



# **Treasury and Investment Strategy 2023/24**

**Minimum Revenue Provision Policy  
Statement and Annual Investment  
Strategy**

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# Contents

»»	Foreword .....	1
»»	Key Considerations .....	2
»»	Capital Prudential Indicators 2023/24 – 2026/27 .....	5
»»	Borrowing .....	8
»»	Annual Investment Strategy .....	12
»»	Appendices .....	20



# Foreword

## Councillor Jeff Brooks, Lead Member for Budget and Income Generation



It is my pleasure, as the Lead Member for Budget and Income Generation, to introduce the Authority's Treasury Strategy for 2023/24. The Authority has always adopted a prudent approach to both its investment and borrowing strategies with the aim of providing the Authority with financial headroom in times of volatility. Indeed, this approach has enabled the Authority to plan and deliver significant capital projects over the last five years despite growing uncertainty around income streams and the broader macro-economic environment.

The 2023/24 Treasury Strategy builds on these foundations by specifying an additional prudential indicator to ensure long-term financial sustainability. In the past, we stated financing costs as a percentage of the revenue budget, but we did not indicate what the upper limit of those costs should be. Now we have set out a limit as to what this percentage should be and, like all of our prudential indicators, this will be reviewed and approved on an annual basis. This not only provides greater transparency within our Treasury Policy but will also prove useful when we consider how to phase capital projects within the Strategic Asset Investment Framework.

The Authority's investment strategy has always been to firstly ensure the security of the sum invested, then consider portfolio liquidity and only after that to consider the yield generated. In other words the Authority has sought to achieve the optimum return on its investments commensurate with the Authority's risk appetite. Whilst there will be no change to this policy, we will for the first time be adding an ethical dimension to our investing strategy.

Although investment guidance, both statutory and from CIPFA, makes clear that all investing must adopt the principles of security, liquidity and yield, we will now do this within the ethical framework of Freedom House's report which rates people's access to political rights and civil liberties in 210 countries and territories. We will therefore add an additional criterion to those of security, liquidity and yield, namely, that we will only invest in counterparties that are based in countries that are rated as "free" by Freedom House. The countries that currently meet all of our investing criteria are set out in the appendices to this Treasury Strategy.

We will always put sound management of our financial resources at the heart of our treasury management and I am very pleased to support this strategy.





# Key Considerations

## Background

The Authority 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 Authority's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer term cash flow planning, to ensure that the Authority 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 Authority risk or cost objectives.

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 day-to-day revenue or expenditure 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.

CIPFA defines treasury management 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."*

This Authority has not engaged in any commercial investments and has no non-treasury investments.

## Reporting Requirements

### Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to 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; and
- The implications for future financial sustainability.

The aim of this capital strategy is to ensure that all elected members on the Authority fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. The capital strategy is being reported separately in the form of the Strategic Asset Investment Framework.

### Treasury Management reporting

The Authority is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

***Prudential and treasury indicators and treasury strategy*** (this report) - The first, and most important report covers:

- The capital plans (including prudential indicators);
- A minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- The treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- An investment strategy (the parameters on how investments are to be managed).

***A mid-year treasury management report*** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

***An annual treasury report*** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

### Scrutiny

The areas above are required to be adequately scrutinised before being recommended to the Authority. This role is undertaken by the Audit and Governance Committee, who on a quarterly basis review capital expenditure and interest estimates. Additionally, on an annual basis they review the underlying assumptions which support the annual treasury strategy and strategic asset investment framework.

Quarterly reports – In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June / end of December) is also required. However, these additional reports do not have to be reported to Full Authority but do require to be adequately scrutinised. This role is undertaken by the Audit and Governance Committee. (The reports, specifically, should comprise updated Treasury/Prudential Indicators.)



## Treasury Management Strategy for 2023/24

The strategy for 2023/24 covers two main areas:

### Capital issues

- The capital expenditure plans and the associated prudential indicators;
- The minimum revenue provision (MRP) policy.

### Treasury management issues

- The current treasury position;
- Treasury indicators which limit the treasury risk and activities of the Authority;
- Prospects for interest rates;
- The borrowing strategy;
- Policy on borrowing in advance of need;
- Debt rescheduling;
- The investment strategy;
- Creditworthiness policy; and
- Policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, DLUHC Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

## Training

The training needs of treasury management officers are periodically reviewed.

## Treasury Management Consultants

The Authority uses Link Group, Link Treasury Services Limited as its external treasury management advisors.

The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.



## Capital Prudential Indicators 2023/24 – 2026/27

The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

### Capital Expenditure

This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts, details of which appear elsewhere on the agenda in the Strategic Asset Investment Framework:

Capital Expenditure	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Total	£3.522m	£2.231m	£4.672m	£3.730m	£4.457m	£3.107m

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Capital receipts	£1.317m	£0.408m	£2.876m	£1.923m	£0.870m	£0m
Revenue	£0.615m	£1.823m	£1.796m	£1.807m	£1.805m	£1.809m
Net financing need for the year	£1.590m	£0m	£0m	£0m	£1.782m	£1.298m

### The Authority's borrowing need (CFR)

The second prudential indicator is the Authority's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Authority's indebtedness and so it's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge, which broadly reduces the borrowing need in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The Authority is asked to approve the CFR projections below:



	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
<b>Total CFR</b>	£11.470m	£10.769m	£10.085m	£9.435m	£10.575m	£11.192m
<b>Movement in CFR</b>	£0.970m	(£0.701m)	(£0.684m)	(£0.650m)	£1.140m	£0.617m
<b>Movement in CFR represented by:</b>						
Net financing need for the year (above)	£1.590m	£0m	£0m	£0m	£1.782m	£1.298m
Less MRP / VRP and other financing movements	(£0.620m)	(£0.701m)	(£0.684m)	(£0.650m)	(£0.642m)	(£0.681m)
<b>Movement in CFR</b>	£0.970m	(£0.701m)	(£0.684m)	(£0.650m)	£1.140m	£0.617m

The decrease in CFR over the next three financial years reflects the usage of the capital receipts received from the disposal of sites following their release from operational requirements. Once these have been utilised in 2025/26, when the Authority is also due to repay £394,000 of historical borrowing to central Government, there is an expected borrowing requirement to fund the planned capital expenditure.

## Liability Benchmark

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

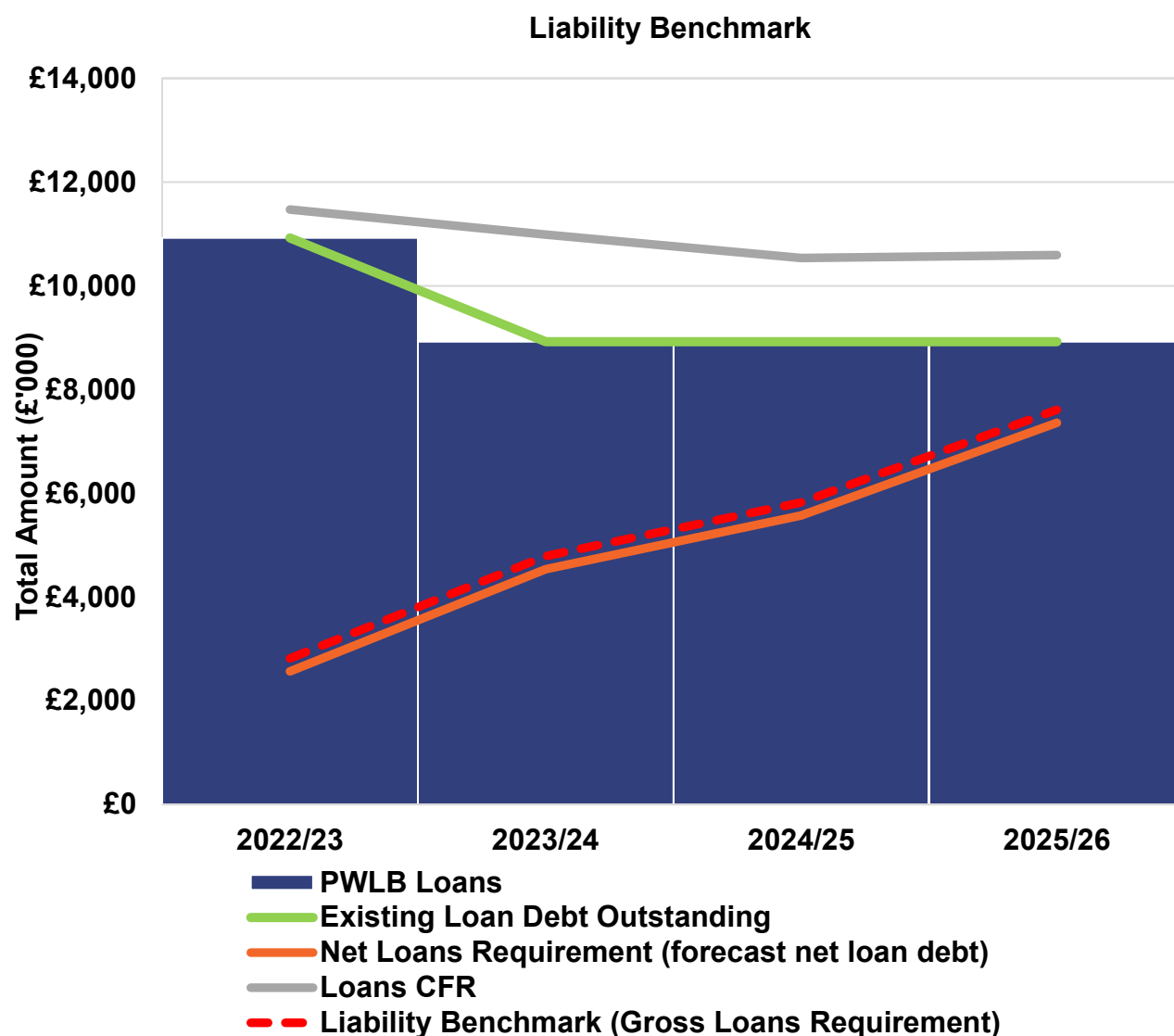
There are four components to the LB: -

1. **Existing loan debt outstanding:** the Authority'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.





The liability benchmark uses the above information to plan the future borrowing requirements of the Authority.



The liability benchmark has reduced significantly during 2022/23 due to the capital receipt received from the disposal of Dee Road. This will steadily increase over the forecast period, reflecting the planned usage of these funds to support the Strategic Asset Investment Framework. The forecast loans Capital Financing Requirement (CFR) is also shown, and the Authority's current under-borrowed position.



## Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources	2020/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Fund balances / reserves	£2.267m	£2.267m	£2.267m	£2.267m	£2.267m	£2.267m
Earmarked Reserves	£7.644m	£6.230m	£5.452m	£4.932m	£4.376m	£4.104m
Capital receipts	£0m	£5.669m	£2.793m	£0.870m	£0m	£0m
<b>Total core funds</b>	<b>£9.911m</b>	<b>£14.166m</b>	<b>£10.512m</b>	<b>£8.069m</b>	<b>£6.643m</b>	<b>£6.371m</b>
(Under)/over borrowing	(£0.548m)	(£1.847m)	(£1.163m)	(£0.513m)	(£0.047m)	(£0.164m)
<b>Expected investments</b>	<b>£9.363m</b>	<b>£12.319m</b>	<b>£9.349m</b>	<b>£7.556m</b>	<b>£6.596m</b>	<b>£6.207m</b>

## Borrowing

The capital expenditure plans set out on page 7 provide details of the service activity of the Authority. The treasury management function ensures that the Authority's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Authority's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

## Current portfolio position

The Authority's treasury portfolio position at 31 March 2022, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.



	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Debt at 1 April	£7.092m	£10.922m	£8.922m	£8.922m	£8.922m	£10.528m
Expected change in Debt	£3.830m	(£2.000m)	£0m	£0m	£1.606m	£0.500m
Actual gross debt at 31 March	<b>£10.922m</b>	<b>£8.922m</b>	<b>£8.922m</b>	<b>£8.922m</b>	<b>£10.528m</b>	<b>£11.028m</b>
The Capital Financing Requirement	<b>£11.470m</b>	<b>£10.769m</b>	<b>£10.085m</b>	<b>£9.435m</b>	<b>£10.575m</b>	<b>£11.192m</b>
Under / (over) borrowing	<b>£0.548m</b>	<b>£1.847m</b>	<b>£1.163m</b>	<b>£0.513m</b>	<b>£0.047m</b>	<b>£0.164m</b>

Within the prudential indicators there are a number of key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023/2024 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Head of Finance and Procurement reports that the Authority complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

## Treasury Indicators: limits to borrowing activity

**The operational boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt. The change in other long term liabilities is due to a technical change in lease accounting rather than an increase in debt.

Operational boundary	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Debt	£8.922m	£8.922m	£8.922m	£10.528m	£11.028m
Other long term liabilities	£0.100m	£0.100m	£5.000m	£5.000m	£5.000m
<b>Total</b>	<b>£9.022m</b>	<b>£9.022m</b>	<b>£13.922m</b>	<b>£15.528m</b>	<b>£16.028m</b>



**The authorised limit for external debt.** A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Authority. 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.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all Authorities' plans, or those of a specific Authority, although this power has not yet been exercised.
2. The Authority is asked to approve the following authorised limit:

Authorised limit	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Debt	£13.922m	£13.922m	£13.922m	£15.528m	£16.028m
Other long term liabilities	£0.500m	£0.500m	£5.000m	£5.000m	£5.000m
<b>Total</b>	<b>£14.422m</b>	<b>£14.422m</b>	<b>£18.922m</b>	<b>£20.528m</b>	<b>£21.028m</b>

## Prospects for interest rates

The Authority has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. The following table gives their view.

	Mar 23	Jun 23	Sep 23	Dec 23	Mar 24	Jun 24	Sep 24	Dec 24	Mar 25	Jun 25	Sep 25	Dec 25
Bank Rate	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 Month ave earnings	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 Month ave earnings	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 Month ave earnings	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 Yr PWLB rate	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 Yr PWLB rate	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 Yr PWLB rate	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 Yr PWLB rate	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

The central forecast for interest rates reflects a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. Bank Rate was increased to 4% on 2 February 2023, and is currently expected to reach a peak of 4.5% in Q1 2023/24.



Further down the road, it is anticipated that the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022. Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

### **Borrowing Strategy**

The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate increases over the first half of 2023.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Head of Finance and Procurement will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- If it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.
- If it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

### **Policy on borrowing in advance of need**

The Authority will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds.

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

### **Debt rescheduling**

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a difference between premature redemption rates and new borrowing rates.





# Annual Investment Strategy

The Authority'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 Authority's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Authority's risk appetite.

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider "laddering" investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. The Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. The Authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in the appendices to this document under the categories of 'specified' and 'non-specified' investments.



**Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.

**Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified investments limit.** The Authority has determined that it will limit the maximum total exposure to non-specified investments to £2m.
6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table on page 17.
7. **Transaction limits** are set for each type of investment detailed in the appendices.
8. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see page 19).
9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** and that are rated “free” by Freedom House, (see page 18).
10. The Authority has engaged **external consultants**, (see page 6), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of the Authority in the context of the expected level of cash balances and need for liquidity throughout the year.
11. All investments will be denominated in **sterling**.
12. As a result of the change in accounting standards for 2022/23 under IFRS 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023. At the current juncture it has not been determined whether a further extension to the over-ride will be agreed by Government.

However, the Authority will also pursue **value for money** in treasury management and will monitor the yield from investment income. Regular monitoring of investment performance will be carried out during the year.



## Creditworthiness policy

The Authority applies the creditworthiness service provided by Link Asset Services. 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:

- Credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings; and
- Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit Watches and credit 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 Authority to determine the suggested duration for investments. The Authority will therefore use counterparties within the following durational bands:

- 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

The Link creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Authority use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.



All credit ratings will be monitored on an ongoing basis. The Authority is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- If a downgrade results in the counterparty / investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of credit ratings the Authority will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Authority will also use market data and market information, information on any external support for banks to help support its decision making process.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long term rating where applicable)	Money and/or % Limit	Time Limit
Banks *	Yellow	100%	5yrs
Banks	Purple	100%	2 yrs
Banks	Orange	100%	1 yr
Banks – part nationalised	Blue	100%	1 yr
Banks	Red	100%	6 mths
Banks	Green	100%	100 days
Banks	No colour	Not to be used	
Limit 3 category – Authority's banker - Barclays	Red	100%	1 day
Other institutions limit	-	£2m	3yrs
DMADF	UK sovereign Rating	100%	6 months
Local authorities	n/a	100%	12 months
Housing associations	Colour bands	100%	As per colour band
	Fund rating	Money and/or % Limit	Time Limit
Money market funds CNAV	AAA	100%	Liquid
Money market funds LVNAV	AAA	100%	Liquid



Money market funds VNAV	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	Dark pink / AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.50	Light pink / AAA	100%	Liquid

## Other Limits

Due care will be taken to consider the exposure of the Authority's total investment portfolio to non-specified investments, countries, groups and sectors.

- a) **Non-specified investment limit.** The Authority has determined that it will limit the maximum total exposure to non-specified investments to £2m.
- b) **Country limit.** The Authority has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of AA-** from Fitch (*or equivalent*). In addition, the Authority will only use counterparties that are rated "free" by Freedom House. The list of countries that qualify using these credit criteria as at the date of this report are shown on page 23. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.
- c) **Other limits.** In addition:
  - No more than £4m will be placed with any non-UK country at any time;
  - Limits in place above will apply to a group of companies;
  - Sector limits will be monitored regularly for appropriateness.

## Investment strategy

### In-house funds

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate peaking in the first half of 2023 and possibly reducing as early as the latter part of 2023 so an agile investment strategy would be appropriate to optimise returns.

Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.





### Investment returns expectations

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Average earnings in each year:

2022/23 (remainder)	4.00%
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6-10	2.80%
Years 10+	2.80%

For its cash flow generated balances, the Authority will seek to utilise its instant access and notice accounts, Money Market Funds and short-dated deposits in order to benefit from the compounding of interest.

### Investment treasury indicator and limit

Total principal funds invested for greater than 365 days. These limits are set with regard to the Authority's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Authority is asked to approve the treasury indicator and limit:-

	2023/24	2024/25	2025/26	2026/27
Maximum principal sums invested for longer than 365 days	£2m	£2m	£2m	£2m

### End of year investment report

At the end of the financial year, the Authority will report on its investment activity as part of its Annual Treasury Report.



## The Prudential and Treasury Indicators 2023/24 – 2026/27 and MRP statement

### Minimum revenue provision (MRP) policy statement

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).

The Authority is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance (2018) gives four ready-made options for calculating MRP, but the Authority can use any other reasonable basis that it can justify as prudent.

The MRP policy statement requires full Authority approval in advance of each financial year. The Authority is recommended to approve the following MRP Statement.

For capital expenditure incurred before 1 April 2008 which forms part of supported capital expenditure, the MRP policy will be:

- **4% reducing balance (CFR method)** – MRP will be calculated as 4% of the opening GF CFR balance;

From 1 April 2008 for all unsupported borrowing the MRP policy will be:

- **Asset life method (straight line)** – MRP will be based on the estimated life of the assets;

Capital expenditure incurred during 2022/23 will not be subject to an MRP charge until 2023/24, or in the year after the asset becomes operational.

**MRP Overpayments** – Under the MRP guidance, any charges made in excess of the statutory MRP can be made, known as voluntary revenue provision (VRP).

VRP can be reclaimed in later years if deemed necessary or prudent. In order for these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

Cumulative VRP payments made up until the 31 March 2022 were £1,346,000.

### Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital



investment plans. These provide an indication of the impact of the capital investment plans on the Authority's overall finances. The Authority is asked to approve the following indicator:

### 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.

The estimates of financing costs include current commitments and the proposals in this budget report.

	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Ratio (%)	2.35%	2.24%	1.95%	1.83%	1.89%	1.96%

The maximum ratio of financing costs to net revenue stream is set out below.

	2023/24	2024/25	2025/26	2026/27
Ratio (%)	2.5%	2.5%	2.5%	2.5%



## Appendices

### Credit and counterparty risk management

**SPECIFIED INVESTMENTS:** All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable.

**NON-SPECIFIED INVESTMENTS:** These are any investments which do not meet the specified investment criteria. A maximum of £2m will be held in aggregate in non-specified investments.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are overleaf:



	Minimum credit criteria / colour band	** Max % of total investments/ £ limit per institution	Max. maturity period
<b>DMADF – UK Government</b>	yellow	<b>100%</b>	<b>6 months (max. is set by the DMO)</b>
UK gilts	yellow	£2m	5 years
UK Treasury bills	yellow	£2m	364 days (max. is set by the DMO)
Bonds issued by multilateral development banks	Yellow	£2m	5 years
Money Market Funds CNAV	AAA	100%	Liquid
Money Market Funds LVAV	AAA	100%	Liquid
Money Market Funds VNAV	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	100%	Liquid
Local authorities	Yellow	100%	5 years
Term deposits with housing associations	Blue Orange Red Green No colour	£2m	12 months 12 months 6 months 100 days Not for use
Term deposits with banks and building societies	Blue Orange Red Green No Colour	£4m	12 months 12 months 6 months 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	£2m	12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating	£2m	





## Approved Countries for investments

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link creditworthiness service.

In addition, all countries must be rated "free" by Freedom House.

**Based on lowest available rating and Freedom House rating, the following countries are approved for investments.**

### AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Sweden
- Switzerland

### AA+

- Canada
- Finland
- U.S.A.

### AA

- France

### AA-

- Belgium
- U.K.

## **ROYAL BERKSHIRE**

**FIRE AND RESCUE SERVICE**



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