Appendix: J

# West Northamptonshire Council
# Treasury Management Strategy 2024-25

## 1 Introduction

**2021 revised CIPFA Treasury Management Code and Prudential Code – changes which will impact on future TMSS/AIS reports and the risk management framework**

CIPFA published the revised Codes on 20th December 2021 and has stated that revisions need to be included in the reporting framework from the 2023/24 financial year. This Authority, therefore, 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.

The revised Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes: -

**Treasury management**

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**

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**

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

**The revised Treasury Management Code will require an authority to implement the following: -**

1. **Adopt a new liability benchmark treasury indicator** to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained;

2. **Long-term treasury investments**, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case;

3. **Pooled funds** are to be included in the indicator for principal sums maturing in years beyond the initial budget year;

4. Amendment to the **knowledge and skills register** for officers and members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each authority;

5. **Reporting to members is to be done quarterly**. Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The CFO is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and should be reported as part of the authority's integrated revenue, capital and balance sheet monitoring;

6. **Environmental, social and governance (ESG)** issues to be addressed within an authority's treasury management policies and practices (TMP1).

**The main requirements of the Prudential Code relating to service and commercial investments are: -**

1. The risks associated with service and commercial investments should be proportionate to their financial capacity – i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services;

2. An authority must not borrow to invest for the primary purpose of commercial return;

3. It is not prudent for local authorities to make any investment or spending decision that will increase the CFR, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority, and where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose;

4. An annual review should be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt;

5. A prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream;

6. Create new Investment Management Practices to manage risks associated with non-treasury investments, (similar to the current Treasury Management Practices).

**An authority's Capital Strategy or Annual Investment Strategy should include:** -

1. The authority's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining the authority's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence;

2. An assessment of affordability, prudence and proportionality in respect of the authority's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services);

3. Details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed;

4. Limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments);

5. Requirements for independent and expert advice and scrutiny arrangements (while business cases may provide some of this material, the information contained in them will need to be periodically re-evaluated to inform the authority's overall strategy);

6. State compliance with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest primarily for financial return;

As this TMSS and AIS deals solely with treasury management investments, the categories of service delivery and commercial investments should be addressed as part of the Capital Strategy report in the future.

However, as investments in commercial property have implications for cash balances managed by the treasury team, it will be for each authority to determine whether to add a high level summary of the impact that commercial investments have, or may have, if it is planned to liquidate such investments within the three year time horizon of this report, (or a longer time horizon if that is felt appropriate).

## 2 Background

2.1 The Council is required to set a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. The Council's treasury management function primarily ensures that the organisation's cash flow is properly managed, and that cash is available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Council's risk appetite, providing adequate liquidity initially before considering investment return.

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 future borrowing needs 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 previously borrowing drawn may be restructured to meet Council risk or cost objectives.

2.3 The contribution the treasury management function makes to the Council 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 cost 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 also result in a loss of income to the General Fund.

2.4 CIPFA has defined treasury management as*:*

*"the management of the organisation'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."*

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 activities.

# 3 Reporting Arrangements

## 3.1 Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare an additional capital strategy report, which will provide the following:

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

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

## 3.2 Treasury Management Reporting

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 funded from debt 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 to Cabinet and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c) **An annual treasury report** – This is a backward-facing 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.

a) **Quarterly reports** – In addition to the three major reports detailed above, quarterly reporting (end of June/end of December) is also required. However, these additional reports do not have to be reported to Full Council/Board but do require to be adequately scrutinised. This role is undertaken by the Cabinet. (The reports, specifically, should comprise updated Treasury/Prudential Indicators.)

### 3.3 Treasury Management Strategy for 2024/25

The strategy for 2024/25 covers two main areas:

**Capital issues**

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

**Treasury management issues**

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

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

### 3.4 Training

The CIPFA Treasury Management 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 of the cabinet who are responsible for scrutiny.

Furthermore, pages 47 and 48 of the Code state that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

The scale and nature of this will depend on the size and complexity of the organisation’s treasury management needs. Organisations should consider how to assess whether treasury management staff and board/ council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

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

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/council members.
- Require treasury management officers and board/council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis.”

In further support of the revised training requirements, CIPFA’s Better Governance Forum and Treasury Management Network have produced a ‘self-assessment by members responsible for the scrutiny of treasury management’. This will be made availble to members to complete during the year.

The following training has been undertaken by members

- Treasury Management training in Jan 2024.
- Further training will be arranged as required following the outcomes of the completed self assesment.

The training needs of treasury management officers are periodically reviewed.

A formal record of the training received by officers central to the Treasury function will be maintained by Treasury Manager Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained by Assistant Finance Director for Accounting.

**Treasury Management Consultants**

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

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

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

## 1. CIPFA Prudential Code for Capital Finance in Local Authorities

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

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

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

**Treasury Management Policy Statement**

3.8 The Council's Treasury Management Policy Statement is included in Appendix 1. The policy statement follows the wording recommended by the latest edition of the CIPFA Treasury Code.

**Treasury Management Practices**

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

3.10 The Council's TMPs Schedules cover the detail of how the Council will apply the TMP Main Principles in carrying out its operational treasury activities, approved by the Council's Executive Director of Finance (Chief Finance Officer).

**The Treasury Management Strategy**

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

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

- Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

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

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

3.14 The Treasury Management Strategy incorporates:

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

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

3.16 The Treasury Management Strategy also includes the Council's:

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

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

## 4 Current Treasury Management Position

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

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

4.3 Any capital expenditure which has not immediately been paid for will increase the CFR. The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need over each asset's life. The CFR, borrowing and investment figures include sums related to third party loans but exclude PFI and Finance Lease liabilities.

**Table 1: Current Portfolio**

The overall treasury management portfolio forecasted for the position as at 31st March 2024 is shown below for both borrowing and investments:

| WNC Current Treasury Portfolio | | |
|---|---|---|
| | Forecast Out-turn | |
| | 31-Mar-24 | 31-Mar-24 |
| **Treasury investments** | **£000** | **%** |
| Total managed in house | 54,051 | 86% |
| Total managed externally | 8,545 | 14% |
| **Total treasury investments** | **62,596** | **100%** |
| Third party loans | 35,477 | |
| **Treasury external borrowing** | | |
| PWLB | 457,842 | 88% |
| Market, LOBO & other loans | 64,198 | 12% |
| **Total external borrowing** | **522,040** | **100%** |
| | | |
| **Net treasury investments / (borrowing)** | **(423,967)** | |

4.4 Table 2 below summarises the net borrowing funding need of the capital expenditure plans for the Council (see Annex 3, paragraphs 1.2-1.5). Detailed capital expenditure plans are set out in the Capital Strategy.

**Table 2: Capital Borrowing Requirement**

| Capital Expenditure | 2024/25 Forecast £m | 2025/26 Estimate £m | 2026/27 Estimate £m | 2027/28 Estimate £m |
|---|---|---|---|---|
| **Net financing need for the year** | 87 | 42 | 10 | 0 |

4.5 Within the set of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. Among these the **Council needs to ensure that its gross borrowing does not, except in the short-term,** exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes except to cover short-term cash flows.

## 5 Prospects for Interest Rates

The Authority has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 08 January 2024. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

| Link Group Interest Rate View 08.01.24 | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 | Mar-27 |
| BANK RATE | 5.25 | 5.25 | 4.75 | 4.25 | 3.75 | 3.25 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |
| 3 month ave earnings | 5.30 | 5.30 | 4.80 | 4.30 | 3.80 | 3.30 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |
| 6 month ave earnings | 5.20 | 5.10 | 4.60 | 4.10 | 3.70 | 3.30 | 3.10 | 3.10 | 3.10 | 3.10 | 3.10 | 3.10 | 3.10 |
| 12 month ave earnings | 5.00 | 4.90 | 4.40 | 3.90 | 3.60 | 3.20 | 3.10 | 3.10 | 3.10 | 3.10 | 3.10 | 3.20 | 3.20 |
| 5 yr PWLB | 4.50 | 4.40 | 4.30 | 4.20 | 4.10 | 4.00 | 3.80 | 3.70 | 3.60 | 3.60 | 3.50 | 3.50 | 3.50 |
| 10 yr PWLB | 4.70 | 4.50 | 4.40 | 4.30 | 4.20 | 4.10 | 4.00 | 3.90 | 3.80 | 3.70 | 3.70 | 3.70 | 3.70 |
| 25 yr PWLB | 5.20 | 5.10 | 4.90 | 4.80 | 4.60 | 4.40 | 4.30 | 4.20 | 4.20 | 4.10 | 4.10 | 4.10 | 4.10 |
| 50 yr PWLB | 5.00 | 4.90 | 4.70 | 4.60 | 4.40 | 4.20 | 4.10 | 4.00 | 4.00 | 3.90 | 3.90 | 3.90 | 3.90 |

*Additional notes by Link on this forecast table: -*

- Our central forecast for interest rates was previously updated on 7 November and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least Quarter 2 of 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and when there is a likelihood of the overall economy enduring at least a slowdown or mild recession over the coming months (although most recent GDP releases have surprised with their on-going robustness).

- Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

- In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

**PWLB RATES**

- The short and medium part of the gilt curve has rallied since the start of November as markets price in a quicker reduction in Bank Rate through 2024 and 2025 than held sway back then. This reflects market confidence in inflation falling back in a similar manner to that already seen in the US and the Euro-zone. At the time of writing there is c70 basis points difference between the 5 and 50 year parts of the curve.

**The balance of risks to the UK economy: -**

- The overall balance of risks to economic growth in the UK is even.

**Downside risks to current forecasts for UK gilt yields and PWLB rates include: -**

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).

- **The Bank of England** has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.

- **Geopolitical risks,** for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

**Upside risks to current forecasts for UK gilt yields and PWLB rates: -**

- Despite the tightening in Bank Rate to 5.25%, the **Bank of England allows inflationary pressures to remain elevated** for a long period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.

- **The pound weakens** because of a lack of confidence in the UK Government's pre-election fiscal policies, which may prove inflationary, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Projected **gilt issuance, inclusive of natural maturities and QT,** could be too much for the markets to comfortably digest without higher yields compensating.

**LINK GROUP FORECASTS**

We expect the MPC will keep Bank Rate at 5.25% until the second half of 2024, to combat on-going inflationary and wage pressures, even if they have dampened somewhat of late. We do not think that the MPC will increase Bank Rate above 5.25%.

**Gilt yields and PWLB rates**

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, as inflation continues to fall through 2024.

Our target borrowing rates are set **two years forward** (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below: -

| PWLB debt | Current borrowing rate as at 08.01.24 p.m. | Target borrowing rate now (End of Q4 2025) | Target borrowing rate previous (end of Q3 2025) |
|---|---|---|---|
| 5 years | 4.53% | 3.70% | 3.80% |
| 10 years | 4.67% | 3.90% | 3.80% |
| 25 years | 5.19% | 4.20% | 4.20% |
| 50 years | 4.97% | 4.00% | 4.00% |

**Borrowing advice:** Our long-term (beyond 10 years) forecast for Bank Rate remains at 3% and reflects Capital Economics' research that suggests AI and general improvements in productivity will be supportive of a higher neutral interest rate. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to factor in Bank Rate reductions for 2024 and later.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are set out below.

| Average earnings in each year | Now | Previously |
|---|---|---|
| 2023/24 (residual) | 5.30% | 5.30% |
| 2024/25 | 4.55% | 4.70% |
| 2025/26 | 3.10% | 3.20% |
| 2026/27 | 3.00% | 3.00% |
| 2027/28 | 3.25% | 3.25% |
| 2028/29 | 3.25% | 3.25% |
| Years 6 to 10 | 3.25% | 3.25% |
| Years 10+ | 3.25% | 3.25% |

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

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

## 6 Borrowing Strategy

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

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

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

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

6.3 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. Instead, cash in hand supporting the Council's reserves, balances, and positive cash inflows will be used as an alternative temporary funding measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate remains elevated through to the second half of 2024

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

6.5 Sources of finance include loans from other local authorities, the PWLB, as well as other financial institutions, banks and building societies. The former County Council has also agreed to support the UK Municipal Bonds Agency (UKMBA) and will consider drawing down funding from the Agency in line with its overall strategy if appropriate. The Council will review in time.

6.6 Against this background and the risks within the economic forecast, caution will be adopted with the 2024-25 treasury operations. The Treasury Team will monitor interest rates in financial markets to brief the Executive Director Finance and adopt a pragmatic approach to changing circumstances. For example:

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

- if it was felt that there was a significant risk of a much sharper RISE in long and short-term rates than that currently forecast, , 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.

**Prudential & Treasury Indicators**

6.7 There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. The Prudential Code for Capital Finance in Local Authorities was updated in 2021.

6.8 A full set of Prudential Indicators and borrowing limits are shown in Appendix 3.

**Policy on Borrowing in Advance of Need**

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

6.10 Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. Borrowing in advance will be made within the following constraints:

**Table 4: Borrowing in Advance of Need**

| Year | Max. Borrowing in advance | Notes |
|---|---|---|
| 2025-26 | 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. |
| 2026-27 | 50% | |
| 2027-28 | 25% | |

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

**Debt Rescheduling**

6.12 Short-term borrowing rates are forecast to be considerably cheaper than longer-term fixed interest rates in the medium term, so there may be potential opportunities to generate interest savings by switching long-term borrowing to short term borrowing. However, any potential savings will need to be considered in the light of the Council’s current treasury position and, in the current economic climate, the substantial exit costs associated with any premature loan repayment.

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

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

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

6.15 The Treasury Team maintain open dialogue with its lenders and considers any early repayment proposals on a case-by-case basis, taking advice from the Council’s treasury advisors where appropriate.

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

**New financial institutions as a source of borrowing and / or types of borrowing**

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

**Sources of borrowing**

The list below will form the basis of the sources of borrowing for the council:

| Sources of borrowing | Fixed | Variable |
|---|---|---|
| PWLB | * | * |
| Municipal bond agency | * | * |
| Local authorities | * | * |
| Banks | * | * |
| UK Infrastructure Bank | * | * |
| Market (long-term) | * | * |
| Market (temporary) | * | * |
| Market (LOBOs) | * | * |
| Local Bonds | * | * |
| Local authority bills | * | * |
| Overdraft | | * |
| Negotiable Bonds | * | * |
| Internal (capital receipts & revenue balances) | * | * |
| Finance leases | * | * |

## 7 Minimum Revenue Provision

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

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

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

## 8 Investment Strategy

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

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

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

8.3 A copy of the Council's Investment Strategy is shown in Appendix 5.

## 9 Risk Analysis and Forecast Sensitivity

### Risk Management

9.1 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. The main risks to the treasury activities are:

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

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

**Sensitivity of the Forecast**

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

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

## 10 Treasury Management Budget

10.1 Table 5 below provides a breakdown of the treasury management interest budget.

**Table 5: Treasury Management Interest Budget**

| **Description** | **2024/25** | **2025/26** | **2026/27** |
|---|---|---|---|
| | **£m** | **£m** | **£m** |
| | Estimate | Estimate | Estimate |
| Net financing costs - | 13.2 | 13.2 | 13.2 |
| Interest receivable on investments | -6.30 | -4.8 | -4.8 |
| **Total** | **6.9** | **8.4** | **8.4** |

10.2 Key assumptions underpinning the 2024-25 budget are:

- Anticipate new borrowing requirement to be undertaken to support the capital programme.
- Average rates achievable on new investments of 4.7%.
- The MRP charges in line with the Council's MRP policy (Appendix 4).

## 11 Future Developments

11.1 Local Authorities are having to consider innovative strategies towards improving service provision to their communities. This approach to innovation also applies to councils' treasury management activities. The Government has already introduced statutory powers to that end. As the treasury management landscape alters, government agencies and accountancy bodies, such as CIPFA, provide additional clarity on the various approaches and innovations that councils may lawfully consider in respect of optimising their local footprint. Examples of such changes are:

**Localism Act**

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

**Loans to Third Parties**

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

11.4 The following Loans to third parties have been inherited by West Northamptonshire Council

- University of Northampton (UoN) - £29.16m - the former Northamptonshire County Council (NCC) and the former Northampton Borough council (NBC) acted as a conduit to advance PWLB funding to the university. These loans are fully guaranteed by HM Treasury and repayments funded by UoN at no cost to West Northamptonshire Council.

- West Northamptonshire is a shareholder of Pathfinder Legal Services Ltd (formerly known as LGSS Law Ltd) and has made a third-party loan at a commercial rate to aid the cash flow of the company. The value of the loan is £0.475m and WNC allocation as part of disaggregation of NCC represents £0.237m.
- Silverstone Heritage Experience - £3.0m – to support Silverstone Heritage Limited with a £3m investment allowing them to secure the Heritage Lottery funding needed to build the Silverstone Heritage Experience.

- Northampton Town Rugby Club – £4.2m - NBC acted as conduit for PWLB loan for capital expenditure for stadia expansions and other developments on land within their control as part of the Council's policy to support local economic development.

11.5 Following relevant accounting rules (IFRS9) the equity in Pathfinder Legal services was funded from the former 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. West Northamptonshire Council will continue to review its position in relation to accounting for the loan on an annual basis statement of accounts process.

**UK Municipal Bonds Agency (MBA)**

11.6 The UK Municipal Bond Agency (MBA) raised £6m share capital from 56 local authorities and the Local government Association, including £0.2m from the former Northamptonshire County Council, to launch an agency with the objective of issuing bonds in the capital markets on behalf of UK local authorities at lower rates than those available from the PWLB.

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

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

## 12 List of Appendices

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

**Treasury Management Policy Statement**

West Northamptonshire Council defines its treasury management activities as:

"The management of the organisation's borrowings, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

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

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

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

**The Scheme of Delegation**

**Full Council**

Approval of annual Strategy and mid-year update to the Strategy.
Approval of the annual Treasury Management report.
Approval of the Treasury Management budget.

**Cabinet**

Approval of the mid-year update report.
Approval of the Treasury Management outturn report.

**Scrutiny Committee**

Scrutiny of performance against the Strategy.

**The Treasury Management Role of the S151 Officer**

**<u>The Treasury Management role of the S151 Officer</u>**

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

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

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

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

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

The Executive Director Finance is responsible for:

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

- Receiving and reviewing treasury management information reports;
- Reviewing the performance of the treasury management function and promoting value for money.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit, and liaising with external audit.
- Recommending the appointment of external service providers (e.g. treasury management advisors) in line with the approval limits set out in the Council's procurement rules;
- Ensuring that the Council's Treasury Management Policy is adhered to, and if not, bringing the matter to the attention of elected members as soon as possible.
- Preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments, and treasury management, with a long-term timeframe.
- Ensuring that the capital strategy is prudent, sustainable, 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 Council.
- Ensuring that the Council has appropriate legal powers to undertake expenditure on non-financial assets and their financing.
- Ensuring the proportionality of all investments so that the Council does not undertake a level of investing which exposes it 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 the Council.
- Ensuring that the Council has adequate expertise, either in-house or externally provided, to carry out the above.
- Creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed.

## Prudential and Treasury Indicators

### 1. Prudential Indicators

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

**Capital Expenditure**

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

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

**Table 6: Capital Expenditure**

| **Capital Expenditure** | **2024-25** | **2025-26** | **2026-27** | **2027-28** |
|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** |
| | | | | |
| | | | | |
| Non-HRA | 164.1 | 21.3 | 18.0 | 12.7 |
| HRA | 59.1 | 79.7 | 42.7 | 48.3 |
| | | | | |
| **Total Capital Programme** | **223.1** | **100.9** | **60.7** | **61.0** |
| | | | | |
| | | | | |
| Finance by: | | | | |
| | | | | |
| Discreationary - Borrowing & Capital Receipts | 123.0 | 68.2 | 33.5 | 33.0 |
| S106 | 7.9 | - | - | - |
| Community Infrasture Levy (CIL) | 2.8 | 0.4 | - | - |
| Grant Funding | 57.9 | 10.8 | 4.8 | 5.1 |
| Revenue/Earmarked reservces Funding | 2.7 | 2.1 | 2.7 | 2.9 |
| External Funding | 14.5 | 4.8 | 4.9 | 4.8 |
| Major repairs reserves /depreciation | 14.3 | 14.6 | 14.9 | 15.2 |
| | | | | |
| **Total Funding** | **223.1** | **100.9** | **60.7** | **61.0** |

**The Council's Borrowing Need (the Capital Financing Requirement)**

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

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

**Table 7: Capital Financing Requirement**

| | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate |
|---|---|---|---|---|
| | | | | |
| | **£m** | **£m** | **£m** | **£m** |
| Non-HRA | 707 | 700 | 695 | 680 |
| Housing | 307 | 348 | 359 | 358 |
| **Total CFR** | **1,014** | **1,049** | **1,054** | **1,038** |
| **Movement in CFR** | **87** | **35** | **5** | **-15** |
| | | | | |
| **Movement in CFR represented by** | | | | |
| Net financing need for the year (above) | 91 | 41 | 11 | -9 |
| Less MRP/VRP and other financing movements | (4) | (6) | (7) | (6) |
| **Movement in CFR** | **87** | **35** | **5** | **-15** |

1.6 This is represented by planned external borrowing conforming to DLUHC requirements for applying for certainty rate borrowing from the PWLB in the table below:

| External borrowing £m | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate |
|---|---|---|---|---|
| Service spend | 55.0 | - | | - |
| Housing | 22.9 | 42 | 10 | - |
| Regeneration | 2.6 | | - | - |
| Preventative action | 7.0 | | - | - |
| Treasury Management | - | | - | - |
| Projects for yield | - | - | - | - |
| **TOTAL** | **87** | **42** | **10** | **-** |

## 2. Liability Benchmark

The Authority is required to estimate and measure the Liability Benchmark for the forthcoming financial year and the following two financial years, as a minimum. We have presented at least 10 years as recommend by CIPFA.

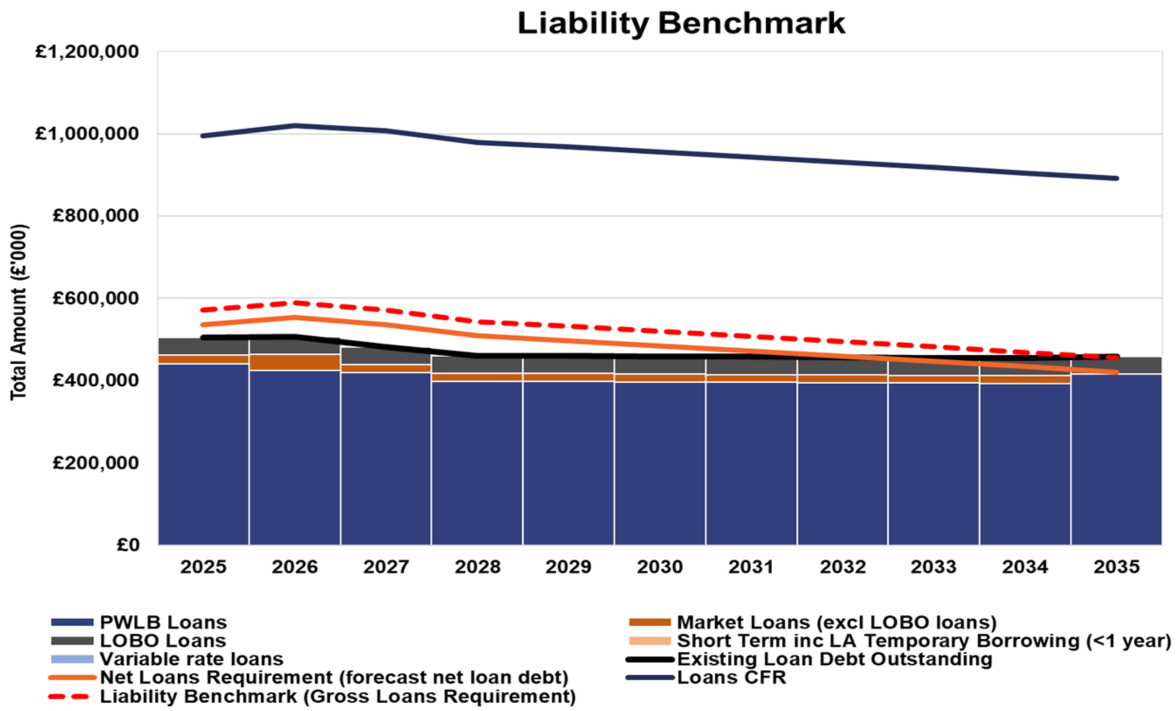
There are four components to the LB: -

- **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years.
- **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
- **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end,

projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

- **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

**Graph 1 : WNC Liability Benchmark**

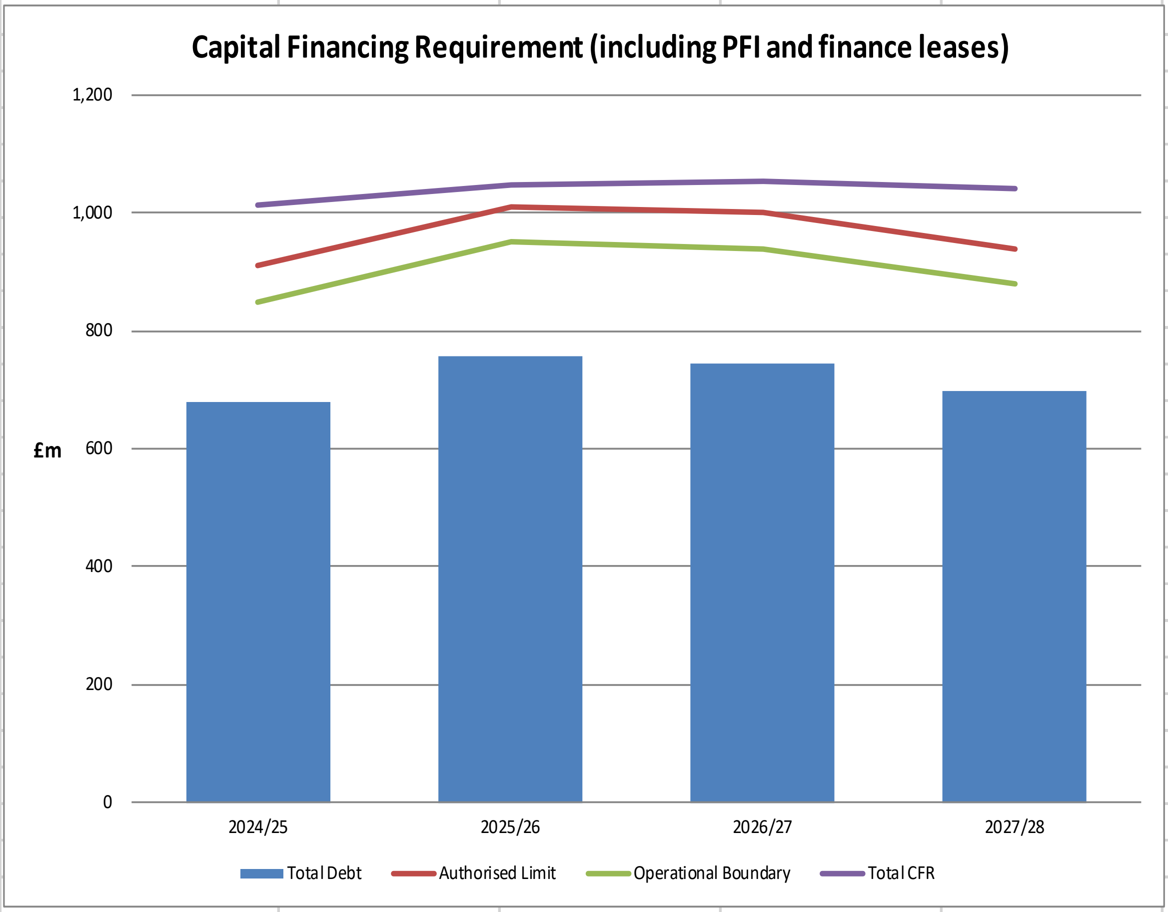



- As indicated in the graph above , any years where actual loans are less than the benchmark indicates a future borrowing requirement; this is indicated in 25/26 onwards. This enables to Council considered the duration of supporting the shortfall with short or long term borrowings with due consideration for net carrying costs of borrowing. This also highlight the council ability to support the capital programme using its forecast surplus cash in the next 3 years.

Prudential indicator graph

**WNC - PRUDENTIAL INDICATORS GRAPH**

| CAPITAL FINANCING REQUIREMENT including PFI and finance leases | | | | |
|---|---|---|---|---|
| | Est | Est | Est | Est |
| | **2024/25** | **2025/26** | **2026/27** | **2027/28** |
| | £m | £m | £m | £m |
| HRA CFR | 307 | 348 | 359 | 363 |
| GF CFR | 707 | 700 | 695 | 678 |
| **Total CFR** | **1,014** | **1,049** | **1,054** | **1,041** |
| | | | | |
| External Borrowing | 522 | 611 | 610 | 574 |
| Other long term liabilities | 157 | 146 | 135 | 123 |
| **Total Debt** | **679** | **757** | **745** | **697** |
| | | | | |
| **Authorised Limit** | 910 | 1,010 | 1,000 | 940 |
| **Operational Boundary** | 850 | 950 | 940 | 880 |



### The Operational Boundary

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

**Table 8: Operational Boundary for external debt**

| Operational Boundary | 2024-25 £m | 2025-26 £m | 2026-27 £m | 2027-28 £m |
|---|---|---|---|---|
| Borrowing | 693 | 804 | 805 | 757 |
| Other Long-Term Liabilities | 157 | 146 | 135 | 123 |
| **Total** | **850** | **950** | **940** | **880** |

### The Authorised Limit for external borrowing

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

- This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
- Council is asked to approve the following Authorised Limit (excluding PFI and Finance Lease Financing arrangements):

**Table 9: Authorised limit of borrowing**

| Affordable Limit | 2024-25 £m | 2025-26 £m | 2026-27 £m | 2027-28 £m |
|---|---|---|---|---|
| Borrowing | 753 | 864 | 865 | 817 |
| Other Long-Term Liabilities | 157 | 146 | 135 | 123 |
| **Total** | **910** | **1010** | **1000** | **940** |

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

## 2 Treasury Management Limits on Activity

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

**Table 11 – Maturity structure of borrowing**

| **Maturity Structure of borrowing** | | |
|---|---|---|
| | **Lower** | **Upper** |
| Under 12 months | 0% | 80% |
| 12 months to 2 years | 0% | 50% |
| 2 years to 5 years | 0% | 50% |
| 5 years to 10 years | 0% | 50% |
| 10 years to 20 years | 0% | 100% |
| 20 years to 30 years | 0% | 100% |
| 30 years to 40 years | 0% | 100% |
| 40 years to 50 years | 0% | 100% |
| 50 years and above | 0% | 100% |

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

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

**Table 12- Maximum principal sums invested greater than 365 days**

| | | | |
|---|---|---|---|
| **£m** | **2024-25** | **2025/26** | **202627** |
| | Estimate | Estimate | Estimate |
| Principal sums invested > 365 days | 15 | 15 | 15 |

2.4 The Council's current strategic approach is to utilise internal borrowing to finance cash demands, avoiding new external debt and running down cash balances as a temporary measure where possible. The legacy councils hold some investments that exceed 365 days, this practice may continue in the future for the Council if it holds sufficient cash balances and such investments assist in the prudent management of the Council's financial affairs.

## 3 Affordability Prudential Indicator

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

3.2 The Council is asked to approve the actual and estimates of financing costs to net revenue stream. This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The estimates of financing costs include current commitments and the proposals in this budget report.

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

**Table 13: Financing costs to net revenue streams**

| **Financing Costs to Net Revenue Stream** | **2024/25**<br>**Budget** | **2025/26**<br>**Estimate** | **2026/27**<br>**Estimate** |
|---|---|---|---|
| Net Financing Costs £m | 12 | 12 | 13 |
| Net Revenue Stream £m | 414 | 393 | 409 |
| **Proportion of Financing costs to Net Revenue Stream (%)** | **2.8%** | **3.0%** | **3.2%** |

APPENDIX 4

# MRP Policy Statement

## *1 Policy Statement Introduction*

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

1.2 The Department for Levelling Up, Housing and Communities (DLUHC) have issued regulations that require full Council to approve an MRP Statement in advance of each year. Various options are available to councils in the guidance with the underlying principle that a prudent provision is made.

## *2 NCC Historic Debt Liability accumulated to 31st March 2007 (Transferred to WNC)*

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

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

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. This approach was permissible at the time in line with the 2012 guidance and anticipated 2018 change in guidance. It is no longer permissible under the 2018 statutory guidance.

## *3 NCC Debt Liability accumulated from 1st April 2007 (Transferred to WNC)*

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

3.2 A change in this policy was introduced in and applied from 2017/18, whereby the MRP calculation was changed to an annuity calculation methodology backdated to apply from 2007/08. This recalculation when compared against actual MRP charges identified an amount of overprovision, which will be applied prospectively from 2017/18 onwards until fully exhausted. Again, this approach was permissible at the time in line with the 2012 guidance and anticipated 2018 change in guidance. It is no longer permissible under the 2018 statutory guidance.

## 4 *NBC Debt Transferred to WNC*

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

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

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

4.4 From 1st April 2021 West Northamptonshire Council will apply the MRP Policy already in place for the former NCC to all outstanding debt liability as measured by the Capital Financing Requirement (CFR), including that inherited from NBC as well as NCC. In relation to that inherited from NBC, the 2018 DLUHC statutory guidance (para 27-29) prevents the retrospective calculation of over provision of MRP when changing the methodology of calculation. The new methodology has been applied prospectively to outstanding debt liability inherited from NBC.

## 5 *Debt Liability accumulated from 1st April 2021*

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

5.2 The Council will charge MRP on an annuity basis. The annuity rate will be determined by reference to the PWLB borrowing rate for the period equivalent to the life of the asset, measured at the point at which the asset becomes operational.

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.

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.

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.

**6** ***Non-operational assets***

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.

**7** ***Use of Capital Receipts***

7.1 The Council may use capital receipts to reduce the CFR and, therein, to offset the MRP charge for that year. Any unapplied capital receipts will be available in future years and will be applied in a prudent manner.

**8** ***Private Finance Initiatives (PFI)***

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 a contract life basis to match the life of the associated assets.

8.2

**9** ***Third party loans***

9.1 WNC will make prudent MRP payments in respect of loans to third parties.

9.2 When issuing a loan to a third party, the value of the loan will be classified as capital expenditure and will be financed from a permissible source of funding e.g. capital receipts, revenue financing, grant or borrowing. If the loan is financed by borrowing, WNC will make a Voluntary Revenue Provision (VRP) in year in respect of the loan.

9.3 VRP will be disclosed separately in the MRP Policy Statement (both in-year and cumulatively) to show the amount overpaid. This will be over the term of the loan.

9.4 At the point the third-party loan is repaid, the principal repayments will be classed as capital receipts and the VRP will be reversed, offsetting the prudent MRP liability.

## 10 *Revenue Expenditure Funded from Capital Under Statute (REFCUS)*

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.

## *11 Leases*

11.1 IFRS16 on Lease accounting is due to come into effect from 1 April 2025. These new regulations will require the principal element of the majority of lease 28 type arrangements to be treated as capital expenditure. Therefore, for MRP on lease liabilities that would have been operating leases prior to implementation of the new IFRS16 the MRP will be equivalent to the principal element of the annual lease payment for each asset after applying any sub-lease capital receipts to the lease stream of the CFR.

**Annual Investment Strategy**

## 1 Investment Policy – Management of Risk

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

1.1 The Authority's investment policy has regard to the following: -

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

The Authority's investment priorities will be order:

- security,
- portfolio liquidity,
- yield (return).

The Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to the Authority's risk appetite.

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

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

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

## 2 Creditworthiness Policy

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

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

- Meet the requirements of the creditworthiness service provided by the Council's external treasury advisors and;

- UK banking or other financial institutions, or are;
- UK national or local government bodies, or are;
- Countries with a sovereign rating of -AA or above, or are;
- Triple-A rated Money Market funds.

2.3 The creditworthiness service provided by the Council's external treasury advisors applies a modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

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

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

2.5 All credit ratings are monitored daily. The Council is alerted to changes to ratings of all three agencies through its external treasury advisors. If a rating downgrade results in the counterparty or investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately. In addition to the use of credit ratings the Council is advised of information in movements in CDS spreads against benchmark data and other market information daily and extreme market movements (which may be an early indicator of financial distress) may result in downgrade of an institution or removal from recommended investment.

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

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

## 3 Sovereign Limits

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

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

3.3 The list of countries that qualify using these credit criteria as at February 2024 are shown below. This list will be amended by officers should ratings change in accordance with this policy.

**APPROVED COUNTRIES FOR INVESTMENTS (as at February 2024)**

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

***Based on lowest available rating***

**AAA**

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

**AA+**

- Canada
- Finland
- U.S.A.

**AA**

- Abu Dhabi (UAE)

**AA-**

- Belgium
- France
- Qatar
- U.K.

## 4 Banking Services

4.1 Barclays Bank will provide banking services for the Council. In addition, the individual Districts and Borough bank accounts will still be in use for the foreseeable future. The Council may continue to use its own bankers for short term liquidity requirements if the credit rating of the institution falls below the minimum credit criteria set out in this report, monitored daily. A pragmatic approach will be adopted, and rating changes monitored closely.

## 5 Investment Position and Use of Council's Resources

| Instrument | Minimum 'High' Credit Criteria | Maximum Amount | Transaction limit |
|---|---|---|---|
| Debt Management Agency Deposit Facility (DMADF) | N-a | No maximum | £10m |
| UK Government Gilts - Treasury Bills | UK sovereign rating | | |
| Certificate of Deposits | Per Treasury Advisors creditworthiness service | £20m per individual-group in total | £10m |
| 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 | £40m per individual-group in total | £10m |
| Collateralised Deposit - Covered Bonds | AAA | | |
| Bonds issued by multilateral development banks | AAA - UK sovereign rating | | |

| | | | |
|---|---|---|---|
| Bond issuance issued by a financial institution which is explicitly guaranteed by UK Government (e.g. National Rail) | UK sovereign rating | | |
| Sovereign bond issues (other than the UK govt) | AAA - UK sovereign rating | | |
| **Collective Investment Schemes structured as Open-Ended Investment Companies (OEICs): -** | | | |
| 1. Money Market Funds (CNAV, LVNAV or VNAV) | AAA MMF rating | | £10m |
| 2. Bond Funds | Considered on an individual basis | £40m per individual-group in total | |
| 3. Gilt Funds | Considered on an individual basis | | |

5.1 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

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

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

## 6 Specified Investments

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

- The investment is **denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling**.
- The investment is **not a long-term investment (i.e. up to 1 year)**.
- The making of the investment is **not defined as capital expenditure** by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146 as amended].

- The investment is **made with a body or in an investment scheme of high credit quality** (see below) or with one of the following public-sector bodies:
    - The United Kingdom Government.
    - A local authority in England or Wales (as defined under section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland.
    - High credit quality is defined as a minimum credit rating as outlined in this strategy.

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

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

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

## 7 Non-specified investments

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

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

| Instrument | Minimum 'High' Credit Criteria | Maximum Amount | Transaction limit |
|---|---|---|---|
| UK Government | Government backed | No maximum | £10m |
| Certificate of Deposits | Per Treasury Advisors creditworthiness service | £20m per individual-group in total | £10m |
| Term Deposits - Banks and Building Societies | Per Treasury Advisors creditworthiness service | | |

| | | | |
|---|---|---|---|
| Term Deposits - Local Authorities and Housing Associations | Considered on an individual basis | | |
| Collateralised Deposit - Covered Bonds | AAA | £40m per individual-group in total | £10m |
| Bonds issued by multilateral development banks | AAA - UK sovereign rating | | |
| Bond issuance issued by a financial institution which is explicitly guaranteed by UK Government (e.g. National Rail) | UK sovereign rating | | |
| Sovereign bond issues (other than the UK govt) | AAA - UK sovereign rating | | |
| Corporate Bond - Equity Holdings | Considered on an individual basis | £20m per individual-group in total | £10m |
| **Collective Investment Schemes structured as Open-Ended Investment Companies (OEICs): -** | | | |
| Property Funds | Considered on an individual basis | £40m per individual-group in total | £10m |
| Enhanced Money Market Funds | AAA VNAV,MMF rating | | |
| Corporate Bond - Equity Funds - Share Capital | Considered on an individual basis | | |

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

## 8 Lending to third parties for treasury management purposes

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

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

8.3 Loans of this nature will be under exceptional circumstances. Loans above £2m will require Cabinet approval. The S151 Officer in conjunction with the lead member responsible for finance may approve loans to third parties below this £2m threshold.

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

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

## 9 Investments Defined as Capital Expenditure

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

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

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

## 10 Provisions for Credit Related Losses

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

## 11 End of Year Investment Report

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

## 12 Pension Fund Cash

12.1 The Council will comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which were implemented on 1st January 2010. The Council will not pool pension fund cash with its own cash balances for investment purposes. Any investments made by the pension fund directly with this local authority will comply with the requirements of SI 2009 No 39.

## 13 Governance Arrangements

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

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

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

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

APPENDIX 6

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

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

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

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

| Principal Amount | Interest Rate |
|---|---|
| HRA Credit Arrangements CFR: concession agreements and finance leases | Average rate on HRA credit arrangements |
| HRA Loans CFR: long term loans (external) | Average rate on HRA external debt |

| | |
|---|---|
| HRA Loans CFR: short term loans payable (under-funded CFR) | Average rate on GF external debt-or for formally agreed borrowing from GF resources an agreed PWLB equivalent rate. |
| HRA Loans CFR: short term loans receivable (over-funded CFR) | Average rate on external investments-or for earmarked medium term reserves an actual external investment rate |
| HRA Cash balances: short term loans payable (cash balances overdrawn) | Average rate on external investments |
| HRA Cash balances: short term loans receivable (cash balances in hand) | Average rate on external investments-or for earmarked medium term reserves an actual external investment rate |

1.4 For the purpose of calculating interest rates:

- HRA cash balances are based on the average of opening and closing HRA cash balances.
- HRA CFR external debt is based on actual external debt;
- Other HRA CFR balances based on the mid-year position.

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

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

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

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