Havant Borough Council

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

1. The CIPFA Treasury Management Code of Practice

1.1 The Treasury Management and Investment Strategy has been set in accordance with the CIPFA Prudential and Treasury Management Codes 2017. The code was updated to respond to an increase in the level of Commercial investment by Local Authorities and concerns raised that Councils should define risk appetite and assess the risks and rewards of significant investments on a long-term basis, rather than the three to five-year time frames that were typically used for decision making.

1.2 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.

1.3 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.

1.4 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.

1.5 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.

1.6 The Council is required to produce an annual Capital strategy which should specifically set out parameters around Investment.

1.7 The Council delegates responsibility for the monitoring and scrutiny of treasury activity to the Audit Committee, and delegates responsibility for implementing and administering the strategies, policy and procedures to the Chief Finance Officer.

2. Treasury Management Policy 2021/22

2.1 The Council may acquire property sites for strategic, operational and investment 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 in order 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 recent consultation and guidance issued at the end of 2020.

2.3 Forecasts are that the Bank of England base rate is to remain at 0.1% for the next three years and it is likely that borrowing rates will also remain low, with small gradual increases over the next three years. Investment rates are likely to be reflective of bank rates and therefore will remain at ultra-low levels. The global pandemic is the major factor which will impact on the kind of recovery that is achieved.

2.4 Following the PWLB consultation and issuance of guidance in late 2020 borrowing rates for general fund have been reduced by 1% with a 25 year loan at 1.70%. However, the rules around PWLB now require confirmation that borrowing is not for the purpose of buying investment assets purely for yield.

Economic Factors

2.4 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.

2.5 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.

2.6 The Council's investment strategy gives scope to invest in approved instruments outlined in the approved lending/borrowing list (Schedule 3), but investments in banks and building societies are limited to high quality counterparties only. The outcome of Brexit could lead to changes in the rating assessments of UK financial institutions and it may be prudent for the Council to revisit the approved lending/borrowing list should strategic investment decisions change

Prudential Indicators

2.7 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.

MRP Policy

2.8 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 4 to the Treasury Management Strategy.

Officer Approval Limits

2.9 The power to approve the acquisition of properties is delegated to the Cabinet in consultation with the Section 151 Officer.

Risk Management

2.10 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.

2.11 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.

2.12 The CFO reports on Treasury activity as part of the monthly financial monitoring.

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

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 Department of Communities and Local Government (CLG) issued revised Guidance on the Local Authority Investments in February 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 CLG Guidance. The Authority is proposing to borrow substantial sums of money and, as a result, may be exposed to financial risks arising from changing interest rates.

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 2021, £43m will be invested in short term accounts, with no longer term deposits maturing beyond 12 months. There was external borrowing in place as at January 2021 of £3.5m, 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 2021/22 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. The approved brokers are:

    - ICAP Europe Ltd
    - Prebon Marshall Yamane UK Ltd
    - Tradition UK
    - RP Martin

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 current view is that interest rates are likely to remain at the current level of 0.1% of the next three years. There remains uncertainty around the pandemic and the impact and recovery over the next few years will be kept under review.

16. 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

17. The Council monitors the creditworthiness of the counterparties used. The Council's lending list contains only counterparties of high credit quality. Credit quality is assessed through the size of the asset base of the counterparty, and the credit ratings awarded by independent credit rating agencies such as Fitch.

18. The asset base of counterparties is monitored on an annual basis when the Statement of Accounts for each counterparty is issued. Credit ratings are regularly monitored and are verified prior to investments being made.

19. Credit ratings of counterparties are available from credit agencies (Fitch, Standard & Poor, and Moody's). Advice on the credit worthiness of counterparties is also obtained from the Council's Treasury advisors.

20. If a counterparty on the current lending list is found to be of insufficient credit quality, the Council will not engage with that counterparty until it is satisfied that credit quality has improved. Treasury officers continue to monitor counterparties that are not currently on the lending list, and will add counterparties of high credit quality to the lending list in consultation with the Portfolio Holder for Finance.

21. The Council has not invested outside the United Kingdom since 2006, and currently no foreign counterparties are contained within the list (with the exception of Santander UK Plc, which is a UK bank under Spanish ownership). Foreign counterparties are monitored, and if sufficient credit quality is proved, may be added to the list in consultation with the Portfolio Holder for Finance.

22. 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. All counterparties on the long-term lending list are also covered by the government's Credit Guarantee Scheme.

23. All Long Term Investments will be carried out in consultation with the Finance Portfolio Holder and the S151 Officer.

Treasury Limits and Prudential Indicators 2021/22 to 2024/25

24. 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.

25. The Codes require a number of indicators to be formally set, on a rolling basis, for 2021/22 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

26. 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’.

27. The Prudential Indicators set for 2021/22 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 ration for 2020/21, budgeted ration for 2021/22 and estimated rations for the remainder of the Medium Term Financial Strategy.

	2020/21 Budget	2021/22 Budget	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
	£'000	£'000	£'000	£'000	£'000
Interest Payable	134	130	126	122	121
Interest Receivable	(55)	(55)	(55)	(55)	(55)
Investment Income	(1846)	(1846)	(1882)	(1919)	(1,957)
MRP (include finance leases)	240	244	247	251	253
	(1,536)	(1,527)	(1,564)	(1,601)	(1,638)
RSG/NNDR	5,605	4,013	5,269	5,375	5,482
Collection Fund	8,642	8,889	9,113	9,341	9,576
Other non-ringfenced grants	0	943	0	0	0
New Homes Bonus Grant	902	347	91	0	0
	15,149	14,192	14,473	14,716	15,058
Ratio as a Percentage	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)

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 2021.

Capital Expenditure	2020/21 Forecast Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'001
Capital Expenditure	3,027	4,171	1,825	3,861	2,753
Capital Financing	3,027	4,171	1,825	3,861	2,753
Borrowing Requirement	-	-	-	-	-

3. Maturity Structure of Fixed Rate Borrowing

The below table demonstrates the value of principal repayments repayable.

	31/03/2020 Actual
	£'000
Under 12 months	97
12 months to 2 years	206
2 years to 5 years	342
5 years to 10 years	668
Over 10 years	2,031

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.

Capital Financing Requirement (CFR)	2020/21 Budget	2021/22 Budget	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Opening CFR	13,858	13,858	13,858	13,858	13,858
Unfinanced Capital	-	-	-	-	-

Expenditure					
MRP	(241)	(244)	(247)	(251)	(253)
Closing CFR	13,617	13,614	13,611	13,607	13,605
Long Term Borrowing	8,753	8,652	8,547	8,438	8,329
Over/(Under) Borrowing	(4,864)	(4,962)	(5,064)	(5,169)	(5,276)

5. 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. Other Long-Term Liabilities are deposits held by the Council and relate to the Woolmer industrial estate.

	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Borrowing Authorised Limit	115,000	145,000	145,000	145,000	145,000
Other Long Term Liabilities	748	748	748	748	748

TREASURY MANAGEMENT INDICATORS

1. 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 £2M below the authorised limit.

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Borrowing Operational Limit (Up to 1 Yr)	113,000	143,000	143,000	143,000	143,000
Other Long Term Liabilities	748	748	748	748	748

2. 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

2020/21 Budget	2021/22 Budget	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
100%	100%	100%	100%	100%

Upper Limit for Variable Rate Exposure

2020/21 Budget	2021/22 Budget	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
100%	100%	100%	100%	100%

3. 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.

Term of Investment	Total Value £M
Within 1 Years	£43
Between 1 and 2 Years	0
2+ Years	0

Schedule 3 - Borrowing and Lending List 2021/22

Fitch Ratings

Short Term: Investments will only be made in institutions which, if rated F3 or above. Building Societies not rated are included on the basis of asset size, of a minimum of £500M

Long Term: Investments will only be made in institutions which, if rated are rated at BBB+ or above. Building Societies not rated are included on the basis of asset size, of a minimum of £1BN.

Long Term investments maximum investment not to exceed £5M for a maximum term of 5 years; all investments to be carried out in consultation with the Portfolio Holder for Finance

Clearing Banks & Subsidiaries	**Fitch Rating**	
	ST	**LT**
Barclays Bank	F1	A+
HSBC	F1+	AA-
Lloyds Bank	F1	A+
Royal Bank of Scotland	F1	A+
Nat West Bank	F1	A+
Other UK Banks		
Santander UK plc	F1	A+
Close Brothers Ltd	F1	A
Abbey National Treasury Services Plc	F1	A
Goldman Sachs Group	F1	A
Local Authorities		
Central Government		

Building Societies (Assets over £1bn)	**Rating by asset size**	**Fitch Rating**	
		ST	**LT**
Nationwide	1	F1	A
Yorkshire	2	F1	A-
Coventry	3	F1	A
Skipton	4	F1	A-
Leeds	5	F1	A-
Principality	6	F2	BBB+
West Bromwich	7	-	-
Newcastle	8	B	BB+
Nottingham	9	-	-
Progressive	10	-	-
Cumberland	11	-	-
National Counties	12	-	-
Saffron	13	-	-
Cambridge	14	-	-

Short term lending list

For investments:

- Maximum investment: £3,000,000
- Maximum duration: 364 days.

Clearing Banks & Subsidiaries	**Fitch Rating**	
	ST	**LT**
Barclays Bank	F1	A+
HSBC	F1+	AA-
HSBC Private Bank	-	-
Lloyds Bank	F1	A+
Royal Bank of Scotland	F1	A+
Nat West Bank	F1	A+
Other UK Banks		
Santander UK plc	F1	A+
Clydesdale Bank	F2	BBB+
Close Brothers Ltd	F1	A
Abbey National Treasury Services Plc	F1	A
Local Authorities		
Central Government		

Building Societies (Assets over £500m)	**Rating by asset size**	**Fitch Rating**	
		ST	**LT**
Nationwide	1	F1	A
Yorkshire	2	F1	A-
Coventry	3	F1	A
Skipton	4	F1	A-
Leeds	5	F1	A-
Principality	6	F2	BBB+
West Bromwich	7	-	-
Newcastle	8	B	BB+
Nottingham	9	-	-
Progressive	10	-	-
Cumberland	11	-	-
National Counties	12	-	-
Saffron	13	-	-
Cambridge	14	-	-
Monmouthshire	15	-	-
Leek United	16	-	-
Furness	17	-	-
Newbury	18	-	-
Hinckley and Rugby	19	-	-
Ipswich	20	-	-
Darlington	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.

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.

Schedule 4 – Minimum Revenue Provision Policy 2021/22

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 in relation to income generating property acquisitions

The Council will calculate the amounts for MRP 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.