

## 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.
- 1.2 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 23/24.
- 1.3 The Department for Levelling Up, Homes and Communities (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.
- 1.4 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.
- 1.5 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.
- 1.6 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.
- 1.7 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.
- 1.8 The Council is required to produce an annual Capital strategy which should specifically set out parameters around Investment.

- 1.9 The Authority to approve an investment strategy before the start of each financial year.
- 1.10 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 2022/23**

- 2.1 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.
- 2.2 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.
- 2.4 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.

### **Economic Factors**

- 2.5 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.
- 2.6 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.
- 2.7 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.

### **Prudential Indicators**

- 2.8 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**

- 2.9 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. The policy is unchanged from the prior year.

### **Officer Approval Limits**

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

### **Risk Management**

- 2.11 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.
- 2.12 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.
- 2.13 The Audit and Finance Committee will be responsible for the scrutiny of Treasury Management activity & practices.

## **3 IFRS16 - LEASING**

- 3.1 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.
- 3.2 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, £44 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 January 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 the authority 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 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days

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

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

### *22. 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.

### *23. 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

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 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

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 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</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>Budget</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Interest Payable	126	122	118	113	108
Interest Receivable	(55)	(55)	(55)	(55)	(55)
Net 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	5,628	5,854	5,992	6,132	6,276
Collection Fund	9,198	9,398	9,634	9,876	10,124
Other non-ringfenced grants	381	0	0	0	0
New Homes Bonus Grant	474	0	0	0	0
	15,651	15,252	15,626	16,008	16,399
Ratio	(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 2022.

<b>Capital Expenditure</b>	<b>2022/23 Forecast £'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>
Capital Expenditure	3,207	6,821	3,928	1,628	1,628
Capital Financing	3,207	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.

	<b>31/03/2021 Actual £'000</b>
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>Capital Financing Requirement (CFR)</b>	<b>2022/23 Budget</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>
Opening CFR	13,131	12,894	12,659	12,424	12,191
Unfinanced Capital Expenditure	-	-	-	-	-
MRP	(237)	(235)	(234)	(234)	(233)
Closing CFR	12,894	12,659	12,424	12,191	11,958
Long Term Borrowing	3,047	2,938	2,824	2,705	2,583
Over/(Under) Borrowing	(9,847)	(9,721)	(9,600)	(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	10
Between 1 and 2 Years	0
2+ Years	0

#### **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.

## SCHEDULE 3 – BORROWING AND LENDING LIST 2022-23

### Fitch Ratings

**Short Term:** Investments will only be made in institutions which, if rated, are 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 that are 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.

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	-	-

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+
<b>Other UK Banks</b>		
Santander UK plc	F1	A+
Close Brothers Ltd	F1	A
Abbey National Treasury Services Plc	F1	A
Goldman Sachs Group	F1	A
<b>Local Authorities</b>		
<b>Central Government</b>		