TREASURY MANAGEMENT STRATEGY

Gravesham Borough Council

2023 - 2024

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1.2 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.

2. TRAINING

2.1 The CIPFA code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

2.2 Furthermore the Code states that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decisions making

2.3 As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.

- Prepare tailored learning plans for treasury management officers and council members.

- Require treasury management officers and council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).

- Have regular communications with officer and council members encouraging them to highlight training needs on an ongoing basis. The training needs of treasury management officers are periodically reviewed.

2.4 Officers last provided member training on 18 January 2022. Further training will be arranged after May 2023.

2.5 The training needs of treasury management officers are periodically reviewed.

2.6 A formal record of the training received by officers central to the Treasury function will be maintained by Principal Accountant (Housing and Exchequer). They will also maintain a formal record of the treasury management/capital finance training received by members.

3. TREASURY MANAGEMENT CONSULTANTS

3.1 The Council currently uses Link Group, Treasury Solutions as its external treasury management advisors.

3.2 The Council 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 services providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

3.3 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council 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.

3.4 Officers recently undertook a procurement exercise to secure the services of external treasury management advisors from November 2022. The Link Group were successful in securing a further five-year contract to end October 2027.

3.5 Link Asset Services have provided a summary on the economic background. This can be found in Appendix 1.

3.6 The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more complex type investments, such as investment properties. The Council engages external consultants to provide a valuation report when purchasing an investment property. The consultants will vary depending on the nature of the property.

4. THE CAPITAL PRUDENTIAL INDICATORS 2023/24 TO 2025/26

4.1 The Council'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.

4.2 **Capital Expenditure**. This prudential indicator is a summary of the Council'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.

4.3 Given where the authority is in the annual budget setting process, the capital estimates below are based on the latest information available. Members are asked to approve the capital expenditure forecasts and also to delegate authority to the Director (Corporate Services) in consultation with the Chair of the Finance and Audit Committee to amend the forecasts and other indicators as necessary in line with the authority's budget which will be discussed and approved by Full Council on 21 February 2023. Any such amendments will be circulated to members of the Finance and Audit Committee prior to amendment.

Capital Expenditure	**2021/22 Actual £m**	**2022/23 Estimate £m**	**2023/24 Estimate £m**	**2024/25 Estimate £m**	**2025/26 Estimate £m**
Non-HRA	18.188	49.176	74.196	16.058	2.027
HRA	17.539	16.632	20.594	15.773	11.427
Total	**35.727**	**65.808**	**94.790**	**31.831**	**13.454**

4.4 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.

Capital Expenditure	**2021/22 Estimate £m**	**2022/23 Estimate £m**	**2023/24 Estimate £m**	**2024/25 Estimate £m**	**2025/26 Estimate £m**
Total	**35.727**	**65.808**	**94.790**	**31.831**	**13.454**
Financed by:					
Grants/Contributions	1.138	12.406	4.772	1.221	1.019
Major Repairs Reserve	8.460	5.533	5.554	5.588	5.738
Capital receipts	6.689	4.571	8.056	3.600	1.874
Reserves	0.000	1.859	1.893	1.315	0.282
Revenue	0.306	1.532	3.809	3.823	0.937
Revenue Grants not yet applied	0.000	0.536	0.251	0.000	0.000
Net financing need for the year	**19.134**	**39.371**	**70.455**	**16.284**	**3.604**

4.5 **The Council's Borrowing Need (the Capital Financing Requirement).** The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is the total historic outstanding capital expenditure that has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above (that has not been immediately paid for) will increase the CFR.

4.6 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.

4.7 The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. Previously it was assumed that the St George's Shopping Centre transaction was a finance lease and therefore the value of the lease was included in the CFR. Following a review of the transaction, this is no longer deemed to be the case and therefore this element has been removed from the calculation. However, this treatment is subject agreement with the Council's auditors and therefore it may be necessary to make further amendments.

4.8 The Finance and Audit Committee is recommending to Council to approve the CFR projections on the following table:

Note	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
CFR – Non HRA	49.050	82.177	145.049	156.691	154.699
CFR – HRA	76.821	77.008	83.926	72.654	66.189
Total CFR	**125.871**	**159.185**	**228.975**	**229.345**	**220.888**
Movement in CFR	**13.635**	**33.314**	**69.790**	**0.370**	**(8.457)**

Note	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Movement in CFR represented by					
New financing need for the year	21.400	41.678	82.697	25.882	20.114
Refinancing of HRA Debt	(2.266)	(2.307)	(12.242)	(9.598)	(16.511)
Less HRA contribution to loan repayment	(4.918)	(5.455)	-	(14.184)	(9.493)
Less MRP and other financing movements	(0.581)	(0.602)	(0.665)	(1.730)	(2.567)
Movement in CFR	**13.635**	**33.314**	**69.790**	**0.370**	**(8.457)**

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

4.10 There are four components to the LB:-

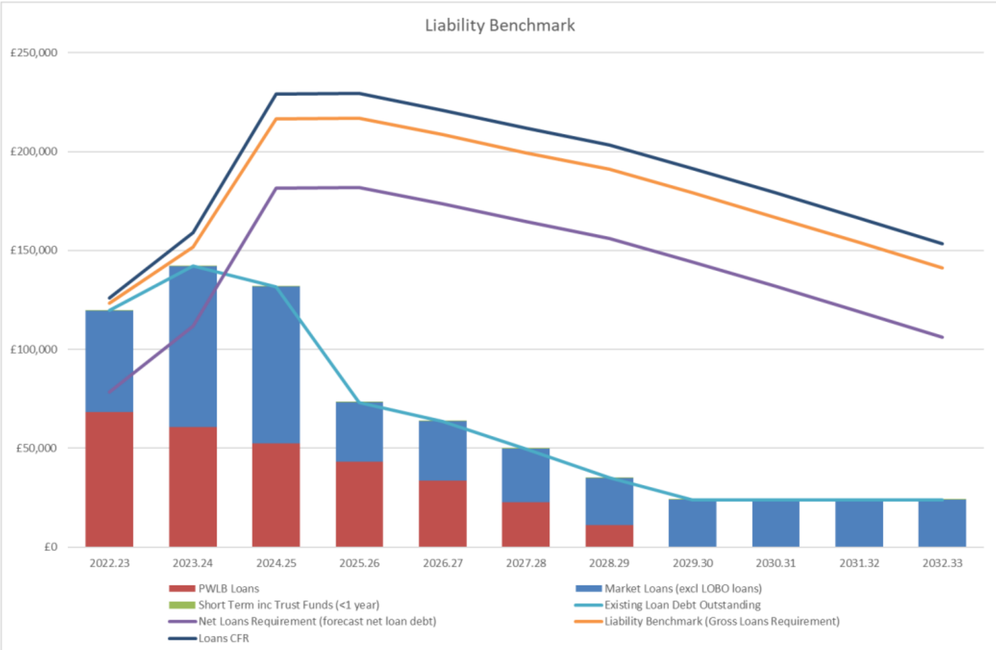
- Existing loan debt outstanding: the Council's existing loans that are still outstanding in future years.

- 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.

- Net loans requirement: this will show the Council'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 other major cash flows forecast.

- Liability benchmark: this equals net loans requirement plus short-tern.

- A graphical representation of the Council's Liability Benchmark is shown below.



4.11 **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.

	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Fund Balances / Reserves (HRA and Non-HRA)	30.034	24.364	17.677	13.086	11.336
Capital receipts	12.028	14.172	12.403	13.169	14.891
Grants / Contributions	0.941	0.890	0.890	0.830	0.830
Total core funds	**43.003**	**39.426**	**30.970**	**27.085**	**27.057**

5. MINIMUM REVENUE PROVISION POLICY

5.1 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).

5.2 The Council 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, the Council can use any other reasonable basis that it can justify as prudent.

5.3 The MRP policy statement requires full council approval in advance of each year.

pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision – MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision – VRP).

5.4 For capital expenditure incurred before 1 April 2008 and capital expenditure incurred on or after that date which the authority is satisfied forms part of its Supported Capital Expenditure the MRP policy will be

The Regulatory Method - Under the previous MRP regulations MRP was set at a uniform rate of 4% of the adjusted General Fund Capital Financing Requirement (CFR) i.e. adjusted for “Adjustment A” on a reducing balance method. Adjustment A was introduced to coincide with changes to the capital finance system on 1 April 2004 to ensure local authorities were not adversely affected financially by these changes. The Capital Financing Requirement is a measurement of the council’s underlying need to borrow.

5.5 From 1 April 2008 to 31 March 2020 for all unsupported borrowing the MRP policy will be:

Asset Life (Equal Instalment Method) – MRP will be based on the estimated life of assets, in accordance with the regulations. This provides for a reduction in the borrowing need over approximately the asset’s life.

5.6 From 1 April 2020, the Council considers the most appropriate MRP policy on a scheme by scheme basis, whilst ensuring a prudent approach is taken, so that sufficient sums are set aside on an annual basis which will result in cash balances being available to repay the debt on redemption.

5.7 In addition to the Equal Instalment Method detailed above, the Council may determine an MRP charge over the expected useful life of the corresponding asset equivalent to the principal repayment on an annuity basis.

5.8 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.

5.9 There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

5.10 If assets are transferred between funds, where the transfer results in an increase in the General Fund CFR, it will be considered whether it is prudent to make an MRP provision on the higher CFR in subsequent years.

5.11 For capital expenditure on loans to third parties where the principal element of the loan is being repaid in annual instalments, the capital receipts from the principal loan repayments will be used to reduce the CFR instead of MRP. Where no principal repayment is made in a given year, MRP will be charged at a rate in line with the life of the assed funded by the loan.

5.12 MRP Overpayments – Under MRP Guidance, any changes 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. Up until the 31 March 2023 the total VRP overpayments were £40.956m. This is equivalent to the value of HRA self-financing loans that have been repaid since the start of the scheme.

6. BORROWING

6.1 The capital expenditure plans set out in Section 6 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council'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.

6.2 **The current portfolio position** - The Council's treasury position as at 31 March 2022 and the position as at 31 December 2023 are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
	Actual 31/03/2022	**Actual 31/03/2022**	**Actual 31/12/2022**	**Actual 31/12/2022**
Treasury Investments	**£'000**	**%**	**£'000**	**%**
Banks	8,000	15%	10,000	18%
Local Authorities	3,000	6%	-	0%
Money Market Funds	5,365	10%	9,398	17%
Certificate of Deposits	8,000	15%	17,864	32%
Call Accounts - Bank	8,000	15%	-	0%
Call Accounts - Building Society	-	0%	-	0%
Total managed in house	**32,365**	**61%**	**37,262**	**68%**
Multi Asset Funds	9,328	18%	8,376	15%
Property Funds	11,594	22%	9,456	17%
Total managed externally	**20,922**	**39%**	**17,832**	**32%**
Total treasury investments	**53,287**	**100%**	**55,094**	**100%**
Treasury External Borrowing				
PWLB	68,479	57%	68,479	47%
Market	23,892	20%	23,892	17%
Local Authorities	27,200	23%	52,200	36%
Short Term - Trust Funds	14	0%	14	0%
Total external borrowing	**119,585**	**100%**	**144,585**	**100%**
Net treasury investments / (borrowing)	**(66,298)**		**(89,491)**	

6.3 Officers continue to identify opportunities to book future borrowing as and when required in order to benefit for lower interest rates, a strategy which has worked well to date.

6.4 The Council's forward projections for borrowings are summarised in the next table. The following table shows the actual external debt, against the underlying capital borrowing need (the Capital Financing Requirement – CFR), highlighting any under or over borrowing.

Note	**2021/22 Actual £m**	**2022/23 Estimate £m**	**2023/24 Estimate £m**	**2024/25 Estimate £m**	**2025/26 Estimate £m**
External Debt at 1 April	105.369	119.585	150.121	217.011	222.334
Expected Change in Debt	14.216	30.536	66.890	5.323	(2.379)
Actual gross debt as at 31 March	**119.585**	**150.121**	**217.011**	**222.334**	**219.955**
The Capital Financing Requirement	**125.871**	**159.185**	**228.975**	**229.345**	**220.888**
(Under)/Over Borrowing	**(6.286)**	**(9.064)**	**(11.964)**	**(7.011)**	**(0.933)**

6.5 Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council 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 2023/24 and the following two financial years (shown as net borrowing above). This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes.

6.6 The Director (Corporate Services) reports that the Council 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 the budget report. The impact of any future change of the St George's transaction on this indicator will be considered carefully prior to entering into any new arrangement.

7. TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

7.1 **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 and the ability to fund under-borrowing by other cash resources.

Operational Boundary	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Total	**391.780**	**390.770**	**390.770**	**390.770**

7.2 **The Authorised Limit for external debt –** This is a key prudential indicator represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this needs to be set or revised by the Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

- This is the statutory limit, determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

- The Finance and Audit Committee is asked to recommend to Council the following Authorised Limit:

Authorised limit	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Total	**358.670**	**405.770**	**405.770**	**405.770**

8. PROSPECTS FOR INTEREST RATES

8.1 Link Asset Services are the Council's current treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 19 December 2022. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View	19.12.22												
	Dec-22	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	3.50	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	3.60	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	4.20	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	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	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	4.30	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	4.60	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	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

8.2 Link update their forecast for interest rates on 19 December and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. Bank Rate stands at 3.5% currently but is expected to reach a peak of 4.5% in first half of 2023.

8.3 It is anticipated that the Bank of England will be keen to loosen monetary policy when the worst of the inflation pressures have eased, but that timing will be one of fine judgement; too soon and inflationary pressures may well build up further, too late and any downturn or recession may be prolonged.

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

8.5 In the upcoming months, the interest rate forecast will be guided by not only economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine.

8.6 On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by mor affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

8.7 PWLB Rates

- Movement in rates has become less volatile and PWLB 5 to 50 years Certainty Rates are generally, in the range of 4.10% to 4.80%.

- Markets are viewed as having built in nearly all the effects on yields of the likely increases in Bank Rate and the elevated inflation outlook.

- Borrowing for capital expenditure – The long-term forecast for Bank Rate stands at 2.5%. As all PWLB rates are currently above this level, borrowing strategies will need to be reviews in that context. Better value can generally be obtained at the sorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank rate and may also prove attractive whilst the market waits for inflation, and there in gilt yields, to drop back later in 2023.

- The interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of +/- 25bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

9. THE BORROWING STRATEGY

9.1 The Council 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 Council'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.

9.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Director (Corporate Services), 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 wll 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.

9.3 Any decisions will be reported to the Finance and Audit Committee as part of the next Treasury update.

10. POLICY ON BORROWING IN ADVANCE OF NEED

10.1 The Council will not borrow more than, or in advance of its need, purely in order to profit from the investments 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 Council can ensure the security of such funds.

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

11. DEBT RESCHEDULING

11.1 Rescheduling of current borrowing will be considered during 2023/24.

11.2 If rescheduling is done, it will be reported to the Finance and Audit Committee, as part of the next Treasury update.

12. NEW FINANCIAL INSTITUTIONS AS A SOURCE OF BORROWING

12.1 Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).

- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a "cost of carry" or to achieve refinancing certainty over the next few years).

- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).

12.2 Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

13. APPROVED SOURCES OF LONG AND SHORT TERM BORROWING

13.1 In recent years when it has been necessary to take on external borrowing to fund capital expenditure, this has been secured through the PWLB. When borrowing, the Council will need to carefully consider and take the necessary steps to secure the most appropriate source of borrowing. The Council will consider (but not limited to) the following sources for external borrowing.

- PWLB
- Municipal Bonds Agency
- Local authorities
- Banks
- Pension Funds
- Insurance Companies
- UK Infrastructure Bank
- Market (long-term, short-term, LOBO)
- Stock Issue

14. AFFORDABILITY PRUDENTIAL INDICATORS

14.1 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 Council's overall finances. Finance and Audit Committee are asked to recommend the following indicators to Full Council for approval:

14.2 **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.

%	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Non- HRA	8.19%	8.73%	26.22%	27.90%	35.00%
HRA	26.84%	26.84%	7.51%	54.80%	39.00%
Total	20.89%	21.50%	13.08%	46.72%	37.00%

14.3 **HRA ratios** – the following indicators identifies the trend of HRA debt in relation to revenue income and HRA debt per dwelling.

	2021/22 Estimate £	2022/23 Estimate £	2023/24 Estimate £	2024/25 Estimate £	2025/26 Estimate £
HRA debt £m	78.076	79.751	84.669	87.669	87.669
HRA revenue income £m	26.426	27.725	30.609	30.986	32.123
Ratio of debt to revenue income %	31.28	34.76	36.15	35.34	36.64
Number of HRA dwellings	5,683	5669	5619	5589	5559
Debt per dwelling £	13,738	14,067	15,068	15,685	15,771

14.4 **Maturity Structure of Borrowing -** These gross limits are set to reduce the Council’s exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Maturity Structure of fixed interest rate borrowing 2023/24		
	Lower	**Upper**
Under 12 months	0%	50%
12 months to 2 years	0%	50%
2 years to 5 years	0%	75%
5 years to 10 years	0%	75%
10 years to 15 years	0%	100%
15 years to 20 years	0%	100%
Over 20 years	0%	100%

Maturity Structure of variable interest rate borrowing 2023/24		
	Lower	***Upper***
Under 12 months	0%	50%
12 months to 2 years	0%	50%
2 years to 5 years	0%	75%
5 years to 10 years	0%	75%
10 years to 15 years	0%	100%
15 years to 20 years	0%	100%
Over 20 years	0%	100%

15. ANNUAL INVESTMENT STRATEGY

15.1 **Investment Policy – Management of Risk -** The Department of Levelling Up, Housing and Communities (DLUHC), formally MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

15.2 The Council's investment policy has regard to the following:-

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

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

15.4 In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but 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.

15.5 The above guidance from the DLUHC and CIPFA places a high priority on the management of risk. This 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 Council will engage with its advisors to maintain a monitor on market pricing such as **“credit default swaps”** and overlay that information on top of the credit ratings.

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 Council has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 2 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.
   - **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 Council has determined that it will limit the maximum total exposure to non-specified investments as being £75m of the total investment portfolio, (see paragraph 17.1).

6. **Lending limits**, (amounts and maturity), for each counterparty is set at £8m and in accordance section 16 and appendix 2.

7. **Transaction limits** for groups, counterparties and money market funds are set at £8m.

8. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 17.1).

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 17.1).

10. This authority has engaged **external consultants**, (see paragraph 3.1), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this 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, the Council will consider the implications of investment instruments which could result in adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In January 2023, DLUHC confirmed that the temporary statutory override allowing English local authorities time to adjust their portfolio prior to implementing IFRS 9 had been extended for a further two years to 31 March 2025).

15.6 However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 16.8). Regular monitoring of investment performance will be carried out during the year.

16. CREDITWORTHINESS POLICY

16.1 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, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

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

16.2 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 duration for investments. The Council will therefore use counterparties within the following durational bands.

Colour/ long term rating	Maximum Period of investment
Yellow	5 Years
Purple	2 Years
Orange	1 Year
Blue	1 Year (nationalised or semi nationalised UK Banks)
Red	6 Months
Green	100 days
No Colour	Not to be used

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

16.4 Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occassions 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.

16.5 All credit ratings will be monitored on a daily basis by officers within the Finance Department. The Council 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 Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in the Credit Default Swap market against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

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

16.7 **Creditworthiness –** Significant levels of downgrades to Short and Long-Term ratings have not materialised since the crisis in March 2020. However, more recently the UK sovereign debt rating has been placed on Negative Outlook by the three major rating agencies in the wake of the Government's recent unfunded tax-cuts policy. Although Government changes has calmed markets, the outcome of the rating agency reviews is unknown at present, but it is possible the UK sovereign debt rating will be downgraded. Accordingly, when setting minimum sovereign ratings, the Council will not set a minimum rating for the UK (as reported to the Finance and Audit Committee on 9 November 2022).

16.8 **CDS prices –** Although bank CDS prices, spiked upwards in xx, they have returned to more average levels since then. However, sentiment can easily shift so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of the creditworthiness service to local authorities and the Authority has access to this information via its Link-provided Passport portal.

17. OTHER LIMITS

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

- **Non-Specified Investment Limit –** The Council has determined that it will limit the maximum total exposure to non-specified investments as being £75m of the total investment portfolio.
- **Country Limits –** As in previous years the Council has determined that it will only use approved counterparties from countries with a minimum

sovereign rating of AAA, as determined by at least two of the three rating agencies (Fitch, Moody's or Standard and Poor's). The list of countries that currently qualify using the credit criteria as at the date of this report are shown in Appendix 3. Officers will amend this list during the year should ratings change in accordance with this policy.

- **Other Limits -** In addition:

  a. no more than £16m will be placed with any non-UK country at any time;

  b. limits in place above will apply to a group of companies;

  c. sector limits will be monitored regularly for appropriateness.

18. INVESTMENT STRATEGY

18.1 **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. 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.

18.2 Accordingly, while most cash balances are required in order to manage the ups and downs of cash glow, 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.

18.3 **Investment returns expectations** – The current forecast showing in paragraph 8.1, includes a forecast for Bank Rate to reach 4.5%in Q2 2023.

18.4 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 (although as there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts)

Average earnings in each year	
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

18.5 For its cash flow generated balances, the Council will seek to utilise its instant access and notice accounts, money market funds and short dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

18.6 **Investment treasury indicator and limit** – total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, as are based on the availability of funds after each year end

Maximum principal sums invested > 365 days			
	2023/24 £m	2024/25 £m	2025/26 £m
Principal sums invested > 365 days	20.000	20.000	20.000

18.7 Whilst the Council has placed £10m with three Property Funds and a further £10m with three Multi Asset Funds with a view to holding the funds for a longer term, due to the funds liquidity they are not taken into account for the purposes of the above indicator. The indicator applies to funds invested for a fixed period only.

18.8 **Investment Risk Benchmark -** The Council will use an investment benchmark to assess the investment portfolio of 3 month SONIA.

19. END OF YEAR INVESTMENT REPORT

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

20. SERVICE INVESTMENTS

20.1 The Investment Strategy recognises that the Council may, from time to time, make investment decisions are part of its policy decision making process or to help it fulfil its strategic objectives. Such decisions will be subject to due diligence checks but will be classified as a service investment, rather than a treasury managment investment, and will therefore fall outside of the specified/non specified investment categories.

20.2 At the time of preparing this report the Council had interests in two such service investments:

- Municipal Bonds Agency (MBA) - In January 2015, a report to Cabinet outlined proposals by the Local Government Association (LGA) to set up the MBA with the aim that the Agency would be able to provide council's with the opportunity to raise funds at significantly lower rates than those offered by the Public Works Loan Board (PWLB). The Council, along with many other local authorities become a member of the MBA and therefore £20,000 was paid in February 2015 towards the Agency's estimated start-up costs of £1m. It is anticipated that there will, at some point, be a financial return (to be remunerated at commercial rates) for these capital subscriptions to the Agency's establishment costs. There were significant difficulties with the original proposed offer, but work progressed following the engagement of PFM and in March 2020 issued its first bond. Gravesham will consider the use of the MBA as and when it is deemed appropriate.
- Commercial acquisitions – In previous Treasury Management Strategy Statements, updates on commercial properties were reported under the

Service Investments section of the report. Due to the revised reporting reqiuirements from DLUHC, the impact of such investments are incorporated throughout this report and the Capital Strategy provides a longer term focus of such investments.

21. SCHEME OF DELEGATION

21.1 The Treasury Management Scheme for Delegation is outlined in Appendix 4.

22. ROLE OF THE SECTION 151 OFFICER

22.1 The council's Section 151 Officer is the Director (Corporate Services) and their role is outlined in Appendix 5.

23. RISK

23.1 Given the nature, size and volume of the transactions involved, Treasury Management continues to remain a high-risk area and as such is reflected in the corporate risk register. A summary of the perceived risks associated with Treasury Management is identified below.

Risk Area Identified	Potential Impact of Risk	Mitigation
Interest rates	Interest rate forecasts vary from the assumptions made in the financial forecasts resulting in a shortfall in investment interest.	Professional and specialist advice taken on interest rate forecast. Cash flow modelled against anticipated financial forecast. Treasury Management Strategy and Policies.
Cash flow	Unexpected adverse movements of significant sums of money may vary from the cash flow estimated and therefore result in a reduction in investment interest.	Cash flow modelled against anticipated financial forecast.
Sums lost in imprudent investment	Loss of sums invested in institution that is unable to pay its creditors.	Invest in institutions in accordance with Link Treasury Services creditworthiness service and in conjunction with Finance Teams assessment of the various counterparties.
Downgrading of banks and building societies	Loss of sums invested	Invest with the Government's Deposit Management Account Facility if necessary.
Legal and regulatory risk	The council fails to act in accordance with its legal powers	Comprehensive documentation of the organisations legal powers.
Sums lost through fraud, error and corruption	Financial Loss	Proper system of internal controls.
Refinancing	Higher borrowing costs	Reliable forecasts of maturing

borrowing on appropriate terms and conditions.		loans and capital expenditure to enable the council to negotiate appropriate terms.

24. SECTION 17 OF THE CRIME & DISORDER ACT 1998

24.1 Section 17 of the Crime & Disorder Act 1998 has been taken in account when preparing the Treasury Management Strategy and the Annual Investment Strategy.

25. BACKGROUND PAPERS

25.1 CIPFA Treasury Management in the public services – Code of Practice and Cross-Sectoral Guidance Notes 2021.

25.2 The CIPFA Prudential Code – for capital finance in Local Authorities 2021

25.3 Templates and forecasts provided by Link Asset Services.

APPENDIX 1

Link Asset Services – Economic Background As At 02/12/22

- UK interest rates have been volatile for all of 2022 against a backdrop of inflationary pressures, easing of COVID restrictions, the Russian invasion of Ukraine and a range of different UK Government policies.

- CPI inflation peaked in October at 11.1% although with further increased in the gas and electricity price caps expected in April 2023 and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflations will spike higher again before dropping back slowly through 2023.

- The UK unemployment rate fell to a 48 year low of 3.6% and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrank by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow and with average wage increases at over 6% the MPC will be concerned that wage inflation will prove just as much of a problem as food and energy price increases following the Russian invasion of Ukraine.

- Throughout Q2 Bank Rate increased. Q4 has seen rates rise to 3.5% in December and to 4% in February. The market expects Bank Rate to hit 4.5% by May 2023.

- The pound has strengthened recently recovering from a record low of $1.035 following the Government's fiscal event. 2023 is likely to see a significant housing correction as fixed rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

Appendix 2

Specified and Non Specified Investments

Investments that councils can make are of two types and these are identified in the subsequent paragraphs and table.

Specified Investments offer high security and high liquidity, must be in sterling and have a maturity of no more than a year. Such investments made with the UK government, UK local authorities and town/parish councils automatically count as specified investments.

Non Specified Investments are those investments not meeting the definition of specified investments, which are therefore of greater potential risk. Any investments with a maturity exceeding one year are automatically classed as non specified investments. The criteria for selecting counterparties for longer term investments is the same as that for short term investments i.e. Link Asset Services Durational Colour bands.

All specified and non-specified Investments will be

- Subject to the sovereign, group and counterparty exposure limits identified in the Annual Investment Strategy

- Subject to the duration limit recommended by Link Assets Services Treasury Solutions at the time each investment is placed

- Subject to a maximum of £75m of cored funds, in aggregate, being held in non-specified investments at any one time (£25m in property funds, £25m in Multi Asset Funds and £25m in other non-specified investments).

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**

	Minimum Credit Criteria	**Maximum maturity period**
Debt Management Agency Deposit Facility	N/A	6 months
UK Government Gilts	UK sovereign rating	12 months
UK Government Treasury Bills	UK sovereign rating	12 months
Bonds issued by multilateral development banks	AAA	6 months
Money Market Funds (including Money Market Funds with notice periods)	AAA	Liquid
VNAV Ultra Short Duration Bond Funds with a credit score of 1.25	AA	Liquid
VNAV Ultra Short Duration Bond Funds with a credit score of 1.5	AA	Liquid
UK Local authorities and other public authorities ie Police and Fire authorities	N/A	12 months
Term deposits with housing associations	Blue Orange Red	12 months 12 months 6 months

	Green No Colour	100 days Not for use
Term deposits with banks and building societies	Link's "Green" rating	As per Link's rating
Term deposits with part nationalised banks	Link's "Blue" rating	As per Link's rating
Certificates of deposit (CD's) or Corporate bonds with banks and building societies	Link's "Green" rating	As per Link's rating
Certificates of deposit (CD's) with part nationalised banks	Link's "Green" rating	As per Link's rating
Gilt Funds	UK sovereign rating	
Sovereign bond issues (other than the UK govt)	AAA	

NON-SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities in excess of 1 year**

	Minimum Credit Criteria	**Max. maturity period**
Fixed term deposits with variable rate and variable maturities: -Structured deposits with UK nationalised and part nationalised banks	UK Sovereign rating	2 years
Fixed term deposits with variable rate and variable maturities: -Structured deposits with banks and building societies	UK Sovereign rating	2 years
Term deposits with unrated counterparties : ie Local Authorities, Police Authorities, Fire Authorities, Housing Associations	UK Sovereign rating	50 years
Term deposits with UK nationalised and part nationalised banks excluding Ulster Bank (part of RBS)	Link's "Purple" rating	2 years
Term deposits with banks and building societies	Link's "Purple" rating	2 years
Certificates of deposits with UK nationalised and part nationalised banks excluding Ulster bank (part of RBS)	Link's "Purple" rating	2 years
Certificates of deposits with banks and building societies	Link's "Purple" rating	2 years
Commercial paper issuance with UK nationalised and part nationalised banks excluding Ulster Bank (part of RBS)	UK sovereign rating	2 years

Commercial paper issuance bank and building societies	Link's "Purple" rating	2 years
Bonds issued by multilateral development banks	AAA	5 years
Sovereign bond issues (other that the UK Government)	AAA	5 years
UK Government Gilts	UK Sovereign rating	Max of 25% 5 years
Property Funds	N/A	No Limit
Multi Asset Funds	N/A	No Limit

ACCOUNTING TREATMENT OF INVESTMENTS - The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

APPENDIX 3

Approved countries for investments (Position as at 20/01/2023)

All counterparties in addition to meeting the minimum credit criteria specified in the Annual Investment Strategy must be regulated by a AAA sovereign rated as such by at least two of the three rating agencies (Fitch, Moody's and Standard and Poor's) with the exception of the UK.

The list will be reviewed and amended if appropriate on a daily basis by the Director (Corporate Services).

As of 20 January 2023 sovereigns meeting the above requirement were:

- Australia
- Canada
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.K. (currently rated AA by Standard and Poor's, AA- by Fitch and Aa3 by Moody's)
- USA (currently rated AAA by Fitch and Moody's, AA+ Standard and Poor's)

APPENDIX 4

Treasury Management Scheme for Treasury Delegation

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.

(ii) Finance & Audit Committee

- To receive and scrutinise the council's Treasury Management Strategy and the prudential indicators prior to the start of the financial year and make recommendations thereon to the Full Council
- To receive and scrutinise the Treasury Management Annual Report and comment on any actions that may have taken during the course of the year.
- To monitor the overall state of the council's finances on at least a quarterly basis and advise on any actions it recommends.
- To consider the division of responsibilities in respect of the Treasury Management function.
- To consider the selection of external service providers and agreeing terms of appointment.

APPENDIX 5

The treasury management role of the section 151 officer

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- 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
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- 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
- 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
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above

APPENDIX 6

GLOSSARY

Authorised Limit	This represents a level of borrowing which, though not desired, could be afforded but may not be sustainable.
Asset Life (Equal Instalment Method)	Where MRP is an equal annual charge every year and is calculated by dividing the original amount of borrowing by the useful life of that asset.
Capital Financing Requirement	A measurement of the council's underlying need to borrow for a capital purpose.
Certificate of Deposit	An investment product offered by banks and other financial institutions which is issued for a specific period of time and at a certain interest rate but which can be traded on the secondary market, providing a greater level of flexibility.
CIPFA Treasury Management Code Of Practice	The professional code governing treasury management, which the council has formally adopted.
Debt Management Agency Deposit Facility	This deposit facility allows short-term or long term deposits to be lodged with the government. This offers the highest security for a Principal sum on short-term placements.
Money Market Funds	A money market fund is a "pool" of different types of investments, managed by a fund manager. The pool of investments will typically include bank deposits, certificates of deposit (CDs) amongst other investments. A number of organisations will invest in a particular fund. The interest rate yield on an MMF deposit is not known at the time of the deal. In return for this uncertainty, money can be accessed whenever necessary.
Minimum Revenue Provision (MRP)	The minimum amount which a council must charge to its revenue budget each year.
Multi-Asset Fund	An investment product with a higher level of diversification (in areas such as equities, bonds, property,.etc) and which therefore offers a certain level of protection in times when markets are volatile.

Municipal Bond Agency	An agency established by the Local Government Association intended to offer councils an alternative and less costly option for borrowing of long-term funds than the PWLB through the introduction of competition and diversity to the marketplace.
Net Revenue Stream (NRS)	The NRS for the general fund is the “amount to be met from government grant and local taxpayers”, as shown in the consolidated revenue account. This represents the budget requirement for the council. The NRS for the housing revenue account is the amount to be met from housing subsidy and rent income as shown in the HRA accounts.
Operational Boundary	This indicator is based on the probable external debt during the course of the year; it is not a limit. Actual external debt could vary around this boundary for short times during the year. It should act as a monitoring indicator to ensure that authorised limit is not breached.
Prudential Indicators	These demonstrate a council’s ability to meet the key principles of the Prudential Code by reflecting the level to which its capital programme is affordable, prudent and sustainable and they help to explain this effectively to those charged with governance.
Public Works Loan Board (PWLB)	Part of the government’s debt management office, making long-term funds available to local authorities on prescribed terms and conditions. The PWLB is normally the cheapest source of long-term borrowing for a local authority.