2. Recommendation

- 2.1. Cabinet is requested to recommend to full Council to approve the revised Havant Borough Council Treasury Management Strategy for 2022/23 as detailed in Appendix A.

#### 3. Executive Summary

- 3.1. The Treasury Management Strategy, (incorporating the Minimum Revenue Provision and Annual Investment Strategies), is considered, and approved, by Council annually as part of budget setting. In summary, the strategy governs how the council can invest cash balances held, and borrow funding, (if required), in compliance with the CIPFA Prudential and Treasury Management Codes 2017.
- 3.2. Since approving the 2022/23 Strategy in February 2022, the Council has reviewed its historical, and forward looking, cashflow forecasts and has established that it will

hold significant cash balances that could accumulate better financial returns through a more proactive approach to Treasury Management.

- 3.3. To provide greater flexibility in how the Council can invest, there is a need to revise the number of approved investment counter-parties available along with respective cash limits, and time limitations, for each type of investment which is now reflected in the revised policy within this report. All modifications have been made in compliance with recognised Treasury Management good practice within the public sector and have been verified through independent Treasury Management advisors.
- 3.4. Through adopting this revised Strategy, the Council can achieve higher financial returns on the cash balances that it holds. This will generate surplus income over and above the revenue budget that was set for 2022/23.
- 3.5. Following the approval of the Strategy, the Council's Section 151 Officer will commission support from Treasury Management Advisors with a view to setting up a diversified investment portfolio which will aim to balance any cashflow risks with the need to generate financial returns. The resulting outcome from such investments will be fed into the Budget Working Group and back to Council through budget monitoring reporting throughout the 2022/23 financial year.

### **Contact Officer**

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## **Havant Borough Council**

### **Treasury Management Strategy, Minimum Revenue Provision Strategy and Annual Investment Strategy**

#### **1. Background**

- 1.1 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.
- 1.2 The second main function of the treasury management service is the funding of the Council's capital plans. 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.
- 1.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

#### **2. The CIPFA Treasury Management Code of Practice**

- 2.1 The Treasury Management and Investment Strategy has been set in accordance with the CIPFA Prudential and Treasury Management Codes 2017.
- 2.2 Please note that CIPFA published the updated Treasury Management and Prudential Codes on 20th December 2021. CIPFA has stated that there will be a soft introduction of the codes with local authorities not being expected to have to change their current draft TMSS/AIS reports for 2022/23 unless they wish to do that: full implementation would be required for 2023/2024.

- 2.3 The DLUHC is proposing to tighten up regulations around local authorities financing capital expenditure on investments in commercial projects for yield and has already closed access to all PWLB borrowing if such schemes are included in an authority's capital programme. The new CIPFA codes have also adopted a similar set of restrictions to discourage further capital expenditure on commercial investments for yield.
- 2.4 The Council is required to approve a Treasury Management Strategy which establishes the investment and borrowing activities for the Council. The Council's approach to Treasury Management is in accordance with the Cipfa Code of Practice, which requires a three-year strategy to be agreed annually.
- 2.5 The Prudential Code for Capital requires the Council to set Prudential Indicators for Treasury Management and Capital Expenditure. These are linked to the Strategy and are set out at the end of this document.
- 2.6 The Prudential Code expresses concern that commercial activities should be proportional to a local authority's overall resources and that Local authorities should also engage appropriate expertise to ensure that members are well-informed before making such investment decisions.
- 2.7 The Council is also required to make an annual Policy statement on making Minimum Revenue Provision (MRP) for borrowing, together with the consideration of prudent provision in future financial years.
- 2.8 The Council is required to produce an annual Capital strategy which should specifically set out parameters around Investment.
- 2.9 The Authority to approve an investment strategy before the start of each financial year.
- 2.10 The Council delegates responsibility for the monitoring and scrutiny of treasury activity to the Audit and Finance Committee, and delegates responsibility for implementing and administering the strategies, policy, and procedures to the Chief Finance Officer.

### **3. Treasury Management Reporting**

- 3.1 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.
  - 3.1.1 Prudential and treasury indicators and treasury strategy (this report)
  - 3.1.2 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.

- 3.1.3 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.
- 3.2 The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit and Finance Committee.

#### **4. Treasury Management role of the Section 151 Officer**

- 4.1. The S151 (responsible) officer is responsible for:
  - 4.1.1. recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
  - 4.1.2. submitting regular treasury management policy reports
  - 4.1.3. submitting budgets and budget variations
  - 4.1.4. receiving and reviewing management information reports
  - 4.1.5. reviewing the performance of the treasury management function
  - 4.1.6. ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
  - 4.1.7. ensuring the adequacy of internal audit, and liaising with external audit
  - 4.1.8. recommending the appointment of external service providers
  - 4.1.9. ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
  - 4.1.10. ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
  - 4.1.11. ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
  - 4.1.12. ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities
  - 4.1.13. provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans, and financial guarantees

- 4.1.14. ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- 4.1.15. ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- 4.1.16. training and qualifications of members responsible for treasury management approval and scrutiny as well as officers responsible for the day-to-day operations of treasury management.

## 5. Training

- 5.1. The CIPFA Code requires the responsible officer to ensure that all members with responsibility for treasury management receive adequate training in this area. The s151 officer is responsible for this function. The training needs of treasury management officers are periodically reviewed.

## 6. Treasury Management Advisors

- 6.1. The council uses Link Asset Services as its external treasury management advisors
- 6.2. Responsibility for treasury management decisions remains with the council at all times. Although the council will from time to time require the services of specialists, consultants, and advisers in order to acquire access to specialist skills, undue reliance will not be placed upon the services and advice provided.

## 7. Current Treasury Portfolio

- 7.1. The Council's current investment and borrowing position:

	Value as at 31/03/2022		Value as at 31/03/2021	
	£'000	%	£'000	%
<b>Investments</b>				
Nat West	44,814	9	40,432	8
Santander	5,028	91	5,000	92
Total	49,842	100	45,432	100
<b>Borrowing</b>				
PWLB	3,203	100	3,302	100

## **8. Treasury Management Policy 2022/23**

- 8.1. The Council may acquire property sites for strategic, operational and regeneration purposes, any expenditure outside existing capital receipts available may require the Authority to borrow further money. The proposed policy for managing borrowing to finance such expenditure is to borrow short term, or through the Public Works Loan Board (PWLB), monitoring interest rates closely to switch to longer term fixed rate borrowing where analysis of market rates suggests this may be appropriate. If borrowing is required from the PWLB this will be considered against the PWLB rules following the consultation and guidance issued at the end of 2020.
- 8.2. Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021.
- 8.3. The borrowing rates for general fund for a 25-year loan are forecast at 1.9%. However, the rules around PWLB now require confirmation that borrowing is not for the purpose of buying investment assets purely for yield.

## **9. Economic Factors**

- 9.1. Factors that influence the Council's Treasury Management Strategy include the Council's overall level of resources, medium term spending plans and the need to finance the future cost of services. It is also influenced by the state of the economy in general, the outlook for interest rates and the credit risk environment.
- 9.2. The Treasury strategy is linked to the Council's medium term financial plans and are reflected in a net interest cost or yield in the Council's budget. The net cost/yield estimates are updated regularly through the budget setting process and in year forecasting.

## **10. Prudential Indicators**

- 10.1. The Prudential Indicators were established as part of the Local Government Act 2003 through the Prudential Code. The Code requires the Council to produce indicators to demonstrate that capital financing is prudent, sustainable, and affordable. Local authorities must undertake financial planning for periods longer than the three years required for prudential and treasury indicators. The Capital Programme provides the basis for this. The indicators are set out at the end of this document.

## **11. MRP Policy**

11.1. The Council is required to calculate an amount in relation to its borrowing, and charge this amount as Minimum Revenue Provision to its Income & Expenditure Account in respect of borrowing repayment. The Policy is set out at Schedule 3 to the Treasury Management Strategy. The policy is unchanged from the prior year.

## **12. Risk Management**

12.1. Minimisation and mitigation of risk is a key aspect of treasury management activity. Capital expenditure bids are subject to detailed business cases and lending and investment lists are updated during the financial year.

12.2. The Finance Team carry out their duties in accordance with internal controls to ensure any day-to-day investment decisions are made in accordance with the Treasury Management Strategy.

12.3. The Audit and Finance Committee will be responsible for the scrutiny of Treasury Management activity & practices.

## **13. UK Sovereign Rating**

13.1. The UK sovereign rating is currently AA-. This is the lowest acceptable level for investments.

## **14. IFRS16 - Leasing**

14.1. In December 2020, the CIPFA LASAAC Local Authority Accounting Code Board announced the deferral of the implementation of IFRS 16 Leases in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) until the 2022/23 financial year.

14.2. This report has no alterations to deal with bringing currently off-balance sheet leased assets onto the balance sheet: this will, though, be a requirement for closing of the accounts for 2022/23. There may be an impact on Capital Financing Requirement, External debt (Other long-term liabilities), authorised limit and operational boundary, to allow for those leases which were previously off-balance sheet.

## **SCHEDULE 1 – TREASURY MANAGEMENT STRATEGY**

1. The Authority has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code), which requires the Authority to approve a treasury management strategy before the start of each financial year. In addition, the DLUHC issued Investment Guidance in 2018 that requires the Authority to approve an investment strategy before the start of each financial year.
2. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and DLUHC Guidance.
3. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

### **Havant Borough Council's context**

4. Havant Borough Council anticipates that, by 31 March 2022, £47 million will be invested in short term accounts, with no longer term deposits maturing beyond 12 months. There was external borrowing in place as of March 2022 of £3.2 million, which represents the balance of PWLB borrowing for the refurbishment of the Plaza.
5. The underlying need to borrow is measured by the Council's Capital Financing Requirement (CFR). The CFR is anticipated to remain at the current level over the period of the MTFS.

### **Borrowing Strategy**

6. The Council will adopt a flexible approach to borrowing in consultation with Treasury Management advisors, and will keep under review the following borrowing sources:
  - Internal borrowing (borrowing against future revenue budgets)
  - PWLB
  - Other Local Authorities
  - Finance Leasing
  - Brokers for short term financing
7. Exposure to short dated/variable rate borrowing will be reviewed by reference to the difference between variable rate and longer-term borrowing costs. A significant change in this difference will trigger a review of borrowing strategy to determine whether a switch to longer term rates is made or whether exposure to short term rates is maintained.
8. Capital Finance can also be raised through other debt liabilities, including Finance Leases, Sale & Leaseback, or LGA Bonds. Any decision to raise finance through these methods will be subject to appraisal and a separate report to Cabinet.

9. The Council may take advantage of debt rescheduling (the repayment of loans before maturity to allow replacement with new loans) where it is expected to create a cost saving or significantly reduce interest rate risk to the Council.

### **Investment Strategy**

10. The Council's overriding objective in relation to the investment of cash is the security of the capital invested, followed by the liquidity of investment. The Council aims to maximise yield given these parameters.
11. Investments are categorised as specified or non-specified investments. Specified investments are sterling denominated investments maturing under 1 year, and non-specified investments are effectively anything else.
12. The CFO has discretion to make investments outside of the Lending list on the advice of appropriate Treasury Advisors. Institutions may be added or removed from the list if credit ratings improve or deteriorate below the thresholds outlined on the List.
13. Overnight funds are held in an overnight fund provided by the Council's bank. Consideration will be given to Money Market Funds in 2022/23 and 2023/24 as an alternative to the overnight account and may be utilised if the CFO is satisfied with the level of risk.
14. The Council will arrange short term investments through brokers, in order to ensure transactional security and to promote competition to enhance returns.

### **Interest Rate Forecasts**

15. The Council formulates a view on interest rates as part of the budget setting process. This view is formulated on the basis of advice from Treasury Management advisors (Link Asset Services) and Bank of England forecasts. The forecast by the Link Group for Bank Rate now includes four increases, one in quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.
16. There remains uncertainty around the pandemic and the impact and recovery over the next few years will be kept under review.
17. It is important to note that although the base rate has changed, the rates that we can get on our investments are based on the London Interbank Offer rate, which fluctuates depending on other market factors. This explains the differing rates of return of our current investment portfolio.

## Creditworthiness Policy

18. This Council applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- "watches" and "outlooks" from credit rating agencies;
- CDS spreads that may give early warning of changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

19. This modelling approach combines credit ratings, and any assigned Watches and Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will, therefore, use counterparties within the following durational bands

- Blue Banks 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
  
- Yellow 5 years \*
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used unless exempted in table below

## investment approved instruments and limits

Counterparty/Financial Instrument	Colour (and long-term rating where applicable)	Money and/or % limit	Transaction limit	Time limit
<b>DMAF UK Government</b>	n/a	£30m	£30m	3 months
<b>UK Government gilts</b>	UK sovereign rating	20%	£15m	12 months
<b>UK Government Treasury bills</b>	UK sovereign rating	20%	£15m	6 months
<b>Money Market Funds CNAV</b>	AAA	£10m per fund £25m limit		liquid
<b>Money Market Funds LVNAV</b>	AAA			liquid
<b>Money Market Funds VNAV</b>	AAA			liquid
<b>Term Deposits with UK banks</b>	Colour bands	20% per bank	£5m	12 months
<b>Council's banker</b>	Colour bands	100%	unlimited	1 day
<b>Strategic pooled funds*</b>	Price risk analysis and due diligence	£15m	£5m	n/a
<b>Deposits with Local authorities</b>	n/a	£13m per LA	£5m	12 months
<b>Real Estate Investment Trusts**</b>	Price risk analysis and due diligence	£15m	£5m	n/a
<b>Loan to Registered providers</b>	Credit loss analysis and legal due diligence	20%	£5m	n/a

**\*Strategic pooled funds:** Bond, equity, multi-asset and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly

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

20. Sole reliance will not be placed on credit ratings. The Council will continue to monitor reports in the press, market data and information on government support when reviewing credit worthiness.

*21. Long Term borrowing*

Long term borrowing is for capital project. Long term borrowing will be from PWLB, UK Sterling based institutions and to include Local Authorities.

*22. Short Term borrowing*

Short term borrowing is for temporary cash shortfalls. Short term borrowing will be from UK Sterling based institutions, including Local Authorities. Short term borrowing will not exceed 364 days.

**Treasury Limits and Prudential Indicators 2022/23 to 2025/26**

23. The revised CIPFA Code of Practice on Treasury Management and the Prudential Code for Capital Finance, in accordance with Section 3 of the Local Government Act 2003, require the Council to determine and review the level of borrowing that it can afford.

24. The Codes require a number of indicators to be formally set, on a rolling basis, for 2022/23 and the following three years. The Council must have regard to the following when setting these indicators:

- Service Objectives
- Stewardship of Assets
- Value for Money
- Prudence and Sustainability
- Affordability and Practicality

25. The purpose of these indicators is to ensure that total capital investments and, in particular, the effect of these investments on the Council Tax level is 'acceptable'.

26. The Prudential Indicators set for 2022/23 are shown in Schedule 2 below. An explanation is provided for each indicator.

## SCHEDULE 2

### PRUDENTIAL INDICATORS

#### 1. Ratio of Financing Costs to Net Revenue Stream

The budgeted ratio for 2022/23 and estimated ratios for the remainder of the Medium Term Financial Strategy.

	<b>2022/23 Estimate £'000</b>	<b>2023/24 Estimate £'000</b>	<b>2024/25 Estimate £'000</b>	<b>2025/26 Estimate £'000</b>	<b>2026/27 Estimate £'000</b>
Interest Payable	126	122	118	113	108
Interest Receivable	(55)	(55)	(55)	(55)	(55)
Investment Income	(1,858)	(1,858)	(1,858)	(1,858)	(1,858)
MRP (include finance leases)	237	235	234	234	233
	(1,550)	(1,556)	(1,561)	(1,566)	(1,572)
NNDR	5,269	5,375	5,483	5,592	5,703
Council Tax	9,113	9,341	9,576	9,817	10,063
Other non-ringfenced grants*	381	0	0	0	0
New Homes Bonus Grant	474	0	0	0	0
	15,237	14,716	15,059	15,409	15,766
Ratio as a Percentage	(0.10)	(0.11)	(0.10)	(0.10)	(0.10)

The ratio is calculated by comparing the financing cost of all borrowing with the revenue stream through Council Tax, general grants, and Retained Business Rates.

The cost of finance associated with this borrowing is more than covered by the revenues attached to investment income.

## 2. Approved Capital Expenditure

The Capital Expenditure estimates are summarised below. The estimates come from approved schemes in the Capital Budget, which is to be agreed by Council in February 2022.

Capital Expenditure	2022/23 Forecast Estimate	2023/24 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
	£'000	£'000	£'000	£'000	£'000
Capital Expenditure	3,657	6,821	3,928	1,628	1,628
Capital Financing	3,657	6,821	3,928	1,628	1,628
Borrowing Requirement	-	-	-	-	-

## 3. Maturity Structure of Fixed Rate Borrowing

The below table demonstrates the value of principal repayments repayable.

	31/03/2021 Actual
	£'000
Under 12 months	101
12 months to 2 years	104
2 years to 5 years	341
5 years to 10 years	668
Over 10 years	2,037

#### 4. The Capital Financing Requirement

The Capital Financing Requirement (CFR) is used to assist in deciding whether capital expenditure is affordable, by measuring the underlying need to borrow. The indicator is calculated by matching fixed assets and projected capital expenditure to capital resources applied. The difference between the two, if positive, represents total capital expenditure financed by borrowing. The definition of unfinanced capital expenditure includes finance leases and PFI arrangements. Long Term borrowing should not, except in the short term, exceed the CFR.

	<b>2022/23 Estimate £'000</b>	<b>2023/24 Estimate £'000</b>	<b>2024/25 Estimate £'000</b>	<b>2025/26 Estimate £'000</b>	<b>2026/27 Estimate £'000</b>
Opening CFR	13,131	12,894	12,659	12,425	12,191
Unfinanced Capital Expenditure	-	-	-	-	-
MRP	(237)	(235)	(234)	(234)	(233)
Closing CFR	12,894	12,659	12,425	12,191	11,958
Long Term Borrowing	3,047	2,938	2,824	2,705	2,583
Over/(Under) Borrowing	(9,847)	(9,721)	(9,601)	(9,486)	(9,375)

## TREASURY MANAGEMENT INDICATORS

### 1. Authorised Limit for External Debt

To ensure good cashflow management, there is occasionally a need to borrow in the short term. Authority for any such borrowing is delegated to the S151 Officer. There are some circumstances where long-term borrowing to support the Capital Programme is required to finance major capital projects or investment property purchases. The long-term limits set in this report are based on the projected Capital Financing requirement over the period of the Medium-Term strategy and will be the maximum permissible amount of total borrowing.

	2022/23	2023/24	2024/25	2025/26	2026/27
	£'000	£'000	£'000	£'000	£'000
Borrowing Authorised Limit	145,000	145,000	145,000	145,000	145,000
Other Long-Term Liabilities	748	748	748	748	748

### 2. Operational Boundary for External Debt

The purpose of this indicator is to serve as a warning that the authorised limit for external debt is close. It has been set at £2 million below the authorised limit.

	2022/23	2023/24	2024/25	2025/26	2026/27
	£'000	£'000	£'000	£'000	£'000
Borrowing Operational Limit (Up to 1 Yr)	143,000	143,000	143,000	143,000	143,000
Other Long Term Liabilities	748	748	748	748	748

### 3. Interest Rate Exposures

Setting upper limits for variable and fixed interest rates provides a range in which the authority manages exposure to fixed and variable interest rates. Although fixed rates bring security to long term returns, variable rate investments can give the flexibility to maximise returns when interest rates are expected to increase. The indicators set will allow this flexibility.

#### Upper Limit for Fixed Rate Exposure

2022/23 Budget	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
100%	100%	100%	100%	100%

#### Upper Limit for Variable Rate Exposure

<b>2022/23 Budget</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/267 Estimate</b>
100%	100%	100%	100%	100%

#### **4. Total Principal Sums invested**

The Prudential Code requires authorities to establish long term limits on principal sums invested in long term investments. The purpose of this indicator is to ensure that a good maturity profile of investments is maintained.

<b>Term of Investment</b>	<b>Total Value £M</b>
Within 1 Years	unlimited
Between 1 and 2 Years	0
2+ Years	15

## **SCHEDULE 3**

### **Minimum Revenue Provision Policy 2020/21**

#### **MRP on Finance Leased assets prior to 2017**

The Council holds assets which are financed through a Finance Lease, as defined by International Financial Reporting standards. Where assets are financed in this way, MRP is charged over the life of the asset or, where this is not practical, over the life of the lease.

#### **Prudential Code debt incurred in the year 2019/20 and onwards in relation to income generating property acquisitions**

The Council will calculate the amounts for MRP for 2019/20 by applying an annuity formula incorporating a PWLB long-term borrowing rate, commensurate in duration to the estimated life of the item purchased/built to the apportionment of the value attributed to each financial year's opening CFR in relation to such income generating capital expenditure where the item purchased/built is expected to have a life of up to 50 years or more.

#### **Prudential Code debt incurred in the year 2017 onwards in relation to Leisure Centres and other operational assets**

The Council will apply the following methodology for MRP in relation to the Leisure Centre build:

- Annuity method (Asset life) - Annuity method, which works on the basis of a mortgage type repayment extended over the lifecycle of the asset. MRP Commencement on operational properties will be postponed until the financial year after asset becomes operational.
- Borrowing where timing differences arise between spend and future capital receipts; MRP will be charged in the year in which capital receipts are received
- Internal Borrowing: MRP repayment on internal borrowing will be offset against savings or income generated in the Income & Expenditure Account as a direct result of the investment. Repayment schedules will be confirmed prior to internal borrowing commencing.

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