Appendix H

North Northamptonshire Council

Treasury Management Strategy Statement
Minimum Revenue Provision Statement
Annual Investment Strategy
2022/23

1. Introduction and Background

1.1. Introduction

1.1.1. CIPFA published the revised codes on 20th December 2021 and has stated that formal adoption is not required until the 2023/24 financial year. This Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.

1.1.2. The revised codes will have the following implications:

- a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;
- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment;
- address ESG issues within the Capital Strategy;
- require implementation of a policy to review commercial property, with a view to divest where appropriate;
- create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices);
- ensure that any long term treasury investment is supported by a business model;
- a requirement to effectively manage liquidity and longer term cash flow requirements;
- amendment to TMP1 to address ESG policy within the treasury management risk framework;
- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council;
- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

1.1.3. In addition, all investments and investment income must be attributed to one of the following three purposes: -

Treasury management

1.1.4. Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery

1.1.5. Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial return

1.1.6. Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a

council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

1.1.7. As this Treasury Management Strategy Statement and Annual Investment Strategy deals soley with treasury management investments, the categories of service delivery and commercial investments will be dealt with as part of the Capital Strategy report.

1.1.8. Members will be updated on how all these changes will impact our current approach and any changes required will be formally adopted within the 2023/24 TMSS report.

1.2. Background

1.2.1. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

1.2.2. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.2.3. The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.2.4. CIPFA defines treasury management as:

> *"The management of the local authority's borrowing, 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."*

1.2.5. Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

1.3. Reporting Requirements

Capital Strategy

1.3.1. The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

i. a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
ii. an overview of how the associated risk is managed
iii. the implications for future financial sustainability

1.3.2. The aim of the 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.

Treasury Management reporting

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

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.

1.4. Treasury Management Strategy for 2022/23

1.4.1. The strategy for 2022/23 covers two main areas:

Capital issues

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

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

1.4.2. These elements cover the requirements of the Local Government Act 2003, Department of Levelling Up, House and Communities (DLUHC) Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

Training

1.4.3. The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. The members of the Finance and Resources Scrutiny Committee will undertake treasury management training to assist them discharge their duties as the committee that has oversight on treasury management matters.

1.4.4. 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.

1.4.5. 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.

1.4.6. 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.

1.4.7. The training needs of treasury management officers are periodically reviewed to ensure that skills and knowledge are regularly refreshed.

Treasury management consultants

1.4.8. The Council uses Link Group, Treasury solutions as its external treasury management advisors.

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

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

Current Treasury Management Position

1.4.11. It is important to note that this is still a relatively new local authority following the local government reorganisation in Northamptonshire having only come into existence on 1 April 2021. Progress is being made on the aggregation of the district and boroughs assets and liabilities and the disaggregation of Northamptonshire County Council's (NCC) assets and liabilities. The largest obstacle to the completion of the aggregation/disaggregation processes is the finalisation of financial statements, especially the balance sheets of legacy authorities not having been prepared/audited/signed off to 31 March 2021.

1.4.12. As such the position on assets, borrowing, investments and funding for North Northamptonshire Council will be based on estimates derived from the latest available information. This will need to be carefully monitored during the financial year, particularly the prudential indicators. If any fundamental changes are required, the Strategy would need to be updated and submitted to Full Council for approval.

2. THE CAPITAL PRUDENTIAL INDICATORS 2022/23 – 2024/25

2.1. PRUDENTIAL INDICATORS

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

Capital Expenditure and Financing

2.1.2. 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 2.1 – Capital Expenditure

Capital expenditure £m	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Non-HRA				
Adults, Wellbeing and Communities	25,363	4,795	3,781	3,800
Children's	15,205	6,544	-	-
Place and Economy	49,162	2,472	4,944	7,300
Transformation	2,769	2,520	520	370
Development Pool	24,300	21,058	22,482	13,875
HRA	25,712	13,302	12,488	12,288
Total	**142,512**	**50,691**	**44,215**	**37,633**

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

2.1.4. 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 2.2 – Capital Programme Financing

Financing of capital expenditure £m	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Capital receipts	19,991	4,215	3,855	3,830
Capital grants and external contributions	81,218	27,891	23,168	19,115
Capital reserves	5,897	202	202	202
Revenue Contribution	6,142	6,604	6,775	6,943
Net financing need for the year	**29,264**	**11,779**	**10,215**	**7,543**

The Councils borrowing need (Capital Financing Requirement)

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

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

2.1.7. The CFR includes any other long-term liabilities (e.g., PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has **£80.156m** of such schemes within the CFR.

2.1.8. The Council is asked to approve the CFR projections below:

Table 2.3 – Capital Financing Requirement Forecast

	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Capital Financing Requirement				
Non-HRA	584,967	593,127	593,470	594,411
Housing	119,859	116,859	113,359	109,956
Total CFR	**704,827**	**709,986**	**706,830**	**704,367**
Movement in CFR	**45,019**	**5,160**	**(3,157)**	**(2,462)**

Movement in CFR represented by				
Net financing need for the year (above)	66,870	16,515	8,603	9,728
Less MRP/VRP and other financing movements	(21,851)	(11,355)	(11,759)	(12,190)
Movement in CFR	**45,019**	**5,160**	**(3,157)**	**(2,462)**

2.1.9. All external borrowing that will be undertaking are strictly related to normal treasury activities of the Council.

3. Minimum Revenue Provision (MRP) Policy Statement

3.1. Policy Statement Introduction

3.1.1. The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision – MRP), although it is allowed to undertake additional voluntary payment if required (Voluntary Revenue Provision – VRP).

3.1.2. DLUHC regulations have been issued which require the full Council 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 following MRP Statement.

3.2. NCC Historic Debt Liability accumulated to 31 March 2007 (Transferred to NNC)

3.2.1. Until 2014/15, this element of the annual provision was calculated using Option 1 of the Guidance, the "Regulatory Method", which is based on the calculation on 4% of the CFR on a reducing balance basis.

3.2.2. 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.

3.2.3. 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.

3.3. NCC Debt Liability accumulated from 1 April 2007 (Transferred to NNC)

3.3.1. 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.

3.3.2. 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. Following further review by the s151 Officer of the MRP policy relating to PFI contracts, it was determined that the change in policy that was introduced from 2017/18 to 2020/21 is reversed and that the original policy of charging MRP in line with the contract life is adopted. A recalculation was undertaken based on the contract life methodology. This recalculation when compared against actual MRP charges has identified an amount of overprovision, which was applied prospectively from 2017/18 onwards until fully exhausted.

3.4. District and Borough Debt Liability (Transferred to NNC)

3.4.1. 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 method in accordance with Option 1 of the Guidance, the “Regulatory Method”.

3.4.2. 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.

3.4.3. 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.

3.5. Debt Liability Accumulated from 1st April 2007

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

3.5.2. The Council will charge MRP using Option 3, the “Asset Life Method”.

3.5.3. 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.

3.5.4. 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.

3.5.5. 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.

3.6. Non-Operational Assets

3.6.1. 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.

3.7. Use of Capital Receipts

3.7.1. 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.

3.8. Private Finance Initiatives (PFI)

3.8.1. 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.

3.9. Third Party Loans

3.9.1. Loans to third parties are classified as capital expenditure which will increase the Capital Financing Requirement (CFR) by the amount of the loan. The cash advance is due to be returned in full at maturity, with interest paid annually. The Authority will charge MRP on loans to third parties where such loans are funded from borrowing. The MRP chargeable will be based on the terms of the loan. Once the loan is repaid, the repayment will be classed as capital receipts.

3.10. Revenue Expenditure Funded from Capital Under Statute (REFCUS)

3.10.1. 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.

3.11. Capitalisation of Interest

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

3.12. Lease

3.12.1. IFRS 16 on lease accounting is currently due to come into effect from 1st April 2022, having been postponed from 1st 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.

3.13. Investment Properties

3.13.1. 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:

i. Freehold property – over 50 years;
ii. Leasehold property – over the term of the lease.

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

3.14. MRP Overpayments

3.14.1. A change introduced by the revised DLUHC MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

3.14.2. Changes to the MRP policy of Northamptonshire County Council, which now forms part of this Council, for 2017/18 resulted in identification of an overprovision of MRP /(VRP) when compared against actual MRP charges. Following disaggregation, NNC inherited total VRP overpayment from NCC of **£31.142m** as at 31 March 2021. The overprovision identified has been applied prospectively from 2017/18 onwards until fully exhausted. This reduced annual MRP charges to a minimal charge of £0.1m. It is expected that the overprovision will be fully exhausted during the financial year 2025/26.

4. BORROWING

4.1. Borrowing Introduction

4.1.1. The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

4.1.2. The overall treasury management portfolio as at 31 March 2021 and for the position as at 30 November 2021 are shown below for both borrowing and investments.

Table 4.1 – Treasury Management Portfolio

TREASURY PORTFOLIO	Actual 31 Mar 21 £'000	Actual 31 Mar 21 %	Current 30 Nov 21 £'000	Current 30 Nov 21 %
Treasury Investments				
Banks	51,830	46.9%	66,947	29.7%
Local Authorities	25,500	23.1%	28,500	12.6%
DMADF	5,000	4.5%	40,000	17.7%
Money Market Funds	11,901	10.8%	74,000	32.8%
Total Managed In-House	**94,231**	**85.3%**	**209,447**	**92.8%**
Property Funds	16,287	14.7%	16,287	7.2%
Total Managed Externally	**16,287**	**14.7%**	**16,287**	**7.2%**
Total Treasury Investments	**110,518**	**100.0%**	**225,734**	**100.0%**
Treasury External Borrowing				
Local Authorities	23,000	4.7%	3,500	0.7%
Banks	10,000	2.0%	10,000	2.1%
PWLB	418,894	84.8%	418,375	88.3%
LOBOs	42,000	8.5%	42,000	8.9%
Total External Borrowing	**493,894**	**100.0%**	**473,875**	**100.0%**
Net Treasury Investments / (Borrowing)	**(383,376)**		**(248,141)**	

4.1.3. The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 4.2 – Treasury Management Borrowing and CFR Forecasts

£'000	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
External Debt				
Debt at 1 April	493,894	459,710	454,261	447,991
Expected change in Debt	(34,184)	(5,449)	(6,270)	(5,977)
Other long-term liabilities (OLTL)	113,962	109,043	104,219	98,868
Expected change in OLTL	(4,769)	(4,919)	(4,824)	(5,351)
Actual gross debt at 31 March	**568,903**	**558,384**	**547,386**	**535,531**
The Capital Financing Requirement	704,827	709,986	706,830	704,367
Under / (over) borrowing	135,924	151,602	159,443	168,837

4.1.4. Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

4.1.5. The Executive Director of Finance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view

takes into account current commitments, existing plans, and the proposals in this budget report.

4.2. Treasury Indicators: Limits to Borrowing Activity

4.2.1. **The Operational Boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

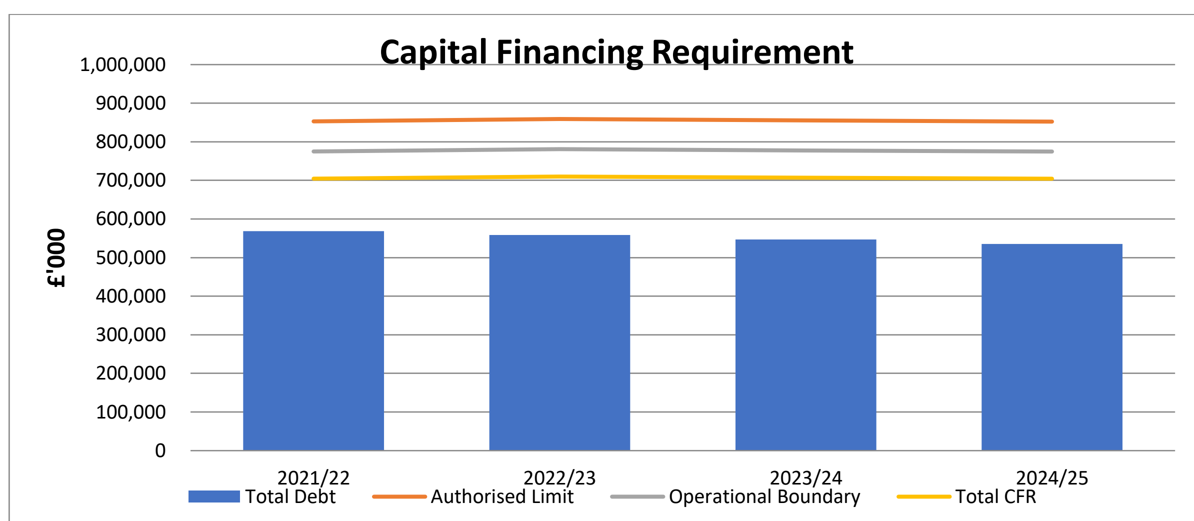
4.2.2. **The authorised limit for external debt.** This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level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

4.2.3. 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.

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

Table 4.3 – CFR, Operational Boundary, Authorised Limit

	Est 2021/22 £'000	Est 2022/23 £'000	Est 2023/24 £'000	Est 2024/25 £'000
HRA CFR	119,859	116,859	113,359	109,956
GF CFR	584,967	593,127	593,470	594,411
Total CFR	**704,827**	**709,986**	**706,830**	**704,367**
External Borrowing	459,710	454,261	447,991	442,013
Other long-term liabilities	109,193	104,123	99,396	93,518
Total Debt	**568,903**	**558,384**	**547,386**	**535,531**
Authorised Limit	852,840	859,084	855,264	852,284
Operational Boundary	775,309	780,985	777,512	774,804



4.3. Prospects for Interest Rates

4.3.1. The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 20th December 2021. These are forecasts for Certainty rates – gilt yields plus 80 bps.

Table 4.4 – Interest Rates Forecast

Link Group Interest Rate View 20.12.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

4.3.2. Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged until raising it to 0.25% at its meeting on 16th December 2021.

4.3.3. As shown in the forecast table above, the forecast for Bank Rate now includes four increases, one in December 2021 to 0.25%, then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.

4.4. Forecasts for Bank Rate

4.4.1. Link, the Council's treasury advisor have provided the following commentary on the Bank of England Rate.

4.4.2. It is not expected that Bank Rate will go up fast after the initial rate rise as the supply potential of the economy is not likely to have taken a major hit during the pandemic: it should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the spike up to around 5%. The forecast includes four increases in the Bank Rate, the first of which has now happened in December 2021, over the three-year forecast period to March 2025, ending at 1.25%.

4.4.3. With the high level of uncertainty prevailing on several different fronts, we expect to have to revise our forecasts again - in line with whatever the new news is.

4.4.4. It should also be borne in mind that Bank Rate being cut to 0.25% and then to 0.10%, were emergency measures to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away such emergency cuts on no other grounds than they are no longer warranted, and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

4.5. Forecasts for PWLB rates and gilt and treasury yields

4.5.1. Link, the Council's treasury advisor have provided the following commentary on forecasts for PWLB rates and treasury yields.

4.5.2. Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. As the interest forecast table for PWLB certainty rates above shows, it is forecast to be a steady, but slow, rise in both Bank Rate and gilt yields during the forecast period to March 2025, though there will doubtless be a lot of unpredictable volatility during this forecast period.

4.5.3. While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have on our gilt yields. As an average since 2011, there has been a 75% correlation between movements in US 10-year treasury yields and UK 10-year gilt yields. This is a significant UPWARD RISK exposure to our forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.

4.6. Investment and borrowing rates

4.6.1. Link, the Council's treasury advisor have provided the following commentary on investment and borrowing rates.

4.6.2. **Investment returns** are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate hikes, actual economic circumstances may see the MPC fall short of these elevated expectations.

4.6.3. **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England and still remain at historically low levels. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.

4.6.4. On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates which had been increased by 100 bps in October 2019. The standard and certainty margins were reduced by 100 bps but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme. The current 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)

4.6.5. **Borrowing for capital expenditure.** Our long-term (beyond 10 years), forecast for Bank Rate is 2.00%. As some PWLB certainty rates are currently below 2.00%, many authorities are considering additional long-term borrowing from the PWLB where appropriate. This Council, however, has a significant cash reserves which is sufficient to support its current capital programme and repayment of maturing debt. Although, the Council can borrow in advance of need, there will be a *cost of carry*, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances and additional revenue budget spend.

4.7. Borrowing Strategy

4.7.1. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

4.7.2. Against this background and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Executive Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.

- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration 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 than they are projected to be in the next few years.

4.8. Policy on Borrowing in Advance of Need

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

Table 4.5 – Borrowing in Advance of Need

Year	Maximum Borrowing in Advance	Notes
2022/23	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.
2023/24	50%	
2024/25	25%	

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

4.9. Debt Rescheduling

4.9.1. Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates, even though the general margin of PWLB rates over gilt yields was reduced by 100 bps in November 2020.

4.9.2. If rescheduling was done, it will be reported to the Executive Committee, at the earliest meeting following its action.

4.10. Approved Sources of Long and Short Term Borrowing

4.10.1. Below is a list of institutions that the Council can borrow from:

On Balance Sheet	Fixed	Variable
PWLB	•	•
Municipal bond agency	•	•
Local authorities	•	•
Banks	•	•
Pension funds	•	•
Insurance companies	•	•
UK Infrastructure Bank	•	•
Market (long-term)	•	•
Market (temporary)	•	•
Market (LOBOs)	•	•
Local temporary	•	•
Local Bonds	•	
Local authority bills	•	•
Overdraft		•
Negotiable Bonds	•	•
Internal (capital receipts & revenue balances)	•	•
Commercial Paper	•	
Medium Term Notes	•	
Finance leases	•	•

5. ANNUAL INVESTMENT STRATEGY

5.1. Investment Policy – Management of Risk

5.1.1. The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report). However, it is worth noting that this authority since inception on 1 April 2021 has not borrowed for the sole purpose of investing in income yielding assets.

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

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

5.1.3. The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate, the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

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

i. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

ii. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

iii. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector to establish the most robust scrutiny process on the suitability of potential investment counterparties.

iv. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two

lists in Appendix IV under the categories of 'specified' and 'non-specified' investments.

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

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

v. **Non-specified and loan investment limits.** The Council has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments of 20%.

vi. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in Appendix IV.

vii. **Transaction limits** are set for each type of investment in Appendix IV.

viii. This authority will set a limit for its investments which are invested for **longer than 365 days** – see Appendix IV.

ix. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** – see Appendix V.

x. All investments will be denominated in **Sterling**.

xi. As a result of the change in accounting standards for 2022/23 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023.

5.2. Creditworthiness Policy

5.2.1. The Council applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- "watches" and "outlooks" from credit rating agencies;

- CDS spreads that may give early warning of changes in credit ratings;

- sovereign ratings to select counterparties from only the most creditworthy countries.

5.2.2. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

5.2.3. The Director of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

5.2.4. Credit rating information is supplied by the Link Group, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur, and this information is considered before dealing. For instance, a negative rating Watch applying to counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

5.2.5. The criteria for providing a pool of high-quality investment counterparties, (both specified and non-specified investments) is set out in Appendix IV. A limit of 20% of total investments will be applied to the use of non-specified investments

5.2.6. All credit ratings will be monitored. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

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

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

Creditworthiness.

5.2.8. Significant levels of downgrades to Short- and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any

alterations were limited to Outlooks. However, as economies are beginning to reopen, there have been some instances of previous lowering of Outlooks being reversed.

CDS prices

5.2.9. Although bank CDS prices, (these are market indicators of credit risk), spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its Link-provided Passport portal.

Other limits

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

i. **Non-specified treasury management investment limit.** The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being 20% of the total treasury management investment portfolio.

ii. **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA- from Fitch *or equivalent*. The list of countries that qualify using this credit criteria as at 22nd December 2021 are shown in Appendix V. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

iii. **Other limits.** In addition:

- no more than 20% will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

5.3. Investment strategy

5.3.1. **In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.

- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations.

5.3.2. The current forecast shown at Appendix II, includes a forecast for a first increase in Bank Rate in May 2022, though it could come in February.

5.3.3. The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year, (based on a first increase in Bank Rate in quarter 2 of 2022), are as follows.:

Table 5.1 – Investment Rates Forecast

Average earnings in each year	Now	Previously
2022/23	0.50%	0.50%
2023/24	0.75%	0.75%
2024/25	1.00%	1.00%
2025/26	1.25%	1.25%
Long term later years	2.00%	2.00%

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

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

5.3.6. The Council is asked to approve the following treasury indicator and limit:

Table 5.2 – Upper Limit for Sums Invested over 365 days

Upper limit for principal sums invested for longer than 365 days			
%	**2022/23**	**2023/24**	**2024/25**
	Estimate	Estimate	Estimate
Principal sums invested for longer than 365 days	20%	20%	20%

5.4. Investment Performance / Risk Benchmarking

5.4.1. These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.

5.4.2. Security - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.007% historic risk of default when compared to the whole portfolio.

5.4.3. Liquidity – in respect of this area the Council seeks to maintain:

- Bank overdraft - £0.750m
- Liquid short-term deposits of at least £10m available with a week's notice.

5.4.4. Yield - local measures of yield benchmarks are

- Investments – internal returns in line with the 7-day SONIA rate

5.5. Treasury Management Budget

5.5.1. Table below provides a breakdown of the treasury management budget.

Table 5.3 – Treasury Budget

Description	2022/23 £'000	2023/24 £'000	2024/25 £'000
Interest Payable on borrowing	10,796	10,706	10,675
Interest receivable from I nvestments	(1,809)	(1,809)	(1,809)
MRP (excl. PFI bullet)	7,013	8,513	10,013
Total Treasury Management Budget	**16,000**	**17,410**	**18,879**

5.5.2. The key assumptions underpinning the 2022/23 budget are that:

- Average rate achieved on investments of 0.32% for money market and fixed term deposits;
- Average return of 4.25% for property fund investments;
- The MRP charges are in line with Council policy including the MRP payment holiday that was inherited from the now defunct Northamptonshire County Council.

5.6. End of year investment report

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

5.7. Future Developments

5.7.1. Local authorities are having to consider innovative strategies to meet and improve service provision to their communities. This approach to innovation also applies to the council's treasury management activities.

5.8. Loan to Third Parties

5.8.1. 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.

5.8.2. North Northamptonshire Council 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 was £0.475m, which represents 50% of the loan made by NCC for its share of the cash flow contribution. This was based on disaggregation of NCC share of LGSS Law Ltd equally between North and West Northamptonshire.

5.8.3. 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.

5.8.4. 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.

5.8.5. 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.

5.9. UK Municipal Bond Agency (MBA)

5.9.1. The UK Municipal Bond Agency 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, and the Local Government Association to launch an agency to issue bonds in the capital markets on behalf of local authorities across the country that would offer competitive rates relative to the PWLB.

5.9.2. North Northamptonshire Council has inherited 50% of NCC's share capital, amounting to £0.1m, as part of NCC's disaggregation. Kettering Borough Council also had a £10,000 share in the UKMBA which has now also been transferred to NNC. 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.

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

5.10. Impact of IFRS 9

5.10.1. 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.

5.10.2. As set out above, the Council has advanced a number of third party loans and although the Council is not expecting any losses to arise from these loans, it may be required to set aside provision for potential credit loss.

5.10.3. 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.

5.10.4. 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.

6. Appendices

i. Prudential and Treasury Management Indicators
ii. Interest Rate Forecasts
iii. Economic Background Report
iv. Treasury Management Practice 1 – Credit & Counterparty Risk Management
v. Approved Countries for Investments
vi. Treasury Management Scheme of Delegation
vii. Treasury Management Role of S151 Officer

7. THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2022/23 – 2024/25

7.1. Capital Prudential Indicator Introduction

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

Table 7.1 – Capital Expenditure

Capital expenditure £m	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Non-HRA				
Adults, Wellbeing and Communities	25,363	4,795	3,781	3,800
Children's	15,205	6,544	-	-
Place and Economy	49,162	2,472	4,944	7,300
Transformation	2,769	2,520	520	370
Development Pool	24,300	21,058	22,482	13,875
HRA	25,712	13,302	12,488	12,288
Total	**142,512**	**50,691**	**44,215**	**37,633**

Affordability prudential indicators

7.1.2. The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

i. Ratio of financing costs to net revenue stream

7.1.3. 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.

Table 7.2 – General Fund Ratio of Financing Cost to Net Revenue

%	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Non-HRA	N/A	5.9%	5.8%	5.7%	5.6%
HRA	N/A	12.2%	10.0%	9.6%	9.3%

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

Table 7.3 - HRA Ratios

	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
HRA debt £000	N/A	105,724	102,724	99,224	95,821
HRA revenues £m	N/A	35,150	36,270	36,861	37,290
Ratio of debt to revenues %	N/A	3.01	2.83	2.69	2.57

Table 7.4 – HRA Debt, Dwellings

	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
HRA debt £000	N/A	105,724	102,724	99,224	95,821
Number of HRA dwellings	N/A	8,224	8,177	8,102	8,040
Debt per dwelling £	N/A	12.86	12.56	12.25	11.92

Maturity structure of borrowing

7.1.5. 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.

7.1.6. The Council is asked to approve the following treasury indicators and limits:

Table 7.5 – Maturity Structure of Borrowing

Maturity structure of fixed interest rate borrowing 2022/23		
	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%	35%
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%
Maturity structure of variable interest rate borrowing 2022/23		
	Lower	**Upper**
Under 12 months	0%	20%
12 months to 2 years	0%	20%
2 years to 5 years	0%	20%
5 years to 10 years	0%	15%
10 years to 20 years	0%	15%
20 years to 30 years	0%	5%
30 years to 40 years	0%	5%
40 years to 50 years	0%	5%
Over 50 years	0%	5%

Control of interest rate exposure

7.2. Please see paragraphs 4.3.1 and 4.3.2.

7.3. INTEREST RATE FORECASTS 2021-2025

7.3.1. This appendix is in a separate downloadable file.

Table 7.6 – Interest Rates Forecasts 2021 - 2025

Link Group Interest Rate View 20.12.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30
Bank Rate														
Link	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
Capital Economics	0.25	0.25	0.50	0.75	0.75	0.75	0.75	1.00	1.00	-	-	-	-	-
5yr PWLB Rate														
Link	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
Capital Economics	1.40	1.40	1.50	1.50	1.60	1.70	1.70	1.80	1.90	-	-	-	-	-
10yr PWLB Rate														
Link	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
Capital Economics	1.60	1.60	1.70	1.70	1.80	1.80	1.90	2.00	2.00	-	-	-	-	-
25yr PWLB Rate														
Link	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
Capital Economics	1.80	1.80	1.90	1.90	2.00	2.10	2.10	2.20	2.30	-	-	-	-	-
50yr PWLB Rate														
Link	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30
Capital Economics	1.40	1.50	1.60	1.70	1.80	1.90	2.00	2.20	2.30	-	-	-	-	-

Note: PWLB forecasts are based on PWLB certainty rates

7.4. ECONOMIC BACKGROUND

7.4.1. **COVID-19 vaccines.** These were the game changer during 2021 which raised high hopes that life in the UK would be able to largely return to normal in the second half of the year. However, the bursting onto the scene of the Omicron mutation at the end of November, rendered the initial two doses of all vaccines largely ineffective in preventing infection. This has dashed such hopes and raises the spectre again that a fourth wave of the virus could overwhelm hospitals in early 2022. What we now know is that this mutation is very fast spreading with the potential for total case numbers to double every two to three days, although it possibly may not cause so much severe illness as previous mutations. Rather than go for full lockdowns which heavily damage the economy, the government strategy this time is focusing on getting as many people as possible to have a third (booster) vaccination after three months from the previous last injection, as a booster has been shown to restore a high percentage of immunity to Omicron to those who have had two vaccinations. There is now a race on between how quickly boosters can be given to limit the spread of Omicron, and how quickly will hospitals fill up and potentially be unable to cope. In the meantime, workers have been requested to work from home and restrictions have been placed on large indoor gatherings and hospitality venues. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in sectors like restaurants, travel, tourism and hotels which had been hit hard during 2021, but could now be hit hard again by either, or both, of government restrictions and/or consumer reluctance to leave home. Growth will also be lower due to people being ill and not working, similar to the pingdemic in July. The economy, therefore, faces significant headwinds although some sectors have learned how to cope well with Covid. However, the biggest impact on growth would come from another lockdown if that happened. The big question still remains as to whether any further mutations of this virus could develop which render all current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread until tweaked vaccines become widely available.

7.4.2. A summary overview of the future path of bank rate

- In December, the Bank of England became the first major western central bank to put interest rates up in this upswing in the current business cycle in western economies as recovery progresses from the Covid recession of 2020.

- The next increase in Bank Rate could be in February or May, dependent on how severe an impact there is from Omicron.

- If there are lockdowns in January, this could pose a barrier for the MPC to putting Bank Rate up again as early as 3rd February.

- With inflation expected to peak at around 6% in April, the MPC may want to be seen to be active in taking action to counter inflation on 5th May, the release date for its Quarterly Monetary Policy Report.

- The December 2021 MPC meeting was more concerned with combating inflation over the medium term than supporting economic growth in the short term.

- Bank Rate increases beyond May are difficult to forecast as inflation is likely to drop sharply in the second half of 2022.

- However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next down-turn; all rates under 2% are providing stimulus to economic growth.

- We have put year end 0.25% increases into Q1 of each financial year from 2023 to recognise this upward bias in Bank Rate - but the actual timing in each year is difficult to predict.

- Covid remains a major potential downside threat in all three years as we ARE likely to get further mutations.

- How quickly can science come up with a mutation proof vaccine, or other treatment, – and for them to be widely administered around the world?

- Purchases of gilts under QE ended in December. Note that when Bank Rate reaches 0.50%, the MPC has said it will start running down its stock of QE.

7.4.3. MPC meeting 16h December 2021

- The Monetary Policy Committee (MPC) voted 8-1 to raise Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.

- The MPC disappointed financial markets by not raising Bank Rate at its November meeting. Until Omicron burst on the scene, most forecasters, therefore, viewed a Bank Rate increase as being near certain at this December meeting due to the way that inflationary pressures have been comprehensively building in both producer and consumer prices, and in wage rates. However, at the November meeting, the MPC decided it wanted to have assurance that the labour market would get over the end of the furlough scheme on 30th September without unemployment increasing sharply; their decision was, therefore, to wait until statistics were available to show how the economy had fared at this time.

- **On 10th December we learnt of the disappointing 0.1% m/m rise in GDP** in October which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November. Early evidence suggests growth in November might have been marginally better. Nonetheless, at such low rates of growth, the government's "Plan B" COVID-19 restrictions could cause the economy to contract in December.

- **On 14th December, the labour market statistics** for the three months to October and the single month of October were released. The fallout after the furlough scheme was smaller and shorter than the Bank of England had feared. The single-month data were more informative and showed that LFS employment fell by 240,000, unemployment increased by 75,000 and the unemployment rate rose from 3.9% in September to 4.2%. However, the weekly data suggested this didn't last long as unemployment was falling again by the end of October. What's more, the 49,700 fall in the claimant count and the 257,000 rise in the PAYE measure of company payrolls suggests that the labour market strengthened again in November. The other side of the coin was a further rise in the number of vacancies from 1.182m to a record 1.219m in the three months to November which suggests that the supply of labour is

struggling to keep up with demand, although the single-month figure for November fell for the first time since February, from 1.307m to 1.227m.

- These figures by themselves, would probably have been enough to give the MPC the assurance that it could press ahead to raise Bank Rate at this December meeting. However, the advent of Omicron potentially threw a spanner into the works as it poses a major headwind to the economy which, of itself, will help to cool the economy. The financial markets, therefore, swung round to expecting no change in Bank Rate.

- **On 15th December we had the CPI inflation** figure for November which spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, Omicron also caused a sharp fall in world oil and other commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies).

- **Other elements of inflation are also transitory** e.g., prices of goods being forced up by supply shortages, and shortages of shipping containers due to ports being clogged have caused huge increases in shipping costs. But these issues are likely to clear during 2022, and then prices will subside back to more normal levels. Gas prices and electricity prices will also fall back once winter is passed and demand for these falls away.

- Although it is possible that the Government could step in with some **fiscal support for the economy**, the huge cost of such support to date is likely to pose a barrier to incurring further major expenditure unless it was very limited and targeted on narrow sectors like hospitality. The Government may well, therefore, effectively leave it to the MPC, and to monetary policy, to support economic growth – but at a time when the threat posed by rising inflation is near to peaking!

- This is the adverse set of factors against which the MPC had to decide on Bank Rate. For the second month in a row, the MPC blind-sided financial markets, this time with a **surprise increase in Bank Rate from 0.10% to 0.25%.** What's more, the hawkish tone of comments indicated that the MPC is now concerned that inflationary pressures are indeed building and need concerted action by the MPC to counter. This indicates that there will be more increases to come with financial markets predicting 1% by the end of 2022. The 8-1 vote to raise the rate shows that there is firm agreement that inflation now poses a threat, especially after the CPI figure hit a 10-year high this week. The MPC commented that "there has been significant upside news" and that "there were some signs of greater persistence in domestic costs and price pressures".

- On the other hand, it did also comment that **"the Omicron variant is likely to weigh on near-term activity".** But it stressed that at the November meeting it had said it would raise rates if the economy evolved as it expected and that now "these conditions had been met". It also appeared more worried about the possible boost to inflation form Omicron itself. It said that "the current position of the global and UK economies was materially different compared with prior to the onset of the pandemic, including elevated levels of consumer price inflation". It also noted the possibility that renewed social distancing would boost demand for goods again, (as demand for services would fall), meaning "global price pressures might persist for longer". (Recent news is that the

largest port in the world in China has come down with an Omicron outbreak which is not only affecting the port but also factories in the region.)

- On top of that, there were no references this month to inflation being expected to be below the **2% target in two years' time,** which at November's meeting the MPC referenced to suggest the markets had gone too far in expecting interest rates to rise to over 1.00% by the end of the year.

- These comments indicate that there has been a material reappraisal by the MPC of the inflationary pressures since their last meeting and the Bank also increased its forecast for inflation to peak at 6% next April, rather than at 5% as of a month ago. However, as the Bank retained its guidance that only **a "modest tightening"** in policy will be required, it cannot be thinking that it will need to increase interest rates that much more. A typical policy tightening cycle has usually involved rates rising by 0.25% four times in a year. "Modest" seems slower than that. As such, the Bank could be thinking about raising interest rates two or three times next year to 0.75% or 1.00%.

- In as much as a considerable part of the inflationary pressures at the current time are indeed **transitory,** and will naturally subside, and since economic growth is likely to be weak over the next few months, this would appear to indicate that this tightening cycle is likely to be comparatively short.

- As for the timing of the next increase in Bank Rate, the MPC dropped the comment from November's statement that Bank Rate would be raised "in the coming months". That may imply another rise is unlikely at the next meeting in February and that May is more likely. However, much could depend on how adversely, or not, the economy is affected by Omicron in the run up to the next meeting on 3rd February. Once 0.50% is reached, the Bank would act to start shrinking its stock of QE, (gilts purchased by the Bank would not be replaced when they mature).

- **The MPC's forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows:

    - Raising Bank Rate as "the active instrument in most circumstances".

    - Raising Bank Rate to 0.50% before starting on reducing its holdings.

    - Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.

    - Once Bank Rate had risen to at least 1%, it would start selling its holdings.

7.4.4. **US.** Shortages of goods and intermediate goods like semi-conductors, have been fuelling increases in prices and reducing economic growth potential. In November, **CPI inflation hit a near 40-year record level of 6.8%** but with energy prices then falling sharply, this is probably the peak. The biggest problem for the Fed is the mounting evidence of a strong pick-up in cyclical price pressures e.g., in rent which has hit a decades high.

7.4.5. **Shortages of labour** have also been driving up wage rates sharply; this also poses a considerable threat to feeding back into producer prices and then into consumer prices inflation. It now also appears that there has been a sustained drop in the labour force

which suggests the pandemic has had a longer-term scarring effect in reducing potential GDP. Economic growth may therefore be reduced to between 2 and 3% in 2022 and 2023 while core inflation is likely to remain elevated at around 3% in both years instead of declining back to the Fed's 2% central target.

7.4.6. Inflation hitting 6.8% and the feed through into second round effects, meant that it was near certain that the **Fed's meeting of 15th December** would take aggressive action against inflation. Accordingly, the rate of tapering of monthly $120bn QE purchases announced at its November 3rd meeting. was doubled so that all purchases would now finish in February 2022. In addition, Fed officials had started discussions on running down the stock of QE held by the Fed. Fed officials also expected three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy. The first increase could come as soon as March 2022 as the chairman of the Fed stated his view that the economy had made rapid progress to achieving the other goal of the Fed – "maximum employment". The Fed forecast that inflation would fall from an average of 5.3% in 2021 to 2.6% in 2023, still above its target of 2% and both figures significantly up from previous forecasts. What was also significant was that this month the Fed dropped its description of the current level of inflation as being "transitory" and instead referred to "elevated levels" of inflation: the statement also dropped most of the language around the flexible average inflation target, with inflation now described as having exceeded 2 percent "for some time". It did not see Omicron as being a major impediment to the need to take action now to curtail the level of inflationary pressures that have built up, although Fed officials did note that it has the potential to exacerbate supply chain problems and add to price pressures.

7.4.7. **EU.** The slow role out of vaccines initially delayed **economic recovery** in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Q1, Q2 came in with strong growth of 2%. With Q3 at 2.2%, the EU recovery was then within 0.5% of its pre Covid size. However, the arrival of Omicron is now a major headwind to growth in quarter 4 and the expected downturn into weak growth could well turn negative, with the outlook for the first two months of 2022 expected to continue to be very weak.

7.4.8. **November's inflation figures** breakdown shows that the increase in price pressures is not just due to high energy costs and global demand-supply imbalances for durable goods as services inflation also rose. Headline inflation reached 4.9% in November, with over half of that due to energy. However, oil and gas prices are expected to fall after the winter and so energy inflation is expected to plummet in 2022. Core goods inflation rose to 2.4% in November, its second highest ever level, and is likely to remain high for some time as it will take a long time for the inflationary impact of global imbalances in the demand and supply of durable goods to disappear. Price pressures also increased in the services sector, but wage growth remains subdued and there are no signs of a trend of faster wage growth which might lead to *persistently* higher services inflation - which would get the ECB concerned. The upshot is that the euro-zone is set for a prolonged period of inflation being above the ECB's target of 2% and it is likely to average 3% in 2022, in line with the ECB's latest projection.

7.4.9. **ECB tapering.** The ECB has joined with the Fed by also announcing at its meeting on 16th December that it will be reducing its QE purchases - by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases for over half of next year. However, as inflation will fall back sharply during 2022, it is likely that it will leave its central rate below zero, (currently -0.50%), over the next two years. The main struggle that the ECB has had in recent years is that inflation has been doggedly

anaemic in sticking below the ECB's target rate despite all its major programmes of monetary easing by cutting rates into negative territory and providing QE support.

7.4.10. The ECB will now also need to consider the impact of **Omicron** on the economy, and it stated at its December meeting that it is prepared to provide further QE support if the pandemic causes bond yield spreads of peripheral countries, (compared to the yields of northern EU countries), to rise. However, that is the only reason it will support peripheral yields, so this support is limited in its scope.

7.4.11. The EU has entered into a **period of political uncertainty** where a new German government formed of a coalition of three parties with Olaf Scholz replacing Angela Merkel as Chancellor in December 2021, will need to find its feet both within the EU and in the three parties successfully working together. In France there is a presidential election coming up in April 2022 followed by the legislative election in June. In addition, Italy needs to elect a new president in January with Prime Minister Draghi being a favourite due to having suitable gravitas for this post. However, if he switched office, there is a significant risk that the current government coalition could collapse. That could then cause differentials between Italian and German bonds to widen when 2022 will also see a gradual running down of ECB support for the bonds of weaker countries within the EU. These political uncertainties could have repercussions on economies and on Brexit issues.

7.4.12. **CHINA.** After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of **2020**; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021.

7.4.13. However, the pace of economic growth has now fallen back in **2021** after this initial surge of recovery from the pandemic and looks likely to be particularly weak in 2022. China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. Chinese consumers are also being very wary about leaving home and so spending money on services. However, with Omicron having now spread to China, and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove so successful in future. In addition, the current pace of providing boosters at 100 billion per month will leave much of the 1.4 billion population exposed to Omicron, and any further mutations, for a considerable time. The **People's Bank of China** made a start in December 2021 on cutting its key interest rate marginally so as to stimulate economic growth. However, after credit has already expanded by around 25% in just the last two years, it will probably leave the heavy lifting in supporting growth to fiscal stimulus by central and local government.

7.4.14. Supply shortages, especially of coal for power generation, were causing widespread power cuts to industry during the second half of 2021 and so a sharp disruptive impact on some sectors of the economy. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

7.4.15. **JAPAN.** 2021 has been a patchy year in combating Covid. However, recent business surveys indicate that the economy has been rebounding rapidly in 2021 once the bulk

of the population had been double vaccinated and new virus cases had plunged. However, Omicron could reverse this initial success in combating Covid.

7.4.16. The Bank of Japan is continuing its **very loose monetary policy** but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was actually negative in July. New Prime Minister Kishida, having won the November general election, brought in a supplementary budget to boost growth, but it is unlikely to have a major effect.

7.4.17. **WORLD GROWTH.** World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum in the second half of the year, though overall growth for the year is expected to be about 6% and to be around 4-5% in 2022. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. While headline inflation will fall sharply, core inflation will probably not fall as quickly as central bankers would hope. It is likely that we are heading into a period where there will be a **reversal of world globalisation** and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

7.4.18. **SUPPLY SHORTAGES.** The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains. Major queues of ships unable to unload their goods at ports in New York, California and China built up rapidly during quarters 2 and 3 of 2021 but then halved during quarter 4. Such issues have led to a misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. The latest additional disruption has been a shortage of coal in China leading to power cuts focused primarily on producers (rather than consumers), i.e., this will further aggravate shortages in meeting demand for goods. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods available to purchase.

7.5. TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

7.5.1. **SPECIFIED INVESTMENTS:** All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months.)

7.5.2. **NON-SPECIFIED INVESTMENTS**: These are any investments which do not meet the specified investment criteria. A maximum of 20% of total value of investment portfolio will be held in aggregate in non-specified investment.

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

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

Table 7.7 – Specified Investments Strategy

Instruments	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 government)	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	

7.6. NON-SPECIFIED INVESTMENTS: A maximum of 20% of total investment portfolio will be held in aggregate in non-specified investments.

7.6.1. Maturities of ANY period.

Table 7.8 – Non Specified Investments

<table>
<tr><th>Instruments</th><th>Minimum 'High' Credit Criteria</th><th>Maximum Amount</th></tr>
<tr><td>UK Government</td><td>Government backed</td><td>No maximum</td></tr>
<tr><td>Certificate of Deposits</td><td>Per Treasury Advisors creditworthiness service</td><td rowspan="3">£10m per individual / group in total</td></tr>
<tr><td>Term Deposits - Banks and Building Societies</td><td>Per Treasury Advisors creditworthiness service</td></tr>
<tr><td>Term Deposits - Local Authorities and Housing Associations</td><td>Considered on an individual basis</td></tr>
<tr><td>Collateralised Deposit / Covered Bonds</td><td>AAA</td><td rowspan="4">£20m per individual / group</td></tr>
<tr><td>Bonds issued by multilateral development banks</td><td>AAA / UK sovereign rating</td></tr>
<tr><td>Bond issuance issued by a financial institution which is explicitly guaranteed by UK Government (e.g. National Rail)</td><td>UK Sovereign rating</td></tr>
<tr><td>Sovereign bond issues (other than the UK Government)</td><td>AAA / UK sovereign rating</td></tr>
<tr><td>Corporate Bond / Equity Holdings</td><td>Considered on an individual basis</td><td>£10m per individual / group in total</td></tr>
<tr><td colspan="3">Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):-</td></tr>
<tr><td>Property Funds</td><td>Considered on an individual basis</td><td rowspan="3">£20m per individual / group</td></tr>
<tr><td>Enhance Money Market Funds</td><td>AAA VNAV mmf rating</td></tr>
<tr><td>Corporate Bond / Equity Funds / Share Capital</td><td>Considered on an individual basis</td></tr>
</table>

7.7. APPROVED COUNTRIES FOR INVESTMENTS

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

AAA
- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+
- Canada
- Finland
- U.S.A

AA
- Abu Dhabi (UAE)
- France

AA-
- Belgium
- Hong Kong
- Qatar
- **U.K.**

THIS IS THE LIST AS AT 22ND DECEMBER 2021.

7.8. TREASURY MANAGEMENT SCHEME OF DELEGATIONS

7.8.1. Full board/council

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

7.8.2. Boards/committees/council/responsible body

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

7.8.3. Body/person(s) with responsibility for scrutiny

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

7.9. THE TREASURY MANGEMENT ROLE OF THE SECTION 151 OFFICER

7.9.1. **The S151 (responsible) officer's role:**

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- Submitting regular treasury management policy reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit and liaising with external audit.
- Recommending the appointment of external service providers.
- Preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe.
- Ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money.
- Ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority.
- Ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing.
- Ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources.
- Ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities.
- Provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees.
- Ensuring that members are adequately informed and understand the risk exposures taken on by an authority.
- Ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above.
- Creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following:

- *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios.*
- *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments.*
- *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making.*
- *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken.*
- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*