North Northamptonshire Council

Treasury Management Strategy Statement
Minimum Revenue Provision Statement
Annual Investment Strategy
(2023/24)

1. Introduction

1.1. Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

1.2. Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

1.3. Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

2. External Context

2.1. Economic background:

2.1.1. The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2023/24.

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2.1.3. The Bank of England (BoE) increased Bank Rate by 0.5% to 3.5% in December 2022. This followed a 0.75% rise in November which was the largest single rate hike since 1989 and the ninth successive rise since December 2021. The December decision was voted for by a 6-3 majority of the Monetary Policy Committee (MPC), with two dissenters voting for a no-change at 3% and one for a larger rise of 0.75%.

2.1.4. The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

2.1.5. The UK economy contracted by 0.3% between July and September 2022 according to the Office for National Statistics, and the BoE forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.

2.1.6. CPI inflation is expected to have peaked at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets at the time of the November MPR (a peak of 5.25%). However, the BoE stated it considered this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target. Market rates have fallen since the time of the November MPR.

2.1.7. The labour market remains tight for now, with the most recent statistics showing the unemployment rate was 3.7%. Earnings were up strongly in nominal terms by 6.1% for both total pay and for regular pay but factoring in inflation means real pay for both measures was -2.7%. Looking forward, the November MPR shows the labour market weakening in response to the deteriorating outlook for growth, leading to the unemployment rate rising to around 6.5% in 2025.

2.1.8. Interest rates have also been rising sharply in the US, with the Federal Reserve increasing the range on its key interest rate by 0.5% in December 2022 to 4.25%-4.5%. This rise follows four successive 0.75% rises in a pace of tightening that has seen rates increase from 0.25%-0.50% in March 2022. Annual inflation has been slowing in the US but remains above 7%. GDP grew at an annualised rate of 3.2% (revised up from 2.9%) between July and September 2022, but with official interest rates expected to rise even further in the coming months, a recession in the region is widely expected at some point during 2023.

2.1.9. Inflation rose consistently in the Euro Zone since the start of the year, hitting a peak annual rate of 10.6% in October 2022, before declining to 10.1% in November. Economic growth has been weakening with an upwardly revised expansion of 0.3% (from 0.2%) in the three months to September 2022. As with the UK and US, the European Central Bank has been on an interest rate tightening cycle, pushing up its three key interest rates by 0.50% in December, following two consecutive 0.75% rises, taking its main refinancing rate to 2.5% and deposit facility rate to 2.0%.

2.2. **Credit outlook:**

2.2.1. Credit default swap (CDS) prices have followed an upward trend throughout the year, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic.

2.2.2. CDS price volatility has been higher in 2022 compared to 2021 and this year has seen a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

2.2.3. The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from to negative from stable.

2.2.4. There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.

2.2.5. However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

2.3. **Interest rate forecast (November 2022):**

2.3.1. The Authority's treasury management adviser Arlingclose forecasts that Bank Rate will continue to rise in 2022 and 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.

2.3.2. While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.

2.3.3. Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.5%, 3.5%, and 3.85% respectively over the 3-year period to December 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

2.3.4. For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate of 1.91%, and that new long-term loans will be borrowed at an average rate of 4.75%.

3. Local Context

3.1. On 31st December 2022, the Authority held £452.98m of borrowing and £215.98m of treasury investments. This is set out in further detail at ***Appendix B***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.22 Estimate £m	**31.3.23 Estimate £m**	**31.3.24 Forecast £m**	**31.3.25 Forecast £m**	**31.3.26 Forecast £m**
Capital financing requirement	769.702	767.928	734.935	771.051	762.405
Less: Other debt liabilities *	113.962	109.043	75.332	98.868	93.033
Loans CFR	**655.740**	**658.885**	**659.602**	**672.183**	**669.372**
Less: External borrowing **	479.144	445.918	440.742	431.413	426.809
Internal borrowing	**176.596**	**212.967**	**218.860**	**240.770**	**242.563**
Less: Balance sheet resources	429.469	429.469	429.469	429.469	429.469
Treasury investments	**252.873**	**216.502**	**210.609**	**188.699**	**186.906**

* Leases and PFI liabilities that form part of the Authority's total debt

** shows only loans to which the Authority is committed and excludes optional refinancing

3.2. The underlying need to borrow for capital purposes is measured by the Loans Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

3.3. The Authority has a slightly reducing loans CFR due to the net effect of a larger MRP charge than forecast additional borrowing requirement from approved capital programme.

Investments are forecast to fall to £216.5m as capital receipts are used to finance capital expenditure and reserves are used to finance the revenue budget.

3.4. CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2023/24 and the remainder of the medium term financial term period.

4. Liability benchmark

4.1. To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £253m at each year-end to maintain sufficient liquidity but minimise credit risk.

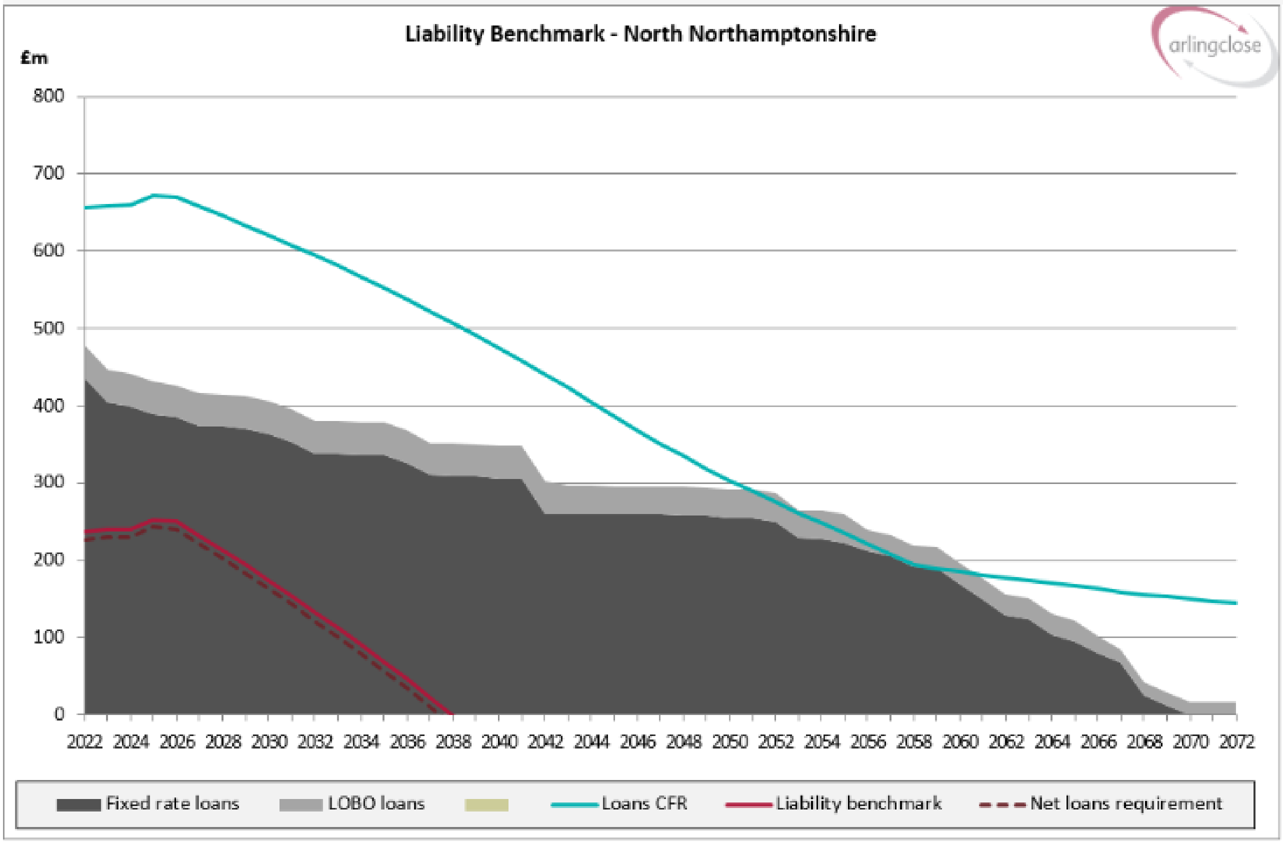
4.2. The liability benchmark measures the Council's projected net debt requirement plus a short-term liquidity allowance in the form of minimum cash and investment balances. The purpose of the benchmark is to set the level of risk which the Council regards as its balanced or normal position.

4.3. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 2: Prudential Indicator: Liability benchmark

	31.3.22 Estimate £m	**31.3.23 Estimate £m**	**31.3.24 Forecast £m**	**31.3.25 Forecast £m**	**31.3.26 Forecast £m**
Loans CFR	655.740	658.885	659.602	672.183	669.372
Less: Balance sheet resources	429.469	429.469	429.469	429.469	429.469
Net loans requirement	**226.271**	**229.416**	**230.133**	**242.714**	**239.903**
Plus: Liquidity allowance	10.000	10.000	10.000	10.000	10.000
Liability benchmark	**236.271**	**239.416**	**240.133**	**252.714**	**249.903**

4.4. Following on from the medium-term forecasts in table 2 above, the long-term liability benchmark assumes some capital expenditure will be funded by borrowing annually, minimum revenue provision on new capital expenditure based on average 25 year asset life and income, expenditure and reserves all increasing by inflation of 2% a year. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing:



4.5. The forecast liability benchmark, or level of debt estimated for 31 March 2023 is £236.271 million, which is lower than the estimate within the Treasury Management Strategy. The current level of long-term borrowing is £479.144 million. As the Council has available reserves it can use them to fund capital expenditure in the short term, which is a prudent approach to managing its cash resources. The liability benchmark assumes that cash and investment balances are kept to a minimum level of £10 million to maintain sufficient liquidity to manage day-to day cashflow needs of the Council but minimise credit risk.

4.6. The above chart indicates that the Council will need to borrow for the next 15 years. Although, the Council's borrowing need is on a downward trend for the entire period of the forecast. This reflects the capital expenditure activities in the Council's medium term financial plan.

4.7. CIPFA recommends that the optimum external borrowing position for an Authority should be at the level of the liability benchmark. This requires that all of an Authority's balance sheet resources should be used to maximise internal borrowing.

4.8. Any years where actual loans are less than the benchmark indicate a future borrowing requirement. Whereas where actual loans outstanding exceed the benchmark represents an overborrowed position which will result in excess cash requiring investment.

4.9. The Council is projected to be in an overborrowed position for the duration of the forecast due to the level of balance sheet resources, which includes it's revenue and capital reserves being more than its liability benchmark. The Council will need to manage the overborrowed position to ensure that funds are invested in line with the Council's approved Treasury Management and Investment Strategies.

<u>Borrowing Strategy</u>

4.10. The Authority currently holds £445.9m of long-term loans, a decrease of £33m on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Authority does not expect to need to borrow in 2023/24. The Authority may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £798.3m.

4.11. **Objectives:** The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

4.12. **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

4.13. By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2023/24 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

4.14. The Authority has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and may investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.

4.15. Alternatively, the Authority may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

4.16. In addition, the Authority may borrow short-term loans to cover unplanned cash flow shortages.

4.17. **Sources of borrowing:** The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Northamptonshire Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

4.18. **Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

4.19. **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to the Executive Committee.

4.20. **LOBOs:** The Authority holds £42m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. £32m of these LOBOs have options during 2023/24, and with interest rates having risen recently, there is now a reasonable chance that lenders will exercise their options. If they do, the Authority will take the option to repay LOBO loans to reduce refinancing risk in later years. Total borrowing via LOBO loans will be limited to £42m.

4.21. **Short-term and variable rate loans**: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

4.22. **Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

5. <u>Treasury Investment Strategy</u>

5.1. The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's treasury investment balance has ranged between £217.2m and £298.9m, and similar levels are expected to be maintained in the forthcoming year.

5.2. **Objectives:** The CIPFA Code requires the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

5.3. **Strategy:** As demonstrated by the liability benchmark above, the Authority expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income. The Council's Investment Strategy report is attached at Schedule 2 of this report.

5.4. **ESG policy:** Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Authority's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Authority will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

5.5. **Business models:** Under the IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

5.6. **Approved counterparties:** The Authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the limits shown.

5.7. *Table 3: Treasury investment counterparties and limits*

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£15m	Unlimited
Secured investments *	25 years	£20m	Unlimited
Banks (unsecured) *	13 months	£20m	Unlimited
Building societies (unsecured) *	13 months	£20m	£20m
Registered providers (unsecured) *	5 years	£10m	£10m
Money market funds *	n/a	£20m	Unlimited
Strategic pooled funds	n/a	£20m	£20m
Real estate investment trusts	n/a	£20m	£50m
Other investments *	5 years	£20m	Unlimited

5.8. *** Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

5.9. For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £5m per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

5.10. **Government:** Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

5.11. **Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

5.12. **Banks and building societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

5.13. **Registered providers (unsecured):** Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

5.14. **Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

5.15. **Strategic pooled funds:** Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

5.16. **Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

5.17. **Other investments:** This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

5.18. **Operational bank accounts:** The Authority may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £2m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

5.19. **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

5.20. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

5.21. **Other information on the security of investments**: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

5.22. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

5.23. **Investment limits**: The maximum that will be lent to any one organisation (other than the UK Government) will be £20m. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

5.24. Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £2m in operational bank accounts count against the relevant investment limits.

5.25. Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Additional investment limits

	Cash limit
Any group of pooled funds under the same management	£20m
Negotiable instruments held in a broker's nominee account	£20m
Foreign countries	£10m

5.26. **Liquidity management**: The Authority uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium-term financial plan and cash flow forecast.

5.27. The Authority will spread its liquid cash over at least two providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

6. Treasury Management Prudential Indicators

6.1. The Authority measures and manages its exposures to treasury management risks using the following indicators.

Capital Expenditure and Financing

6.2. 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:

Table 5 – Capital Expenditure

Capital expenditure	2022/23 Estimate £000	2023/24 Budget £000	2024/25 Forecast £000	2025/26 Forecast £000
Non-HRA				
Adults, Wellbeing and Communities	7,067	4,011	4,030	4,830
Children's	8,666	5,184	3,719	0
Place and Economy	29,091	28,534	9,396	1,482
Enabling Services	1,105	1,079	1,810	1,362
Development Pool	22,070	39,335	71,290	79,598
HRA	5,463	14,627	15,220	13,950
Total	**73,462**	**92,770**	**105,465**	**101,222**

6.3. **Other long-term liabilities -** the above financing need excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments.

6.4. 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.

Table 6 – Capital Programme Financing

Financing of capital expenditure (£'000)	2022/23 Estimate £000	2023/24 Budget £000	2024/25 Forecast £000	2025/26 Forecast £000
Capital receipts	4,215	4,755	5,706	4,427
Capital grants and external contributions	50,662	69,645	68,170	79,049
Capital reserves	202	150	0	0
Revenue Contribution	6,604	8,142	8,735	9,369
Net financing need for the year	**11,779**	**10,078**	**22,853**	**8,378**

6.5. **Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating / credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
Portfolio average credit [rating / score]	*AA- / 4.2*

6.6. **Liquidity:** The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount it could borrow each quarter without giving prior notice in relation to timing issues for operational cashflow purposes.

Liquidity risk indicator	Target
Total sum borrowed in past 3 months without prior notice	£25m

6.7. **Interest rate exposures**: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£374,882
Upper limit on one-year revenue impact of a 1% fall in interest rates	(£374,882)

6.8. The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

6.9. **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.

6.10. **The authorised limit for external debt.** This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit 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.

6.11. 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.

6.12. The Council is asked to approve the following authorised limit:

Table 7 – Authorised Limit

	31.3.22 Estimate £m	31.3.23 Estimate £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m
Operational Boundary	721.31	724.77	725.56	739.40	736.31
Authorised Limit	793.45	797.25	798.12	813.34	809.94

6.13. **Maturity structure of borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Table 8 – Maturity Structure

Maturity structure of fixed interest rate borrowing 2023/24		
	Lower	**Upper**
Under 12 months	0%	30%
12 months to 2 years	0%	30%
2 years to 5 years	0%	30%
5 years to 10 years	0%	35%
10 years to 20 years	0%	40%
20 years to 30 years	0%	40%
30 years to 40 years	0%	45%
40 years to 50 years	0%	50%
Over 50 years	0%	20%

6.14. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

6.15. **Long-term treasury management investments:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management investments will be:

Price risk indicator	**2023/24**	**2024/25**	**2025/26**
Limit on principal invested for more than 12 months	£60m	£55m	£55m

6.16. Long-term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Related Matters

6.17. The CIPFA Code requires the Authority to include the following in its treasury management strategy.

6.18. **Financial derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

6.19. The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

6.20. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

6.21. In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

6.22. **Housing Revenue Account:** On 1st April 2012, the Authority notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured annually and interest transferred between the General Fund and HRA at the Authority's average interest rate on investments, adjusted for credit risk.

6.23. **Markets in Financial Instruments Directive**: The Authority has opted up to professional client status with its providers of financial services, including [advisers, banks, brokers and fund managers], allowing it access to a greater range of services but [without/with] the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

7. Financial Implications

7.1. The budget for investment income in 2023/24 is £3.48m, based on an average investment portfolio of £182m at a forecast average interest rate of 1.91%. The budget for General Fund debt interest paid in 2023/24 is £10.7m, based on an average debt portfolio of £348.5m at an average interest rate of 3.07%. The budget for the Housing Revenue Account debt interest paid in 2023/24 is £3.42m, based on an average debt portfolio of £98.153m at an average interest rate of 3.48%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecasts, performance against budget will be correspondingly different.

8. <u>Other Options Considered</u>

8.1. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Arlingclose Economic & Interest Rate Forecast – December 2022

Underlying assumptions:

- The influence of the mini-budget on rates and yields continues to wane following the more responsible approach shown by the new incumbents of Downing Street.
- Volatility in global markets continues, however, as investors seek the extent to which central banks are willing to tighten policy, as evidence of recessionary conditions builds. Investors have been more willing to price in the downturn in growth, easing financial conditions, to the displeasure of policymakers. This raises the risk that central banks will incur a policy error by tightening too much.
- The UK economy is already experiencing recessionary conditions and recent GDP and PMI data suggests the economy entered a technical recession in Q3 2022. The resilience shown by the economy has been surprising, despite the downturn in business activity and household spending. Lower demand should bear down on business pricing power – recent data suggests the UK has passed peak inflation.
- The lagged effect of the sharp tightening of monetary policy, and the lingering effects of the mini-budget on the housing market, widespread strike action, alongside high inflation, will continue to put pressure on household disposable income and wealth. The short- to medium-term outlook for the UK economy remains bleak.
- Demand for labour appears to be ebbing, but not quickly enough in the official data for most MPC policymakers. The labour market remains the bright spot in the economy and persisting employment strength may support activity, although there is a feeling of borrowed time. The MPC focus is on nominal wage growth, despite the huge real term pay cuts being experienced by the vast majority. Bank Rate will remain relatively high(er) until both inflation and wage growth declines.
- Global bond yields remain volatile as investors price in recessions even as central bankers push back on expectations for rate cuts in 2023. The US labour market remains tight and the Fed wants to see persistently higher policy rates, but the lagged effects of past hikes will depress activity more significantly to test the Fed's resolve.
- While the BoE appears to be somewhat more dovish given the weak outlook for the UK economy, the ECB seems to harbour (worryingly) few doubts about the short term direction of policy. Gilt yields will be broadly supported by both significant new bond supply and global rates expectations due to hawkish central bankers, offsetting the effects of declining inflation and growth.

Forecast:

- The MPC raised Bank Rate by 50bps to 3.5% in December as expected, with signs that some members believe that 3% is restrictive enough. However, a majority of members think further increases in Bank Rate might be required. Arlingclose continues to expect Bank Rate to peak at 4.25%, with further 25bps rises February, March and May 2023.
- The MPC will cut rates in the medium term to stimulate a stuttering UK economy but will be reluctant to do so until wage growth eases. We see rate cuts in the first half of 2024.
- Arlingclose expects gilt yields to remain broadly steady over the medium term, although with continued volatility across shorter time periods.

- Gilt yields face pressures to both sides from hawkish US/EZ central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales and high government borrowing will provide further underlying support for yields.

	Current	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25	1.25
Arlingclose Central Case	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.25	3.25	3.25	3.25
Downside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00
3-month money market rate													
Upside risk	0.00	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25	1.25
Arlingclose Central Case	3.00	4.40	4.40	4.40	4.35	4.30	4.25	4.00	3.75	3.50	3.40	3.40	3.40
Downside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00
5yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.43	3.60	3.80	3.80	3.80	3.70	3.60	3.50	3.40	3.30	3.30	3.30	3.30
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.47	3.50	3.60	3.60	3.60	3.60	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
20yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.86	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
50yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.46	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

Appendix B – Existing Investment & Debt Portfolio Position

	31/12/22 Actual portfolio £m	31/12/22 Average rate %
External borrowing:		
Public Works Loan Board	399.480	3.00
Local authorities	1.500	1.75
LOBO loans from banks	42.000	4.25
Other loans	10.000	3.89
Total external borrowing	**452.980**	**3.13**
Other long-term liabilities:		
Private Finance Initiative	83.488	N/A
Leases	30.474	N/A
Total other long-term liabilities	**113.962**	**N/A**
Total gross external debt	**566.942**	N/A
Treasury investments:		
The UK Government	25.000	2.07
Local authorities	113.500	2.97
Banks (unsecured)	21.357	3.59
Money market funds	23.511	3.21
Real estate investment trusts	32.355	3.19
Other investments	0.254	1.00
Total treasury investments	**215.977**	**2.98**
Net debt	**350.965**	**N/A**

Minimum Revenue Provision Statement 2023/24

North Northamptonshire Council

1. Introduction

1.1. Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The *Local Government Act 2003* requires the Authority to have regard to the former Ministry of Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in 2018.

1.2. The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

1.3. The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

2. Northamptonshire County Council (NCC) Historic Debt Liability accumulated to 31st March 2007 – Transferred to North Northamptonshire Council (NNC)

2.1. A 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.

2.2. **NCC Debt Liability accumulated from 1st April 2007 (Transferred to NNC)**

2.3. 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.

2.4. 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.

2.5. **District and Borough Debt (Transferred to NNC)**

2.6. MRP relating to the historic debt liability incurred for years up to and including 2007 – 2008 were charged at the rate of 4% on the reducing balance, in accordance with Option 1 of the guidance, the “regulatory method”.

2.7. The debt liability relating to capital expenditure incurred from 2008-2009 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.

2.8. 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.

2.9. **Debt Liability accumulated from 1st April 2021**

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

2.11. The Council will charge MRP using option 3, the “asset life method”.

2.12. 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.

2.13. 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.

2.14. 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.

- **Leases and Private Finance Initiatives** (PFI) – For assets acquired by leases or PFIs, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

- **Operating Leases** – Where former operating leases have been brought onto the balance sheet due to the adoption of the *IFRS 16 Leases* accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.

- **Loans to Third Parties** – For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the MHCLG Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred on the loan is fully funded over the life of the assets.

- **Revenue Expenditure Funded from Capital Under Statute (REFCUS)** - 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.

- No MRP will be charged in respect of assets held within the Housing Revenue Account.

2.15. Capital expenditure incurred during 2023/24 will not be subject to a MRP charge until 2024/25.

2.16. Based on the Authority's latest estimate of its capital financing requirement (CFR) on 31st March 2023, the budget for MRP has been set as follows:

Table 9 – MRP Budget

	31.03.2023 Estimated CFR	2023/24 Estimated MRP

	£'000	£'000
General Fund	542,026	(4,291)
Loans to other bodies repaid in instalments	0	Nil
Voluntary overpayment (or use of prior year overpayments)	n/a	(5,490)
Total General Fund	**542,026**	**(9,781)**
HRA CFR	116,859	0
Total	**658,885**	**0**

2.17. **Overpayments:** In earlier years, one of the Council's predecessor authorities, Northamptonshire County Council had made voluntary overpayments of MRP that are available to reduce the revenue charges in later years. It is estimated that £5.7m will be drawn down out of the balance of overpayments in 2023/24.

Table 10 – MRP Overpayment

MRP Overpayments Estimates	£'000
Actual balance 31.03.2022	19,948
Approved drawdown 2022/23	(5,490)
Expected balance 31.03.2023	14,458
Planned drawdown 2023/24	(5,719)
Forecast balance 31.03.2024	8,739

Investment Strategy Report 2023/24

North Northamptonshire Council

1. Introduction

1.1. The Authority invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

1.2. This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

2. Treasury Management Investments

2.1. The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £170m and £295m during the 2023/24 financial year.

2.2. The Council currently has current bank accounts with Barclays, HSBC, Lloyds and NatWest banks, but the Council's main banker is Barclays Bank.

2.3. **Contribution:** The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

3. Service Investments: Loans

3.1. **Contribution:** The Council may lend money to its subsidiaries, local businesses, local charities and its employees to support local public services and stimulate local economic growth. Northamptonshire County Council (NCC) made a loan of £1.8m to LGSS (now Pathfinder Legal Services Limited – (PLSL)) which was a subsidiary of the County Council set up in partnership with and jointly owned with Cambridgeshire County Council, Central Bedfordshire Council. The loan was made to provide working capital to PLSL when it was set up. On vesting day for NNC, half (£0.9m) of the loan provided by NCC was transferred to the Council and the other half to West Northamptonshire Council.

3.2. **Security:** The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for service purposes

Category of borrower	31.3.2022 actual			2023/24
	Balance owing £'000	Loss allowance £'000	Net figure in accounts £'000	Approved Limit £'000
Subsidiaries	450	0	450	2,000
Local businesses	0	0	0	1,000
Local charities	0	0	0	250
Employees*	0	0	0	1,000
TOTAL	**450**	**0**	**450**	**4,250**

*Balance owing is currently part of the ongoing work around disaggregation and aggregation for the former legacy authorities

3.3. Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts are shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

3.4. **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding service loans.

4. Service Investments: Shares

4.1. **Contribution:** The Council invests in the shares of its subsidiaries to support local public services and stimulate local economic growth. The Council converted some of the original working capital loan provided to PLSL to share equity in April 2021.

4.2. **Security:** One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Table 2: Shares held for service purposes

Category of company	31.3.2022 actual			2023/24
	Amounts invested £'000	Gains or losses £'000	Value in accounts £'000	Approved Limit £'000
Subsidiaries	450	0	450	2,000

4.3. **Risk assessment:** The Authority assesses the risk of loss before entering into this investment. The acquisition of these shares derives from conversion of part of an existing loan to share equity in the company. Pathfinder Legal Services Limited produces annual accounts which among other reports is used to assess its performance.

4.4. **Liquidity:** The investment is a small investment in a subsidiary of the Council. The amount invested has little on the Council's liquidity position and there are no plans to increase investment in this subsidiary or make further investments in shares.

4.5. **Non-specified Investments:** The Council has Shares are the only investment type that the Authority has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Authority's upper limits on non-specified investments. The Authority has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

5. Commercial Investments: Property

5.1. **Contribution:** The Council invested in regional commercial property with the intention of making a profit that will be spent on local public services as set out in below table.

Table 3: Property held for investment purposes

Property	Actual	31.3.2022 actual		31.3.2023 expected	
	Purchase cost £'000	**Unrealised Gains or (losses) £'000**	**Value in accounts £'000**	**Gains or (losses) £'000**	**Value in accounts £'000**
Denby	14,000	2,300	16,300	0	16,300
Wakefield	5,200	-400	4,800	0	4,800
TOTAL	**19,200**	**1,900**	**21,100**	**0**	**21,100**

5.2. The above investments are long term in nature and primarily to allow the Council to generate positive rental income net of costs on an annual basis to support the delivery of local services – they are not for capital purposes. Therefore, the Council does not plan to crystalise the above accounting gains/losses.

5.3. **Security:** In accordance with government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs. Taking as a whole the accounting valuation for the portfolio exceeds total purchase costs.

5.4. A fair value assessment of the Authority's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2022/23 year end accounts preparation and audit process value the property portfolio below their purchase cost, then an updated investment strategy will be presented to full council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom. Currently, the valuations do not have any impact on revenue.

5.5. **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding property investments by -:

5.6. Prior to going ahead with the purchase of a long-term investment, a valuation report is commissioned from expert external advisers. This comprehensive report reviews the micro/macro economic environment and how the investment will meet the Council's needs now and in the future. Where the investment has an existing occupier, the review will undertake a credit check/rating on such customers. For the two commercial properties in the Council's portfolio, the existing tenants were rated as low risk and the recommended level of credit that could be extended to the tenants were significantly higher than the annual rent value due to the Council. Further, both tenants were considered to be relatively financially strong at the time of the initial review.

5.7. The value of these investments is reviewed annually. This valuation is used to adjust the accounting value of the investment as part of the end of year closure of accounts process. The valuation is also used to review performance and ongoing viability of the investment in the medium to long term and whether the Council should consider exiting the investment.

5.8. **Liquidity:** Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Authority will undertake annual review of these investment with a view to determining their ongoing strategic value within the Council's overall investment portfolio. Where a commercial property is deemed no longer of strategic value within the investment portfolio the process of disposal will commence early to ensure an efficient disposal.

6. <u>Capacity, Skills and Culture</u>

6.1. Elected members and statutory officers: Officers involved in treasury management are experienced in the managing local authority treasury management functions with relevant qualification at all levels of staff structure. Treasury officers also attend regular training events/ seminars organised by external parties including the council treasury management advisors.

6.2. This Council deems that its treasury officers have sufficient experience to manage the treasury activities that is approved under its TMSS/AIS. Where further training or experience is required for activities that are beyond current range of treasury management activities, treasury officers will be required to attend such training. Also, the Council's treasury advisor will be expected to support treasury decisions in such situations.

6.3. Commercial deals: The Council does not plan to invest further in commercial property deals. If this changes in future, the Council will ensure that officers involved in negotiations are fully appraised of the requirement of the core principles of the prudential framework and the regulatory regime within which local authorities are required to operate.

6.4. Corporate governance: The following activities are undertaking to monitor the Council's treasury activities:

- Full Council, following review by the Finance Resources Scrutiny Committee, approves an annual Treasury Management Strategy Statement (TMSS), Minimum Revenue Provision (MRP) Policy and Annual Investment Strategy (AIS);
- fortnightly meetings between treasury officers and senior finance management team to review treasury activities;
- monthly budget monitoring that updates senior management and Executive Committee on progress toward delivering treasury budget objectives;
- bi-annual report to the Executive Committee and Full Council reviewing all treasury activities including reporting against all treasury and prudential indicators set out in the approved annual Treasury Management Strategy Statement.

7. **<u>Investment Indicators</u>**

7.1. The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

7.2. **Total risk exposure:** The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third-party loans.

Table 5: Total investment exposure

Total investment exposure (£'000)	**31.03.2022 Actual**	**31.03.2023 Forecast**	**31.03.2024 Forecast**
Treasury management investments	252,875	216,504	210,611
Service investments: Loans	450	450	450
Service investments: Shares	450	450	450
Commercial investments: Property held for investment purposes	21,100	21,100	21,100
TOTAL INVESTMENTS / EXPOSURE	**274,875**	**238,504**	**232,611**

7.3. **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. The Council has determined that none of its assets are funded from borrowing.

7.4. **Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 7: Investment rate of return (net of all costs)

Investments net rate of return	2021/22 Actual	2022/23 Forecast	2023/24 Forecast
Treasury management investments	0.73%	2.00%	**1.91%**
Service investments: Loans	0.00%	0.00%	**0.50%**
Service investments: Shares	0.00%	0.00%	**0.50%**
Commercial investments: Property	1.00%	1.00%	**1.91%**
ALL INVESTMENTS	**0.75%**	**1.90%**	**1.90%**