Appendix K

North Northamptonshire Council

Treasury Management Strategy 2021/22

1 Introduction

CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes

1.1 CIPFA has defined treasury management as "the management of the organisation's borrowings, 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."

1.2 The Council has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (the Treasury Code). The adoption is included in the Council's Constitution at section 21 of the Financial Procedure Rules.

CIPFA Prudential Code for Capital Finance in Local Authorities

1.3 The CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) is a professional code of practice. Local authorities have a statutory requirement to comply with the Prudential Code when making capital investment decisions and carrying out their duties under Part 1 of the Local Government Act 2003 (Capital Finance etc. and Accounts).

1.4 The CIPFA Prudential Code sets out the manner in which capital spending plans should be considered and approved, and in conjunction with this, the requirement for an integrated treasury management strategy.

1.5 Councils are required to set and monitor a range of prudential indicators for capital finance, covering affordability, prudence, and a range of treasury indicators.

Treasury Management Policy Statement

1.6 The Council's Treasury Management Policy Statement is included in Appendix K-1. The policy statement follows the wording recommended by the latest edition of the CIPFA Treasury Management Code of Practice (Treasury Code).

Treasury Management Practices

1.7 The Council's Treasury Management Practices (TMPs) set out the manner in which the Council will seek to achieve its treasury management policies and objectives, and how it will manage and control those activities.

1.8 The Council's TMPs Schedules cover the detail of how the Council will apply the TMP Main Principles in carrying out its operational treasury activities, approved by the Council's Section 151 (S151) Officer.

The Treasury Management Strategy

1.9 It is a requirement under the Treasury Code to produce an annual strategy report on proposed treasury management activities for the year.

1.10 The Council’s Treasury Management Strategy is drafted in the context of the key principles of the Treasury Code, as follows:

- Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.
- Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and liquidity when investing funds.
- They should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

1.11 The purpose of the Treasury Management Strategy is to establish the framework for the effective and efficient management of the Council’s treasury management activity, including the Council’s investment portfolio, within legislative, regulatory, and best practice regimes, and balancing risk against reward in the best interests of stewardship of the public purse.

1.12 The Treasury Management Strategy incorporates:

- The Council’s capital financing and borrowing strategy for the coming year;
- The Council’s policy on the making of Minimum Revenue Provision (MRP) for the repayment of debt, as required by the Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008;
- The Affordable Borrowing Limit as required by the Local Government Act 2003;
- The Annual Investment Strategy for the coming year as required by the MHCLG revised Guidance on Local Government Investments issued in 2018.

1.13 The strategy takes into account the impact of the Council’s Medium Term Financial Plan (MTFP), its revenue budget and capital programme, the balance sheet position and the outlook for interest rates.

1.14 The Treasury Management Strategy also includes the Council’s:

- Policy on borrowing in advance of need;
- Counterparty creditworthiness policies.

1.15 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. The Treasury Management Scheme of Delegation is shown in Appendix K-2.

1.16 The figures in the Strategy cover the five year period 2021-26. The figures in the 5th year are a roll forward of the 4th year as the council only has a 4 year capital strategy and MTFP at present. A five year plan will be developed in the future.

2 Current Treasury Management Position

2.1 It is important to note that this is North Northamptonshire's first Treasury Management Strategy following the local government reorganisation in Northamptonshire. The reorganisation has led to the disaggregation of Northamptonshire County Council (NCC) and aggregation of the districts and boroughs (D&Bs) in north northamptonshire and North Northamptonshire Coucnl will come into existance on 1st April 2021. As such the position will be based on the initial forecast split and aggregation of borowing, funding and capital programme as forecast at 31st March 2021. This will be supplemented by the new councils plans. The Strategy may need to be further developed during year 1 and onwards as the authority takes shape. It should be noted there are a number of uncertainties that still need to be finalised with respect to the disaggregation and aggregation of NCC and the D&Bs with regards to treasury position, including:

- the starting balance sheet at 1st April 2021 for North Northamptoshire which will be dependant upon the final Statement of Accounts for 2020/21 of NCC and the D&Bs.

- The agreement of the disaggregated borrowing and investment portfolios of NCC.

This Strategy and the figures within it are therefore based on the most up to date position and intelligence when the Budget and associated strategies were considered by Shadow Authority in February 2021. It will need to be carefully monitored during the financial year, particularly the prudential indicators, as the uncertainties crystalise to ensure it is fit for purpose. If any fundemental changes are required a revised Strategy would need to be approved by Council.

2.2 The Council's projected treasury portfolio position at 31st March 2021, with forward projections into future years, is summarised below. Table 1 shows the actual external borrowing (the treasury management operations), against the capital borrowing need (the CFR), highlighting any over or under borrowing (also known as internal borrowing).

2.3 The CFR is the total of historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need.

2.4 The Council is currently maintaining an internal/under borrowed cash position. This means that the capital borrowing need (the CFR) has not been fully funded with loan debt. The Council could therefore, if it needed to, reverse this internal borrowing position to fund the underlying capital borrowing requirement entirely from external borrowing, so bringing additional cash back into the Council. However, raising additional external borrowing brings with it increased interest costs, so the Councils strategic position is to minimise these costs where possible.

2.5 Any capital expenditure which has not immediately been paid for 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 over each asset's life. The CFR, borrowing and investment figures include sums related to third party loans, but exclude PFI and Finance Lease liabilities.

Table 1: Forecast Borrowing and Investment Balances
[Table to be completed once NCC Balance Sheet Dis-aggregation finalised]

£m		2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
External borrowing						
Borrowing at 1 April b/f		TBC	TBC	TBC	TBC	TBC
Net Borrowing Requirement to fund capital programme (see Table 2 below)		TBC	TBC	TBC	TBC	TBC
MRP [1]		TBC	TBC	TBC	TBC	TBC
Internal borrowing (increase)/reduction [2]		TBC	TBC	TBC	TBC	TBC
(1) Actual borrowing at 31 March c/f		TBC	TBC	TBC	TBC	TBC
Capital Borrowing		TBC	TBC	TBC	TBC	TBC
Third Party Loans		TBC	TBC	TBC	TBC	TBC
Actual borrowing at 31 March c/f		TBC	TBC	TBC	TBC	TBC
(2) CFR – the borrowing need		TBC	TBC	TBC	TBC	TBC
(3) *[2 – 1]* Internal Borrowing [2]		TBC	TBC	TBC	TBC	TBC
Investments						
Funds Available for Investment at 1 April b/f [3]		TBC	TBC	TBC	TBC	TBC
Change in Funds Available for Investment		TBC	TBC	TBC	TBC	TBC
(4) Investments at 31 March c/f		TBC	TBC	TBC	TBC	TBC
Investment Balances [3]		TBC	TBC	TBC	TBC	TBC
Third Party Loans		TBC	TBC	TBC	TBC	TBC
Investments at 31 March c/f		TBC	TBC	TBC	TBC	TBC
(5) *[1 – 4]* Net borrowing		TBC	TBC	TBC	TBC	TBC

[1] Appendix K-4 sets out the Council's MRP policy. A new MRP policy will be in place to account for the previous NCC debt as per their previous policy and the previous district and borough council debt as per their previous policy. Changes to the MRP policy of the previous Northamptonshire County Council, that forms part of this new council, for 2017/18 resulted in identification of an overprovision of MRP (VRP) when compared against actual MRP charges. This overprovision has been applied prospectively from 2017/18 onwards until fully exhausted, reducing annual MRP charges to a minimal charge of £0.1m. From 2021/22

onwards, the planning assumption is for an MRP increase in a phased and prudent manner to progressively reinstate the charge to proper levels in the future. The previous district and borough debt will continue to be provided for on an asset life basis, historically based on the below MHCLG Regulations:

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

• Existing practice - MRP will follow the existing practice outlined in former MHCLG regulations (option 1). This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including finance leases) the MRP policy will be:
• Asset Life Method – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3). This option provides for a reduction in the borrowing need over approximately the asset's life.

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.

[2] Internal borrowing is effectively the difference between the underlying need to borrow for capital purposes and actual external borrowing held. The CFR 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 while investment returns are low and to mitigate against counterparty risk. The Council is therefore maintaining an under borrowed position.

[3] Consequent to maintaining an under borrowed position, the level of funds available for investment (excluding third party loans) will be kept to a minimum. Sufficient liquidity will be maintained during the course of the year to meet expected payments, as projected in the Council's cash flow modelling.

2.6 Table 2 below summarises the net borrowing funding need of the capital expenditure plans for the Council. Detailed capital expenditure plans are set out in the Capital Strategy.

Table 2: Capital Borrowing Requirement

Capital Expenditure (per Capital Strategy)		2021/22 Estimate £m	2022/23 Estimate £m	2023/24 & 2024/25 Estimate £m		Total Estimate £m
Net financing need for the year		17.2	11.3	14.5		43.0

2.7 Within the set of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. Among these the Council needs to ensure that its gross borrowing 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 the current and next two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes except to cover short term cash flows.

2.8 The Executive Director of Finance, with input from the predecessor councils' CFO's, reports that the Councils have complied with this prudential indicator in the 2020/21 financial year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, the proposals in this strategy, and the Budget report and Medium Term Financial Plan.

3 Prospects for Interest Rates

3.1 The Council has appointed Link Asset Services (LAS) as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the LAS central view for short term and longer term interest rates.

Table 3: Link Asset Services Interest Rate View

Link Group Interest Rate View 9.11.20													
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20													
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5yr PWLB	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

3.2 The coronavirus outbreak has had a huge negative economic impact to the UK and economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to first 0.25%, and then to 0.10%. As shown in the forecast table above, no increase in Bank Rate is expected within the forecast horizon ending on 31st March 2024 as economic recovery is expected to be only gradual and, therefore, prolonged. In addition to the impact of Covid-19 on the UK and other economies there is the EU Exit, changes to policy arising from the new president in the US, geopolitical risks and the potential of negative interest rates to consider.

3.3 In November 2020 the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% or 100 basis points (bps). In addition it was confirmed councils would be denied access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme. The new margins over gilt yields are as follows:

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

3.4 There is likely to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment, (as shown on 9th November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020/21.

Investment and borrowing rates

3.5 Investment returns are likely to remain very low during the year with little increase in the following two years.

3.6 Borrowing interest rates are low with little upward movement likely over the next two years. While the Council may not be able to avoid borrowing to fund its capital financing requirement and replace maturing debt, cost of carry (the difference between higher borrowing costs and lower investment returns) remains a key factor in assessing any long-term borrowing decisions.

4 Borrowing Strategy

4.1 The overarching objectives for the Council's borrowing strategy are as follows:

- To manage the Council's debt maturity profile; this is achieved by monitoring short and long term cash flow forecasts in tandem with balance sheet analysis;
- To maintain a view on current and possible future interest rate movements, and to plan borrowing accordingly; this is achieved by consultation with the Council's treasury advisors and monitoring of other economic commentary to undertake sensitivity analysis;
- To monitor and review the balance between fixed and variable rate loans against the background of interest rates and the Prudential Indicators; this is achieved by consultation with the Council's treasury advisors and monitoring of other economic commentary to undertake sensitivity analysis;
- Challenge reliance on the PWLB as a source of funding and review all alternative options available, including forward loan agreements; this is achieved by regular communication with money market brokers, financial institutions, and other debt issuers and appraised in conjunction with the Council's treasury advisors;
- Provide value for money and savings where possible to meet budgetary pressures; this is achieved by the periodic appraisal of borrowing options, sensitivity analysis of forecast delivery of the approved capital programme and its impact on the overall underlying borrowing requirement, and cashflow analysis.

4.2 The Council can raise significant sums of short-term borrowing through other Local Authorities to minimise interest costs. However, short-term borrowing also carries with it the following principle risks:

- Re-financing risk; that replacement loans are not readily available on maturity.
- Interest rate risk; that on replacement of short-term loans, market rates increase meaning no option but to borrow at disadvantageous rates.

4.3 The Council is forecasting to maintain an internal-under borrowed cash position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded with loan debt. Instead cash in hand supporting the

Council's reserves, balances, and positive cash inflows has been used as an alternative temporary funding measure. This strategy is prudent in the current economic climate - as returns achievable from the investment of cash are lower than the cost of raising additional loan debt, and counterparty risk remains elevated. This policy can be reviewed on an on-going basis for its appropriateness and robustness.

4.4 Any decision to raise short dated loans to generate short term savings will be evaluated against the potential for incurring additional long term borrowing costs in future years.

4.5 Sources of finance include loans from other local authorities, the PWLB, as well as other financial institutions, banks and building societies. The Council needs to consider whether to support the UK Municipal Bonds Agency (UKMBA) as NCC had previously agreed and will consider drawing down funding from the Agency in line with its overall strategy as appropriate if agreed.

4.6 The Council will also need to consider the type of capital investment being made in determining its borrowing position. In November 2020 HM Treasury announced the outcome of its consultation into commercial investment taken primarily for yield. The outcome is that councils who have capital programmes which include schemes for commercial investment primarily for yield will be prohibited from borrowing from the PWLB. The Council will therefore need to undertake an assessment of all capital investment schemes to verify that these schemes will not preclude the council from being able to access PWLB as a source of borrowing.

4.7 Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Treasury Team will monitor interest rates in financial markets to brief the Executive Director of Finance and adopt a pragmatic approach to changing circumstances. For example:

- if it was felt that there was a significant risk of a <u>FALL</u> in long and short term rates (e.g. due to a marked increase of risks around a relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered;

- if it was felt that there was a significant risk of a <u>RISE</u> in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower.

- The Council may occasionally undertake short term temporary borrowing if it is needed to manage its cash flow position.

Prudential & Treasury Indicators

4.8 There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. The Prudential Code for Capital Finance in Local Authorities was updated in 2018.

4.9 A full set of Prudential Indicators and borrowing limits are shown in Appendix K-3.

Policy on Borrowing in Advance of Need

4.10 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. Borrowing in advance will be made within the following constraints:

Table 4: Borrowing in Advance of Need

Year	Max. Borrowing in advance	Notes
2021/22	100%	Borrowing in advance will be limited to no more than the expected increase in borrowing need (CFR) over the period of the approved Medium Term Capital Programme, a maximum of 3 years in advance.
2022/23	50%	
2023/24	25%	

4.11 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the Council's reporting mechanism for treasury management and capital financing matters.

4.12 As mentioned within 4.3 above, the Council is currently maintaining an internally borrowed cash position and, following the agreement of the split of the NCC loan portfolio a review will be undertaken to consider if any new loans are required to fund capital expenditure or refinancing to replace any maturing debt. It is not anticipated that borrowing in advance of future years financing needs will take place.

4.13 The Council will not borrow more than or in advance of its needs to purely profit from the investment of the extra sums borrowed.

Debt Rescheduling

4.14 Short term borrowing rates are forecast to be cheaper than longer term fixed interest rates in the medium term, so there may be potential opportunities to generate interest savings by switching long term borrowing to short term borrowing. However, any potential savings will need to be considered in the light of the Councils current treasury position and, in the current economic climate, the substantial exit costs associated of any early debt repayment.

4.15 Consideration will also be given to identifying whether there is any potential for making interest savings by running down investment balances to repay debt prematurely, as short term rates on investments are likely to remain lower than rates paid on current debt.

4.16 The reasons for any rescheduling to take place will include:

- the generation of cash savings and/or discounted cash flow savings;
- helping to fulfil the treasury strategy; and
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

4.17 The Treasury Team maintain open dialogue with its lenders and consider any early repayment proposals on a case by case basis, taking advice from the Councils treasury advisors where appropriate.

4.18 Any rescheduling activity decision will be made by the Executive Director Finance, and reported as part of the next scheduled Treasury Management report to members following its action.

5 Minimum Revenue Provision

5.1 The Council is required to repay annually an element of its total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources (the CFR). This is achieved through a revenue charge known as the minimum revenue provision – MRP. It is also allowed to undertake additional voluntary payments (voluntary revenue provision - VRP).

5.2 MHCLG Regulations have been issued which require full Council, upon the recommendation of Cabinet or equivalent committee, to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the MRP Policy in Appendix K-4 which sets out how MRP will be charged against particular asset types or other forms of capital expenditure.

5.3 The Councils MRP Policy can be summarised as:

- The preceding councils MRP Policies will continue to apply for the MRP requirement upto 31st March 2021.

Changes to the MRP policy of the previous Northamptonshire County Council, that forms part of this new council, for 2017/18 resulted in identification of an overprovision of MRP (VRP) when compared against actual MRP charges. This overprovision has been applied prospectively from 2017/18 onwards until fully exhausted, reducing annual MRP charges to a minimal charge of £0.1m.

- For capital investment made by North Northamptonshire Council from 1st April 2021 MRP will be charged on an annuity basis

5.4 The Council, in conjunction with its Treasury Management advisors, considers the MRP policy to be prudent.

6 Investment Strategy

6.1 Government guidance on Local Government Investments in England requires that an Annual Investment Strategy (AIS) be set. The Guidance permits the Treasury Management Strategy Statement (TMSS) and the AIS to be combined into one document.

6.2 The Council's general policy objective is to invest its surplus funds prudently. As such the Council's investment priorities, in priority order, are:

- security of the invested capital;
- liquidity of the invested capital; and
- the yield received from the investment.

6.3 A copy of the Council's Investment Strategy is shown in Appendix K-5.

7 Risk Analysis and Forecast Sensitivity

Risk Management

7.1 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Treasury management risks are identified in the Council's approved Treasury Management Practices. The main risks to the treasury activities are:

- Credit and counterparty risk (security of investments);
- Liquidity risk (adequacy of cash resources);
- Interest rate risk (fluctuations in interest rate levels);
- Exchange rate risk (fluctuations in exchange rates);
- Refinancing risks (impact of debt maturing in future years);
- Legal and regulatory risk (non-compliance with statutory and regulatory requirements);
- Fraud, error and corruption, and contingency management (in normal and business continuity situations);
- Market risk (fluctuations in the value of principal sums).

7.2 The TMP Schedules set out the ways in which the Council seeks to mitigate these risks. Examples are the segregation of duties (to counter fraud, error and corruption), and the use of creditworthiness criteria and counterparty limits (to minimise credit and counterparty risk). Council officers, in conjunction with the treasury advisors, will monitor these risks closely.

Sensitivity of the Forecast

7.3 The sensitivity of the forecasts applied is linked primarily to movements in interest rates and in cash balances, both of which can be volatile. Interest rates in particular are subject to global external influences over which the Council has no control.

7.4 Both interest rates and cash balances will be monitored closely throughout the year and potential impacts on the Council's debt financing budget will be assessed. Action will be taken as appropriate, within the limits of the TMP Schedules and the treasury strategy, and in line with the Council's risk appetite, to keep negative variations to a minimum. Any significant variations will be reported to members as part of the Council's regular budget monitoring arrangements.

8 Reporting Arrangements

Capital Strategy

8.1 CIPFA's revised 2017 Prudential and Treasury Management Codes requires all local authorities to prepare an additional 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;
- the implications for future financial sustainability;

8.2 The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

8.3 This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset.

8.4 Where a physical asset is being bought, details of market research, advisors used (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

8.5 Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

8.6 If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the Capital Strategy.

8.7 The Capital Strategy will also consider the proportionality between the treasury investments shown throughout this report and non-treasury investments.

Treasury Management Reporting

8.8 The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals:

a) **Prudential and treasury indicators and treasury strategy (this report)** - The first and most important report is forward looking and 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).

b) **A quarterly treasury management report** – This is primarily a progress report to Cabinet and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c) **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.

9 Treasury Management Budget

9.1 Table 5 below provides a breakdown of the treasury management budget. It is important to note that in line with Unitary proposals for Northamptonshire, Northamptonshire County Council and the 7 distict and borough councils in the county will not exist past 31st March 2021 and estimates beyond this date will be disaggregated and aggregated accordingly to form part of the MTFP for the two new Northamptonshire Unitary Councils.

Table 5: General Fund Treasury Management Budget

Description	2021/22	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m	£m
Interest payable on borrowing	12.835	12.884	12.922	12.957	12.957
Interest receivable from investments	(1.809)	(1.809)	(1.809)	(1.809)	(1.809)
MRP (excl. PFI bullet)	5.513	7.013	8.513	10.013	10.013
Premium on debt rescheduling	0.000	0.000	0.000	0.000	0.000
Total	**16.539**	**18.088**	**19.626**	**21.161**	**21.161**

Note: MRP includes provision of £1.5m pressure per year increased base budget to build up full MRP charge from 2025/26. See MRP Policy at Appendix K-4 for more information.

9.2 Key assumptions underpinning the 2021/22 budget are:

- Average rates achievable on investments of 0.10%;
- The MRP charges in line with the Council's MRP policy (Appendix K-4).

10 Policy on the use of External Service Providers

10.1 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 our external service providers.

10.2 However, there is value in employing an external provider of treasury management services in order to acquire access to independent specialist skills and advice to support the in-house treasury management team.

10.3 The Council’s treasury management advisor is Link Asset Services (LAS). LAS has been the adviser for NCC and the North D&BS for a number of years. The Council extended this contract by a year for 2021/22 to ensure a safe and legal transition of treasury advice.

10.4 The scope of investments within the Council’s operations includes both conventional treasury investments (the placing of residual cash from the Council’s functions) and non-treasury investments, where the primary objective is to support economic regeneration policies. HM Treasury guidance has reiterated that non-treasury investments (almost always funded as capital expenditure) cannot be undertaken for the sole purpose of acquiring an “asset for yield”. Such activity would result in the Council being barred from accessing PWLB loans for any purpose whatsoever in the year in which the investment was made.

11 Future Developments

11.1 Local Authorities are having to consider innovative strategies towards improving service provision to their communities. This approach to innovation also applies to councils’ treasury management activities. The Government has already introduced new statutory powers and regulatory agencies such as CIPFA are introducing policy changes which will have an impact on treasury management approaches in the future. Examples of such changes are:

Localism Act

11.2 A key element of the Act is the “General Power of Competence”: “A local authority has power to do anything that individuals generally may do.” The Act opens up the possibility that a local authority can use derivatives as part of their treasury management operations. However, the legality of this has not yet been tested in the courts even though CIPFA have set out a framework of principles for the use of derivatives in the Treasury Management Code and guidance notes. The Council has no plans at this point to use financial derivatives under the powers contained within this Act.

Loans to Third Parties

11.3 The Council may borrow to make grants or loans to third parties for the purpose of capital expenditure, as allowable under paragraph 25 (1) (b) of the Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 (Statutory Instrument No. 3146). This will usually be to support local authority companies and local economic development, and may be funded by external borrowing.

11.4 North Northamptonshire is a shareholder of LGSS Law Ltd and has made a third party loan at a commercial rate to aid the cash flow of the company. The value of the loan is £0.475m, which represents 50% of the loan made by NCC for its share of the cash flow contribution. The disaggregation of NCC has split the NCC share of LGSS Law Ltd equally between North and West Northamptonshire.

11.5 The Board and Shareholders of LGSS Law Ltd regularly review the performance of the company. A strong foundation for future growth of the company, and in accordance with recommendations from the company's external auditors, the 3 shareholder Councils (Northamptonshire County Council, Cambridgeshire County Council & Central Bedfordshire Council) injected additional share capital (equity) in 2020. The equity of the company from inception was only £150, which was deemed no longer appropriate for a company of its size. It was agreed each shareholder would inject equity capital of £0.475m into LGSS Law.

11.6 As NCC had already provided finance to the company with a historic loan of £0.950m for cash flow purposes, the Councils injection of £0.475m equity capital was offset by a reduction in this loan to the same value, meaning no additional finance was committed.

11.7 Following relevant accounting rules (IFRS9) the equity was funded from the NCC's Capital Programme, and the reduction in loan was reflected in the Council's short-term investments. MRP is being charged on this share capital investment in line with regulations. North Northamptonshire Council will continue to review its position in relation to accounting for the loan on an annual basis statement of accounts process.

UK Municipal Bonds Agency (MBA)

11.8 The UK Municipal Bond Agency (MBA) provides loans to UK local authorities to fund capital expenditure. At its inception the MBA raised £6m share capital from 56 local authorities, including £0.2m from Northamptonshire County Council, plus the Local Government Association to launch an agency to issue bonds in the capital markets on behalf of local authorities across the country and at lower rates than available from the PWLB.

11.9 North Northamptonshire has inherited 50% of NCC's share capital, amounting to £0.1m, as part of NCC's disaggregation. The degree to which any loans raised through the MBA proves cheaper/better value for money than PWLB Certainty Rate is still evolving and is being closely monitored. Officers continue to engage directly with the MBA on redefining its offering.

11.10 The Council may make use of this new source of borrowing as and when appropriate.

Impact of IFRS 9

11.11 An important consideration when assessing current and future investment policy is the implementation of accounting standard IFRS 9 in the Local Authority Code of Practice. A key element of this standard is the move away from assessing risk based on incurred losses on financial assets (i.e. an event that has happened) to expected loss (i.e. the likelihood of loss across the asset lifetime). Whilst this will not materially impact upon traditional treasury investments, the standard also encompasses other investment areas including: loans to third parties, subsidiaries, or longer dated service investments. The expected credit loss model requires local authorities to make provision for these potential losses having assessed the asset with regard to the due diligence undertaken prior to investment, the nature of any guarantees, and subsequent regular updates.

11.12 As set out in paragraphs 11.3 and 11.4 above, the Council has advanced a number of third party loans and may be required to set aside provision for credit loss.

11.13 In addition to the above, the new standard requires changes to the recognition and subsequent valuation treatment of certain investment products. These instruments include property and equity, but also service investments that give rise to cashflows that are not solely payments of principal and interest (SPPI) on the principal outstanding.

11.14 MHCLG has introduced a five year statutory override allowing Councils to reverse any revenue impact of pooled fund valuation gains and losses. MHCLG were not minded to make this statutory override permanent, and will keep it under review.

Training

11.15 A key outcome of investigations into local authority investments following the credit crisis has been an emphasis on the need to ensure appropriate training and knowledge in relation to treasury management activities, for officers employed by the Council, in particular treasury management staff, and for members charged with governance of the treasury management function.

11.16 The Council's treasury advisors run training events regularly which are attended by the Treasury Team. In addition members of the team attend national forums and practitioner user groups where possible.

11.17 Treasury management training for relevant officers and councillors will be delivered as required to facilitate informed decision making and challenge processes, especially given the more global prominent recent events.

12 List of Appendices

Appendix K-1: Treasury Management Policy Statement
Appendix K-2: Treasury Management Scheme of Delegation and Role of Section 151 (S151) Officer
Appendix K-3: Prudential & Treasury Indicators
Appendix K-4: Minimum Revenue Provision (MRP) Policy Statement
Appendix K-5: Annual Investment Strategy
Appendix K-6: Policy for attributing income and expenditure and risks between the General Fund and the HRA

Treasury Management Policy Statement

North Northamptonshire Council defines its treasury management activities as:

“The management of the organisation’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.”

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Treasury Management Scheme of Delegation and Role of Section 151 (S151) Officer

The Scheme of Delegation

Full Council

Approval of annual strategy and receive a mid year update to the Strategy.
Approval of the annual Treasury Management report.
Approval of the Treasury Management budget.

Cabinet

Approval of the quarterly Treasury Management update report (including the mid year update report).
Approval of the annual Treasury Management report.

Scrutiny Committee

Scrutiny of performance against the Strategy.

The Treasury Management role of the S151 Officer

The Council's Executive Director Finance is the officer designated for the purposes of Section 151 of the Local Government Act 1972 as the Responsible Officer for treasury management at the Council.

The Council's Financial Regulations delegates responsibility for the execution and administration of treasury management decisions to the Executive Director Finance, who will act in accordance with the Council's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

The Executive Director Finance has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.

Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the responsible officer to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations.

The Executive Director Finance may delegate their power to borrow and invest to members of their staff.

The Executive Director Finance is responsible for:

- Ensuring that the schedules to the Treasury Management Practices (TMPs) are fully reviewed and updated annually and monitoring compliance to the Treasury Management in the Public Services: Code of Practice and Guidance Notes;
- Submitting regular treasury management reports to Cabinet and Council;
- Submitting debt financing revenue budgets and budget variations in line with the Council's budgetary policies;
- Receiving and reviewing treasury management information reports;

- Reviewing the performance of the treasury management function and promoting value for money;
- 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 (e.g. treasury management advisors) in line with the approval limits set out in the Council's procurement rules;
- Ensuring that the Council's Treasury Management Policy is adhered to, and if not, bringing the matter to the attention of elected members as soon as possible.
- 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 and affordable 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.
- Ensuring 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.
- Creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed.

Prudential and Treasury Indicators

It is important to note that this is North Northamptonshire's first treasury management strategy following the local government reform in Northamptonshire. At the time of writing the disaggregation of Northamptonshire County Council's balance sheet has not been finalised. As such, the Prudential and Treasury Indicators in this appendix are yet to be finalised. **The indicators arising from the Housing Revenue Account (HRA) have been included in the tables of Appendix K-3, however the indicators that are dependant upon the finalisation of the NCC balance sheet disaggregation have not been included**. Once the NCC balance sheet disaggregation has been finalised the indicators will be incorporated and reported to Shadow Authority or Council for approval.

1 The Capital Prudential Indicators

1.1 The Council's capital expenditure plans are the key driver of Treasury Management activity. They are reflected in these prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Capital Expenditure

1.2 This prudential indicator shows the Council's capital expenditure plans; both those agreed previously, and those forming part of this budget cycle. Capital expenditure figures below exclude spend on PFI and Leasing arrangements, which are also shown on the balance sheet.

1.3 The table below summarises the net borrowing funding need of the capital expenditure plans for the Council, for both the General Fund and the HRA. Detailed capital expenditure plans are set out in the Capital Strategy.

Capital Expenditure		**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 & 2024/25 Estimate**		**Total Estimate**
		£m	**£m**	**£m**		**£m**
Non-HRA – Committed Programme		43.4	11.1	15.4		69.9
Non HRA – Development Pool		37.2	43.9	18.1		99.2
HRA		13.7	12.1	24.2		50.0
Total Capital Programme		**94.3**	**67.1**	**57.7**		**219.1**
Leases		TBC	TBC	TBC		TBC
Total Capital Expenditure		**94.3**	**67.1**	**57.7**		**219.1**
Financed By						
Capital Receipts		13.7	5.4	10.7		29.8
Borrowing		17.2	11.3	14.5		43.0
Capital Grants		41.0	41.1	19.2		101.3
Use of Reserves		3.6	0.0	0.0		3.6
External funding (incl s106)		12.2	2.4	1.1		15.7
Revenue Contribution		6.6	6.9	12.2		25.7
Net financing need for the year		**94.3**	**67.1**	**57.7**		**219.1**

The Council’s Borrowing Need (the Capital Financing Requirement)

1.4 The second prudential indicator is the Council’s Capital Financing Requirement (CFR). A local authority that has an HRA must identify separately estimates of the HRA and General Fund CFR. The CFR is the total historical outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Council’s underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

1.5 The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases) also on the Councils balance sheet. Whilst these commitments increases the CFR, and therefore the Council’s borrowing requirement, these types of scheme typically include a borrowing facility and so the Council is not required to separately borrow for these schemes. The CFR below is shown net of these liabilities.

		2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
		£m	**£m**	**£m**	**£m**	**£m**
Capital Financing Requirement [1]						
Non-HRA		TBC	TBC	TBC	TBC	TBC
HRA		114.289	113.989	113.239	112.586	109.586
TOTAL		**TBC**	**TBC**	**TBC**	**TBC**	**TBC**
Movement in CFR		**TBC**	**TBC**	**TBC**	**TBC**	**TBC**

Movement in CFR represented by						
Net financing need for the year		TBC	TBC	TBC	TBC	TBC
Less: MRP and other financing movements		TBC	TBC	TBC	TBC	TBC
Movement in CFR		**TBC**	**TBC**	**TBC**	**TBC**	**TBC**

The Operational Boundary

1.6 This is the limit beyond which external borrowing is not normally expected to exceed. All things being equal, this could be a similar figure to the CFR, but may be lower or higher depending on the levels of actual borrowing undertaken as impacted by the level of current and future cash resources and the shape of the interest rate yield curve.

Operational Boundary		2021/22	2022/23	2023/24	2024/25	2025/26
		£m	**£m**	**£m**	**£m**	**£m**
Total Borrowing		749	762	770	773	776

1.7 The rising trend of the Operational Boundary reflects that of the CFR above. The level set is at a margin above the CFR so that if borrowing was taken to this level, sufficient headroom exists for further short-term borrowing should it be required for in year cashflow purposes.

The Authorised Limit for external borrowing

1.8 A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external borrowing which could be afforded in the short term, but would require detailed modelling to ensure sustainability 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.
- Council is asked to approve the following Authorised Limit (excluding PFI and Finance Lease Financing arrangements):

Authorised Limit		**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
		£m	**£m**	**£m**	**£m**	**£m**
Borrowing		824	837	845	848	851

1.9 The rising trend of the Authorised Limit reflects that of the CFR and subsequently the Operational Boundary. The level set is at a margin above the Operational Boundary, providing additional headroom for further short-term borrowing should it be required for cashflow purposes, before the legal limit is reached.

2 Treasury Management Limits on Activity

2.1 There are four debt and investment related treasury activity limits. The purpose of these are to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs or improve performance. The indicators for debt are:

- **Upper limits on variable interest rate exposure;** this identifies a maximum limit for variable interest rates based upon the debt position net of investments.
- **Upper limits on fixed interest rate exposure;** this is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- **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.

2.2 The interest rate exposure is calculated as a percentage of net debt. Due to the mathematical calculation exposures could be greater than 100% or below zero (i.e. negative) depending on the component parts of the formula. The formula is shown below:

$$\frac{\text{Total Fixed (or Variable) rate exposure}}{\text{Total borrowing – total investments}}$$

Fixed rate calculation:

$$\frac{\text{(Fixed rate borrowing – Fixed rate investments*)}}{\text{Total borrowing – Total investments}}$$

*****defined as greater than 1 year to run

Variable rate calculation:

$$\frac{\text{(Variable rate borrowing** – variable rate investments**)}}{\text{Total borrowing – Total investments}}$$

****** Defined as less than 1 year to run to maturity, or in the case of LOBO borrowing, the call date falling within the next 12 months.

	2021/22	2022/23	2023/24	2024/25	2025/26
Interest rate Exposures					
	Upper	**Upper**	**Upper**	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	TBC	TBC	TBC	TBC	TBC
Limits on variable interest rates based on net debt	TBC	TBC	TBC	TBC	TBC

2.3 The maturity structure of borrowing indicator represents the borrowing falling due in each period expressed as a percentage of total borrowing. These gross limits are set to manage the Council's exposure to sums falling due for refinancing or repayment.

Maturity Structure of borrowing				
	Lower	**Upper**	**Current**	
Under 12 months	TBC	TBC	TBC	
12 months to 2 years	TBC	TBC	TBC	
2 years to 5 years	TBC	TBC	TBC	
5 years to 10 years	TBC	TBC	TBC	
10 years to 20 years	TBC	TBC	TBC	TBC
20 years to 30 years	TBC			TBC
30 years to 40 years	TBC			TBC
40 years to 50 years	TBC			TBC
50 years and above	TBC			TBC

2.4 The Treasury Management Code of Practice Guidance notes requires that maturity date is determined by the earliest date on which the lender *may* require repayment, which in the case of LOBO loans is technically the next break point. This indicator represents the borrowing falling due in each period expressed as a percentage of total borrowing.

2.5 The Council is asked to approve the following treasury indicator and limits for total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end. This indicator is calculated by adding together all investments which have greater than 365 days to run to maturity at a single point in time.

		Maximum principal sums invested > 365 days				
£m		**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
		Estimate	Estimate	Estimate	Estimate	Estimate
Principal sums invested > 365 days		TBC	TBC	TBC	TBC	TBC

3 Affordability Prudential Indicator

3.1 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework is an indicator required to assess the affordability of the capital investment plans. This provides an indication of the impact of the capital investment plans on the Council's overall finances.

3.2 The Council is asked to approve the actual and estimates 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.

3.3 This indicator has been calculated as the estimated net financing costs for the year divided by the amounts to be met from government grants and local taxpayers for the non-HRA element, and by total HRA income for the HRA element. However, it should be recognised that ultimately all debts of a local authority fall on the taxpayer. The objective is to enable trends to be identified.

Financing costs to net revenue stream		**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
		Estimate	Estimate	Estimate	Estimate	Estimate
Non - HRA		5.14%	5.28%	5.09%	4,86%	6.78%
HRA		11.29%	10.16%	9.81%	9.44%	9.07%

3.4 This indicator has been calculated as the estimated HRA debt divided by the HRA revenue. HRA revenues are based on the HRA Busines Plan

Ratio of HRA Debt to HRA Revenues		**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
		£m	£m	£m	£m	£m
HRA debt		114.289	113.989	113.239	112.586	109.586
HRA revenues		35.075	35.644	36.085	36.470	38.856
Ratio of debt to revenues %		326%	320%	314%	309%	297%

3.5 This indicator is the amount of HRA debt per dwelling. The number of HRA dwellings in 2020/21 is based on the latest projections for the year while from 2021/22 onwards is based on the HRA MTFS.

Ratio of HRA Debt to HRA Revenues		**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
HRA debt £m		114.289	113.989	113.239	112.586	109.586
Number of HRA dwellings		8,148	8,101	8,057	7,985	7,913
Debt per dwelling £000		14.03	14.07	14.05	14.10	13.85

Minimum Revenue Provision Policy Statement

1 Policy Statement Introduction

A1.1 The Council is required to repay an element of the accumulated General Fund capital spend each year (Capital Financing Requirement - CFR) through a revenue charge (Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments if required.

A1.2 The Ministry for Housing, Communities and Local Government (MHCLG) have issued regulations that require full Council to approve an MRP Statement in advance of each year. Various options are available to Councils in the guidance with the underlying principle that a prudent provision is made.

2 NCC Historic Debt Liability accumulated to 31st March 2007 (Transferred to NNC)

A2.1 Until 2014/15, this element of the annual provision was calculated using Option 1 of the Guidance, the “Regulatory Method”, which based the calculation on 4% of the Capital Financing Requirement on a reducing balance basis.

A2.2 A change in this policy was introduced in and applied from 2015/16 onwards for historic debt liability, whereby provision calculation was changed to an annuity calculation methodology, allowable under the Guidance.

A2.3 A further change in this policy was introduced in and applied from 2017/18, whereby the annuity method calculation methodology was backdated to apply from 2007/08 onwards. This recalculation when compared against actual MRP charges identified an amount of overprovision, which has been applied prospectively from 2017/18 onwards until fully exhausted. Again, this approach is allowable under the Guidance.

4 NCC Debt Liability accumulated from 1st April 2007 (Transferred to NNC)

A3.1 Up until 2016/17, capital expenditure incurred from 1st April 2007 onwards MRP was provided for under Option 3 of the Guidance, based on the estimated useful life of the assets and using an equal annual instalment method. MRP was charged from the year after the assets funded became operational

A3.2 A change in this policy was introduced in and applied from 2017/18, whereby MRP calculation was changed to an annuity calculation methodology backdated to apply from 2007/08. This recalculation when compared against actual MRP charges identified an amount of overprovision, which will be applied prospectively from 2017/18 onwards until fully exhausted. Again, this approach is allowable under the Guidance.

4 District and Borough Debt (Transferred to NNC)

4.1 MRP relating to the historic debt liability incurred for years up to and including 2007-08 were charged at the rate of 4% on the reducing balance, in accordance with option 1 of the guidance, the "regulatory method".

4.2 The debt liability relating to capital expenditure incurred from 2008-09 onwards was subject to MRP under option 3, the "asset life method", and was charged over a period that is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, was related to the estimated life of that building.

4.3 Estimated useful life periods were determined in line with accounting guidance and regulations. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, the Council generally adopted these periods. However, the Council reserved the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

5 Debt Liability accumulated from 1st April 2021

A5.1 For unsupported capital expenditure incurred from 1st April 2007 onwards, MRP will be charged from the year after the assets funded have become operational.

A5.2 The Council will charge MRP using option3, the "asset life method".

A5.3 Estimated useful life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods set out in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

A5.4 As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis that most reasonably reflects the anticipated period of benefit that arises from the expenditure. Whatever type of expenditure is involved, it will be grouped together in a manner that best reflects the nature of the main component of expenditure with substantially different useful economic lives.

A5.5 The Council reserved the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

6 Non-operational assets

A6.1 The Council will not charge MRP on its non-operational assets. MRP will only be charged in the financial year following the asset becoming operational. This policy will be reviewed annually.

7 Use of Capital Receipts

A7.1 The Council may use capital receipts in the year in which they are received to reduce the CFR and to offset the MRP charge for that year. Any unapplied capital receipts will be available in future years and will be applied in a prudent manner.

8 Private Finance Initiatives (PFI)

A8.1 Any PFI that comes onto the balance sheet under International Financial Report Standards will already have taken capital financing into account as part of their revenue charges. MRP charges for PFI will provide MRP on an asset life basis to match the life of the associated assets.

9 Third party loans

A9.1 The only exception to these MRP rules is loans classified as capital expenditure and drawn by the Council for the purposes of funding third party loans. No MRP will be charged on this debt liability as the loans will be repaid in full in later years. The loan repayment will be treated as a capital receipt.

A9.2 This approach will be reviewed on a loan by loan basis annually to ensure this remains a prudent approach, otherwise MRP charge may be introduced.

10 Revenue Expenditure Funded from Capital Under Statute (REFCUS)

A10.1 Estimated life periods will be determined in line with accounting guidance and regulations. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, the Council will generally adopt these periods. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

11 Capitalisation of Interest

A11.1 The Capital Strategy does not allow capitalisation of interest. Interest will be charged against the revenue account in the year incurred.

12 Leases

A12.1 IFRS16 on Lease accounting is currently due to come into effect from 1 April 2022, having been postponed from 1 April 2021 due to Covid-19. These new regulations will require the principal element of the majority of lease type arrangements to be treated as capital expenditure. Therefore, for MRP on lease liabilities the MRP will be equivalent to the principal element of the annual lease payment for each asset after adjusting for any sub-lease capital receipts

13 Investment Properties

13.1 For property investment activities funded through unsupported borrowing, MRP will be charged in the same way as other capital expenditure, based on the following estimated useful lives:

1. Freehold property - over 50 years;
2. Leasehold property - over the term of the lease.

13.2 These estimated lives were calculated following due diligence in assessing the investment business cases and with an appreciation of the risks associated.

Annual Investment Strategy

1 Investment Policy

1.1 MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments managed by the treasury management team. Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy.

1.2 The Council's appetite for risk must be clearly identified in its strategy report. The Council affirms that its investment policies are underpinned by a strategy of prudent investment of funds held on behalf of the local community. The objectives of the investment policy are firstly the security of funds (protecting the capital sum from loss) and then liquidity (keeping money readily available for expenditure when needed). Once approved levels of security and liquidity are met, the Council will seek to maximise yield from its investments, consistent with the applying of the agreed parameters. These principles are carried out by strict adherence to the risk management and control strategies set out in the TMP Schedules and the Treasury Management Strategy.

1.3 Responsibility for risk management and control lies within the Council and cannot be delegated to an outside organisation.

1.4 Investment instruments identified for use in the financial year are listed in sections 6 and 7 under the 'Specified' and 'Non-Specified' Investments categories.

2 Creditworthiness Policy

2.1 The Council's counterparty and credit risk management policies and its approved instruments for investments are set out below. These, taken together, form the fundamental parameters of the Council's Investment Strategy.

2.2 The Council defines high credit quality in terms of investment counterparties as those organisations that:

- Meet the requirements of the creditworthiness service provided by the Council's external treasury advisors and;
- UK banking or other financial institutions, or are;
- UK national or local government bodies, or are;
- Countries with a sovereign ratings of -AA or above, or are;
- Triple-A rated Money Market funds.

2.3 The creditworthiness service provided by the Council's external treasury advisors applies a 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;

- Credit Default Swaps (CDS – a traded insurance policy market against default risk) spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

2.4 This modelling approach combines credit ratings, credit watches and credit Outlooks in a weighted calculation with an overlay of CDS spreads, to determine suggested duration for investment. The Council will apply these suggested duration limits to it investments at all times, unless otherwise approved by the S151 officer.

2.5 All credit ratings are monitored daily. The Council is alerted to changes to ratings of all three agencies through its external treasury advisors. If a rating downgrade results in the counterparty or 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 is advised of information in movements in CDS spreads against benchmark data and other market information on a daily basis and extreme market movements (which may be an early indicator of financial distress) may result in downgrade of an institution or removal from recommended investment.

2.6 Sole reliance will not be placed on the use of the Council's external treasury advisors creditworthiness service. In addition the Council will also use market data, financial press and information on any external support for banks to help support its decision making process.

2.7 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times, and as such the Executive Director Finance shall have the discretion during the year to lift or increase the restrictions on the counterparty list and or to adjust the associated lending limits on values and durations should it become necessary, to enable the effective management of risk in relation to its investments.

3 Sovereign Limits

3.1 Expectation of implicit sovereign support for banks and financial institutions in extraordinary situations has lessened considerably in the last couple of years, and alongside that, changes to banking regulations have focussed on improving the banking sectors resilience to financial and economic stress.

3.2 The Council has determined that it will only use approved counterparties from overseas countries with a sovereign credit rating from the three main ratings agencies that is equal to or above AA-. Banks domiciled in the UK are exempt from this minimum sovereign credit rating, so may be used if the sovereign rating of the UK falls below AA-.

3.3 The list of countries that qualify using these credit criteria as at January 2021 are shown below. This list will be amended by officers should ratings change in accordance with this policy.

AAA	AA+	AA
Australia	Canada	Abu Dhabi (UAE)
Denmark	Finland	France
Germany	USA	
Luxembourg		
Netherlands		
Norway		
Singapore		**AA-**
Sweden		Belgium
Switzerland		Hong Kong
		Qatar
[as at 21/1/21]		UK

4 Banking Services

4.1 Barclays Bank, Lloyds Bank and HSCB currently provide banking services for the Council. The Council may continue to use its own bankers for short term liquidity requirements if the credit rating of the institution falls below the minimum credit criteria set out in this report, monitored daily. A pragmatic approach will be adopted and rating changes monitored closely.

5 Investment Position and Use of Council's Resources

5.1 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.).

5.2 Investments will be made with reference to the core balances and cash flow requirements and the outlook for interest rates.

5.3 For its cash flow generated balances, the Council will seek to utilise its business reserve accounts, call accounts, notice accounts, money market funds and short-dated deposits in order to benefit from the compounding of interest.

5.4 The table below reflects the under/over borrowing position of the Council, this is reflected in the internal borrowing line.

[Table to be completed once NCC Balance Sheet Dis-aggregation finalised]

Year End Resources		**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
		£m	**£m**	**£m**	**£m**	**£m**
Fund balances		TBC	TBC	TBC	TBC	TBC
Reserves		TBC	TBC	TBC	TBC	TBC
Capital Receipts		TBC	TBC	TBC	TBC	TBC
Total core funds		**TBC**	**TBC**	**TBC**	**TBC**	**TBC**
Working capital		TBC	TBC	TBC	TBC	TBC
Less: internal Borrowing		TBC	TBC	TBC	TBC	TBC
Expected Investments		**TBC**	**TBC**	**TBC**	**TBC**	**TBC**

6 Specified Investments

6.1 The Council assesses that an investment is a specified investment if all of the following criteria apply:

- The investment is **denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling**.
- The investment is **not a long term investment (i.e. up to 1 year)**.
- The making of the investment is **not defined as capital expenditure** by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146 as amended].
- The investment is **made with a body or in an investment scheme of high credit quality** (see below) or with one of the following public-sector bodies:
  - The United Kingdom Government.
  - A local authority in England or Wales (as defined under section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland.
  - High credit quality is defined as a minimum credit rating as outlined in this strategy.

Instrument	**Minimum 'High' Credit Criteria**	**Maximum Amount**
Debt Management Agency Deposit Facility (DMADF)	N/a	No maximum
UK Government Gilts / Treasury Bills	UK sovereign rating	
Certificate of Deposits	Per Treasury Advisors creditworthiness service	£10m per individual/group in total
Term Deposits and Notice Accounts - Banks and Building Societies	Per Treasury Advisors creditworthiness service	
Term Deposits - Local Authorities and Housing Associations	Considered on an individual basis	
Bank Call/Instant Access Accounts	Per Treasury Advisors creditworthiness service	£20m per individual/group in total
Collateralised Deposit / Covered Bonds	AAA	
Bonds issued by multilateral development banks	AAA / UK sovereign rating	
Bond issuance issued by a financial institution which is explicitly guaranteed by UK Government (e.g. National Rail)	UK sovereign rating	
Sovereign bond issues (other than the UK govt)	AAA / UK sovereign rating	
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1. Money Market Funds (CNAV, LVNAV or VNAV)	AAA MMF rating	£20m per individual/group in total
2. Bond Funds	Considered on an individual basis	
3. Gilt Funds	Considered on an individual basis	

6.2 The Council may enter into forward agreements up to 3 months in advance of the investment commencing. If forward agreements are made, the forward period plus the deal period should not exceed the 1 year to be classified as a specified investment.

6.3 The Maximum counterparty limits may be temporarily exceeded by small amounts and for very short periods where interest is compounded by the counterparty to the principal investment amount. In such instances the interest amounts will be withdrawn as soon as reasonably practicable.

6.4 The counterparty limit with the Council's corporate banks (Barclays, Lloyds and HSBC) may be utilised over and above the set counterparty limit on an overnight basis if cash surpluses are identified as a result of unexpected receipts of income after the day's dealing position is closed. This occurs when the timing for receipt of funds is uncertain, for example the sale of a property. In such instances, funds will be withdrawn to bring the Councils exposure back in line with the approved counterparty limit as soon as reasonably practicable and invested elsewhere in line with this strategy.

7 Non-specified investments

7.1 Non-specified investments are defined as those not meeting the specified investment criteria above (including investments exceeding 1 year).

7.2 Given the additional risk profile associated with non-specified investment, the Council may consult with its external treasury advisors before undertaking such investments where appropriate.

Instrument	Minimum 'High' Credit Criteria	Maximum Amount
UK Government	Government backed	No maximum
Certificate of Deposits	Per Treasury Advisors creditworthiness service	£10m per individual/group in total
Term Deposits - Banks and Building Societies	Per Treasury Advisors creditworthiness service	
Term Deposits - Local Authorities and Housing Associations	Considered on an individual basis	
Collateralised Deposit / Covered Bonds	AAA	£20m per individual/group in total
Bonds issued by multilateral development banks	AAA / UK sovereign rating	
Bond issuance issued by a financial institution which is explicitly guaranteed by UK Government (e.g. National Rail)	UK sovereign rating	
Sovereign bond issues (other than the UK govt)	AAA / UK sovereign rating	
Corporate Bond / Equity Holdings	Considered on an individual basis	£10m per individual/group in total

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
Property Funds	Considered on an individual basis	£20m per individual/group in total
Enhanced Money Market Funds	AAA VNAV mmf rating	
Corporate Bond / Equity Funds / Share Capital	Considered on an individual basis	

7.3 Maximum counterparty limits may be temporarily exceeded by small amounts and for very short periods where interest is compounded by the counterparty to the principal investment amount. In such instances the interest amounts will be withdrawn as soon as reasonably practicable.

8 Lending to third parties for treasury management purposes

8.1 The Council has the power to lend monies to third parties subject to a number of criteria. Any loans to or investments in third parties will be made under the Well Being powers of the Council conferred by section 2 of the Local Government Act 2000 or permitted under any other act.

8.2 The Well Being power can be exercised for the benefit of some or all of the residents or visitors to a local authority's area. The power may also be used to benefit organisations and even an individual.

8.3 Loans of this nature will be under exceptional circumstances and will follow the CAPEX approval route and thresholds in line with the Constitution of the Council.

8.4 The primary aims of this Investment Strategy, in order of priority, are the security of its capital, liquidity of its capital and to obtain a return on its capital commensurate with proper levels of security and liquidity. These aims are crucial in determining whether to proceed with a potential loan for the purposes of managing the Council's treasury management investments.

8.5 Recipients of this type of investment are unlikely to be a financial institution and are therefore unlikely to hold a credit rating. In order to ensure security of the Council's capital, extensive financial due diligence must be completed prior to any loan or investment being agreed. The Council will, where appropriate, use specialist advisors to complete financial strength of the entity to ascertain the creditworthiness of the third party. Where necessary, additional guarantees will be sought. This will take the form of security against assets and/or through guarantees from parent companies.

9 Investments Defined as Capital Expenditure

9.1 The acquisition of share capital or loan capital in any corporate body is defined as capital expenditure under Regulation 25(1) (d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. Such investments will have to be funded from capital or revenue resources and will be classified as 'non-specified investments'.

9.2 Investments in “money market funds” which are collective investment schemes and bonds issued by “multilateral development banks” – both defined in SI 2004 No 534 – will not be treated as capital expenditure.

9.3 A loan, grant or financial assistance provided by this Council to another body will be treated as capital expenditure if the Council would define the other bodies use of those funds as capital had it undertaken the expenditure itself.

10 Provisions for Credit Related Losses

10.1 If any of the Council’s investments appear at risk of loss due to default (i.e. this is a credit-related loss and not one resulting from a fall in price due to movements in interest rates) the Council will make revenue provision of an appropriate amount.

11 End of Year Investment Report

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

12 Housing Revenue Account

12.1 The Council is required to have a clearly agreed policy for attributing income and expenditure and risks between the General Fund and the HRA. This policy is set out at Appendix G6.

13 Governance Arrangements

13.1 By approving this strategy, Council is setting the framework from which treasury activity will be conducted, recorded and reported.

13.2 The Executive Director Finance has delegated powers through this strategy to take the most appropriate form of borrowing from approved sources, and to make the most appropriate form of investments in approved instruments. Paragraph 2.7 above delegates powers to the Executive Director Finance giving discretion during the year to lift or increase the restrictions on the counterparty lending list and or to adjust the associated lending limits on values and durations should it become necessary, to enable the effective management of risk in relation to its investments.

13.3 The Executive Director Finance may delegate their powers to borrow and invest within the confines of this strategy to members of their staff and the Treasury team, who will provide regular updates on treasury activity.

13.4 Any other amendments to this strategy deemed necessary will be taken to Council for prior approval.

Policy for attributing income and expenditure and risks between the General Fund and the HRA

1.1 The Council is required to have a clearly agreed policy for attributing income and expenditure and risks between the General Fund and the HRA.

1.2 The Council uses a two pool approach to splitting debt between the HRA and General Fund, whereby loans are assigned to either the HRA or the General Fund.

1.3 The Council applies the requirements of the CLG Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012 in recharging debt financing and debt management costs between the HRA and the General Fund. The interest rates to be applied are determined as follows:

Principal Amount	**Interest Rate**
HRA Credit Arrangements CFR: concession agreements and finance leases	Average rate on HRA credit arrangements
HRA Loans CFR: long term loans (external)	Average rate on HRA external debt
HRA Loans CFR: short term loans payable (under-funded CFR)	Average rate on GF external debt/or for formally agreed borrowing from GF resources an agreed PWLB equivalent rate.
HRA Loans CFR: short term loans receivable (over-funded CFR)	Average rate on external investments/or for earmarked medium term reserves an actual external investment rate
HRA Cash balances: short term loans payable (cash balances overdrawn)	Average rate on external investments
HRA Cash balances: short term loans receivable (cash balances in hand)	Average rate on external investments/or for earmarked medium term reserves an actual external investment rate

1.4 For the purpose of calculating interest rates:
- HRA cash balances are based on the average of opening and closing HRA cash balances;
- HRA CFR external debt is based on actual external debt;
- Other HRA CFR balances based on the mid-year position.

1.5 Debt management costs are charged to the HRA on an apportioned basis that takes into account the weighting of time spent on managing debt and investments respectively.

1.6 Risk associated with external loans sit with either the GF or HRA depending on which of these the loan has been earmarked to. This will include interest rate risk, for example the risk of interest rate rises associated with variable loans.

1.7 Similarly, risk associated with any external investment of earmarked medium term HRA reserves sits with the HRA. This will include the risk of impairment in the event of the failure of an investment counterpart.

1.8 Where risk cannot be earmarked specifically to either the General Fund or HRA, it is apportioned fairly between the two using relevant available data. For example, in the event of impairment of an investment counterpart, any losses will be apportioned between the two funds based on an estimated proportion of cash balances held.