Appendix: J

West Northamptonshire Council
Treasury Management Strategy 2022-23

(final)

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

The revised codes will have the following implications:

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

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

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

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

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 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.

2.5 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."*

CIPFA Prudential Code for Capital Finance in Local Authorities

2.6 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).

2.7 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.

2.8 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

2.9 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

2.10 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.

2.11 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

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

2.13 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.

2.14 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.

2.15 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.

2.16 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.

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

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

2.18 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.

3 Current Treasury Management Position

3.1 West Northamptonshire Council came into existence on 1 April 2021. The forecast figures presented for 2021/22 are based on current activity and the expected out-turn for the year. Table 1 shows the actual external borrowing (the treasury management operations), against the capital borrowing need (the Capital Financing Requirement CFR), highlighting any over or under borrowing (also known as internal borrowing).

3.2 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.

3.3 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.

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

Table 1: Forecast Borrowing and Investment Balances

£m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
External borrowing				
Borrowing at 1 April b/f	568.2	543.8	641.4	679.0
Net Borrowing Requirement to fund capital programme (see Table 2 below)	47.4	76.7	46.0	22.2
Other movements in borrowing - (repayments)	(25.70)	(9.50)	(11.70)	(11.10)
MRP [1]	1.9	2.4	3.3	3.8
Internal borrowing (increase)/reduction [2]	(48.00)	28.0	0.0	0.0
(1) Actual borrowing at 31 March c/f	**543.8**	**641.4**	**679.0**	**693.9**
Capital Borrowing	506.8	606.3	645.9	662.8
Third Party Loans	37.0	35.1	33.1	31.2
Actual borrowing at 31 March c/f	***543.8***	***641.4***	***679.0***	***693.9***
(2) CFR – the borrowing need	858.2	934.9	980.9	1,003.1
(3) *[2 – 1]* Internal Borrowing [2]	**314.4**	**293.5**	**301.8**	**309.2**
Investments				
Funds Available for Investment at 1 April b/f [3]	123.0	191.0	211.0	231.0
Change in Funds Available for Investment	68.0	20.0	20.0	20.0
(4) Investments at 31 March c/f	**191.0**	**211.0**	**231.0**	**251.0**
Investment Balances [3]	191.0	211.0	231.0	251.0
Third Party Loans	40.6	37.8	35.5	33.6
Investments at 31 March c/f	***231.6***	***248.8***	***266.5***	***284.6***
(5) *[1 – 4]* Net borrowing	**312.3**	**392.6**	**412.5**	**409.4**

[1] Appendix 4 sets out the Council's MRP policy. Changes to the MRP policy of the former Northamptonshire County Council, that forms part of this new council,

[2] Internal borrowing is effectively the difference between the underlying need to borrow for capital purposes and actual borrowing held. The CFR has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure.

This strategy is prudent while investment returns are low and to mitigate against counterparty risk. The Council is therefore maintaining an under borrowed position.

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

3.5 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	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Net financing need for the year	47.44	76.66	45.99	22.25

3.6 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.

4 Prospects for Interest Rates

4.1 The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 720th February 2022December 2021. These are forecasts for certainty rates, gilt yields plus 80 bps.

Table 3: Interest Rate View

Link Group Interest Rate View 7.2.22	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
3 month av. earnings	0.80	1.00	1.00	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
6 month av. earnings	1.00	1.10	1.20	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
12 month av. earnings	1.40	1.50	1.60	1.70	1.70	1.60	1.60	1.50	1.40	1.40	1.40	1.40	1.40
5 yr PWLB	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30
10 yr PWLB	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
25 yr PWLB	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
50 yr PWLB	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40

Additional notes by Link on this forecast table: -

- LIBOR and LIBID rates ceased at the end of 2021. In a continuation of our previous forecasts, our money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.

- *Our forecasts for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short term cash at any one point in time.*

Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021 and then to 0.50% at its meeting of 4th February 2022.

As shown in the forecast table above, the forecast for Bank Rate now includes a further three increases of 0.25% in March, May and November 2022 to end at 1.25%.

Significant risks to the forecasts

- **Mutations** of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed, or cannot be administered fast enough to prevent further lockdowns.
- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity.

- **The Monetary Policy Committee** acts too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- **The Monetary Policy Committee** tightens monetary policy too late to ward off building inflationary pressures.

- **The Government** acts too quickly to cut expenditure to balance the national budget.

- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

- **Longer term US treasury yields** rise strongly and pull gilt yields up higher than forecast.

- **Major stock markets** e.g., in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the “moral hazard” risks of having to buy shares and corporate bonds to reduce the impact of major financial market selloffs on the general economy.

- **Geopolitical risks,** for example in Ukraine, Iran, North Korea, but also in Europe and Middle Eastern countries; on-going global power influence struggles between Russia/China/US. These could lead to increasing safe-haven flows.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is now to the downside, including risks from Covid and its variants - both domestically and their potential effects worldwide.

Forecasts for Bank Rate

The Monetary Policy Committee is now very concerned at the way that forecasts for inflation have had to be repeatedly increased within a matter of just a few months. Combating this rising tide of inflation is now its number one priority and the 5-4 vote marginally approving only a 0.25% increase on 4th February rather than a 0.50% increase, indicates it is now determined to push up Bank Rate quickly. A further increase of 0.25% is therefore probable for March, and again in May, followed possibly by a final one in November. However, data between now and November could shift these timings or add to or subtract from the number of increases.
However, it is likely that these forecasts will need changing within a relatively short timeframe for the following reasons: -

- We do not know whether there will be further mutations of Covid and how severe they may be, nor how rapidly scientific advances may be made in combating them.

- The economy was running out of steam during the second half of 2021 and Omicron will mean that economic growth in quarter 1 of 2022 is likely to be flat, though on the rise towards the end of the quarter as the economy recovers. However, 54% energy cap cost increases from April, together with 1.25% extra employee national insurance, food inflation around 5% and council tax likely to rise in the region of 5% too - these increases are going to hit lower income families hard despite some limited assistance from the Chancellor to postpone the full impact of rising energy costs.

- Consumers are estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above increases. But most of those holdings are held by more affluent people whereas poorer people already spend nearly all their income before these increases hit and have few financial reserves.

- These increases are already highly disinflationary; inflation will also be on a gradual path down after April so that raises a question as to whether the MPC may shift into protecting economic growth by November, i.e., it is more debatable as to whether they will deliver another increase then.

- The BIG ISSUE – will the current spike in inflation lead to a second-round effect in terms of labour demanding higher wages, (and/or lots of people getting higher wages by changing job)?

- If the labour market remains very tight during 2022, then wage inflation poses a greater threat to overall inflation being higher for longer, and the MPC may then feel it needs to take more action.

- If the UK were to invoke article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this would have the potential to end up in a no-deal Brexit.

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

Forecasts for PWLB rates and gilt and treasury yields

Gilt yields. Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. Our forecasts show little overall increase in gilt yields during the forecast period to March 2025 but there will doubtless be a lot of unpredictable volatility during this forecast period.

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

US treasury yields. During the first part of 2021, US President Biden's, and the Democratic party's, determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. This was in addition to the $900bn support package previously passed in December 2020. Financial markets were alarmed that all this stimulus was happening at a time when: -

1. A fast vaccination programme roll-out had enabled a rapid opening up of the economy during 2021.
2. The economy was growing strongly during the first half of 2021 although it has weakened during the second half.
3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.
4. And the Fed was still providing substantial stimulus through monthly QE purchases during 2021.

It was not much of a surprise that a combination of these factors would eventually cause an excess of demand in the economy which generated strong inflationary pressures. This has eventually been recognised by the Fed at its recent December meeting with an aggressive response to damp inflation down during 2022 and 2023.

- **At its 3rd November Fed meeting**, the Fed decided to make a start on tapering its $120bn per month of QE purchases so that they ended next June. However, at its **15th December meeting** it doubled the pace of tapering so that they will end all purchases in February. These purchases are currently acting as downward pressure on treasury yields and so it would be expected that treasury yields will rise over the taper period, all other things being equal.

- It also forecast that it expected there would be three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024. This would take rates back above 2% to a neutral level for monetary policy. It also gave up on calling the sharp rise in inflation as being 'transitory'.

- At its **26th January meeting**, the Fed became even more hawkish following inflation rising sharply even further. It indicated that rates would begin to rise very soon, i.e., it implied at its March meeting it would increase rates and start to run down its holdings of QE purchases. It also appears likely that the Fed could take action to force longer term treasury yields up by prioritising selling holdings of its longer bonds as yields at this end have been stubbornly low despite rising inflation risks. The low level of longer dated yields is a particular concern for the Fed because it is a key channel through which tighter monetary policy is meant to transmit to broader financial conditions, particularly in the US where long rates are a key driver of household and corporate borrowing costs.

There are also possible **DOWNSIDE RISKS** from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to monitor.

There is likely to be **exceptional volatility and unpredictability in respect of gilt yields and PWLB rates** due to the following factors: -

- How strongly will changes in gilt yields be correlated to changes in US treasury yields (see below). As the US financial markets are, by far, the biggest financial markets in the world, any upward trend in treasury yields will invariably impact and influence financial markets in other countries. Over 10 years since 2011 there has been an average 75% correlation between movements in US treasury yields and gilt yields. However, from time to time these two yields can diverge. Lack of spare economic capacity and rising inflationary pressures are viewed as being much greater dangers in the US than in the UK. This could mean that central bank rates will end up rising higher in the US than in the UK; the consequent increases in treasury yields could well spill over to cause (lesser) increases in gilt yields. There is, therefore, an upside risk to forecasts for gilt yields due to this correlation. The Link Group forecasts have included a risk of a 75% correlation between the two yields.
- Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?
- How strong and enduring will inflationary pressures turn out to be in both the US and the UK, and so impact treasury and gilt yields?
- **Will the major western central banks implement their previously stated new average or sustainable level inflation monetary policies when inflation has now burst through all previous forecasts and far exceeded their target levels? Or are they going to effectively revert to their previous approach of prioritising focusing on pushing inflation back down and accepting that economic growth will be very much a secondary priority - until inflation is back down to target levels or below?**

- How well will central banks manage the running down of their stock of QE purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the "taper tantrums" in the US in 2013?
- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?
- If Russia were to invade Ukraine, this would be likely to cause short term volatility in financial markets, but it would not be expected to have a significant impact beyond that.

The forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within the forecasting period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and Russia, China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

The balance of risks to medium to long term PWLB rates: -

- There is a balance of upside risks to forecasts for medium to long term PWLB rates.

A new era for local authority investing
– a fundamental shift in central bank monetary policy

One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Fed, the Bank of England and the ECB, to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on so as to stop it going above a target rate. There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on 'achieving broad and inclusive "maximum" employment in its entirety' in the US, before consideration would be given to increasing rates.

- The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.
- The Bank of England has also amended its target for monetary policy so that inflation should be 'sustainably over 2%' before starting on raising Bank Rate and the ECB now has a similar policy.
- ***For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.***
- Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures once economies recover from the various disruptions caused by the pandemic.
- Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national

debt; (in the UK this is £21bn for each 1% rise in rates). On the other hand, higher levels of inflation will help to erode the real value of total public debt.

Investment and borrowing rates

- **Investment returns** have started improving in the second half of 21/22 and are expected to improve further during 22/23 as the MPC progressively increases Bank Rate.
- **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England and still remain at historically low levels. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.
- On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates which had been increased by 100 bps in October 2019. The standard and certainty margins were reduced by 100 bps but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme. The current margins over gilt yields are as follows: -.
    - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
    - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
    - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
    - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
    - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)
- **Borrowing for capital expenditure.** Our long-term (beyond 10 years) forecast for Bank Rate is 2.00%. As nearly all PWLB certainty rates are now above this level, borrowing strategy will need to be reviewed, especially as the maturity curve has flattened out considerably. Better value can be obtained at the very short and at the longer end of the curve and longer-term rates are still at historically low levels. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive as part of a balanced debt portfolio. In addition, there are also some cheap alternative sources of long-term borrowing if the Authority is seeking to avoid a “cost of carry” but also wishes to mitigate future re-financing risk.
- While this authority will not be able to avoid borrowing to finance new capital expenditure, to replace maturing debt and the rundown of reserves, there will be a *cost of carry*, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances.

5 Borrowing Strategy

5.1 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.

5.2 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.

5.3 The Council is forecasting to maintain an internal-under borrowed cash position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded with loan debt. Instead, cash in hand supporting the Council's reserves, balances, and positive cash inflows will be used as an alternative temporary funding measure. This is the strategy that has been in place in the former Northamptonshire County Council and will continue under the new Council. This strategy is prudent in the current economic climate - as returns achievable from the investment of cash are lower than the cost of raising additional loan debt, and counterparty risk remains a factor. This policy can be reviewed on an on-going basis for its appropriateness and robustness.

5.4 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.

5.5 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 new Council will review in time.

5.6 Against this background and the risks within the economic forecast, caution will be adopted with the 2021-22 treasury operations. The Treasury Team will monitor interest rates in financial markets to brief the Executive Director 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, perhaps arising from an acceleration in the timing and pace of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower.

Prudential & Treasury Indicators

5.7 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 2018.

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

Policy on Borrowing in Advance of Need

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

5.10 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
2022-23	100%	Borrowing in advance will be limited to no more than the expected increase in borrowing need (CFR) over the period of the approved Medium-Term Capital Programme, a maximum of 3 years in advance.
2023-24	50%	
2024-25	25%	

5.11 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.

5.12 As mentioned within 5.3 above, the Council is currently maintaining an internally borrowed cash position and, although new funding is expected to be needed in 2022-23 this is only to replace maturing debt, it is not anticipated that borrowing in advance of future years' financing needs will take place.

Debt Rescheduling

5.13 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.

5.14 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.

5.15 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).

5.16 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.

5.17 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

5.17. 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.

5.18. Further consideration is being given to source funding from the following source for the following reasons:

UK infrastructure Bank (UIB): is a government owned bank focused on investing through the private sector and local authority on infrastructure projects in the UK. Any requirement for borrowing on capital project that could meet the the UIB's criteria for investment will be considered.

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

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	*	*

6 Minimum Revenue Provision

6.1 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).

6.2 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.

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

7 Investment Strategy

7.1 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.

7.2 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.

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

8 Risk Analysis and Forecast Sensitivity

Risk Management

8.1 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).

8.2 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

8.3 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.

8.4 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.

9 Reporting Arrangements

Capital Strategy

9.1 CIPFA's 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.

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

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

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

9.5 Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the

DLUHC Investment Guidance and CIPFA Prudential Code have not been adhered to.

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

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

Treasury Management Reporting

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

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

- the capital plans, (including prudential indicators);
- a minimum revenue provision (MRP) policy, (how residual capital expenditure 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.

10 Treasury Management Budget

10.1 Table 5 below provides a breakdown of the treasury management interest budget. It is important to note that the figures in the table are comprised of the disaggregated former Northamptonshire County Council and the onboarding Districts and Boroughs making up the new Unitary Authority.

Table 5: Treasury Management Interest Budget

Description	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	£m	**£m**	**£m**	**£m**
	Forecast	Estimate	Estimate	Estimate
Net financing costs -	12.9	11.8	12.6	12.1
Interest receivable on investments	(1.5)	(1.7)	(1.6)	(1.6)
Total	**11.4**	**10.1**	**11.0**	**10.2**

10.2 Key assumptions underpinning the 2022-23 budget are:

- Anticipate new borrowing bd to be undertaken to support the capital programme.
- Average rates achievable on new investments of 0.5%; (the interest rate outlook was updated after the budget figures had been completed for approval)
- The MRP charges in line with the Council's MRP policy (Appendix 4).

11 Treasury Management Consultants

11.1 The Council uses external treasury management advisors.

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

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

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

12 Future Developments

12.1 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

12.2 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

12.3 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.

12.4 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.

12.5 Following relevant accounting rules (IFRS9) the equity 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)

12.6 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.

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

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

Impact of IFRS 9

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

12.10 As set out in paragraphs 12.3 and 12.4 above, the Council has advanced several third-party loans and may be required to set aside provision for credit loss.

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

12.12 DLUHC has introduced a five-year statutory override (expiring on 31st March 2023) allowing Councils to reverse any revenue impact of pooled fund valuation gains and losses. DLUHC were not minded to make this statutory override permanent, and will keep it under review.

Training

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

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

12.15 Treasury management training for relevant officers and councillors will be delivered as required to facilitate informed decision making and challenge processes.

13 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 (to be update)
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

The Treasury Management role of the S151 Officer

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

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

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

Prior to entering 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	2022-23	2023-24	2024-25
	Estimate	Estimate	Estimate
	£m	£m	£m
Non-HRA	91.7	48.1	28.7
HRA	71.9	67.2	53.0
Total Capital Programme	**163.6**	**115.3**	**81.7**
Financed By :			
Discretionary – Borrowing & Capital Receipts	105.9	66.1	53.2
S106	2.1	6.1	3.8
Community Infrastructure Levy (CIL)	3.9	14.1	1.0
Grant Funding	32.4	14.0	8.3
Revenue/Earmarked reserves Funding	1.9	1.5	1.9
External Funding	3.9		
Major repairs reserves /depreciation	13.5	13.5	13.5
Total funding	**163.6**	**115.3**	**81.7**

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

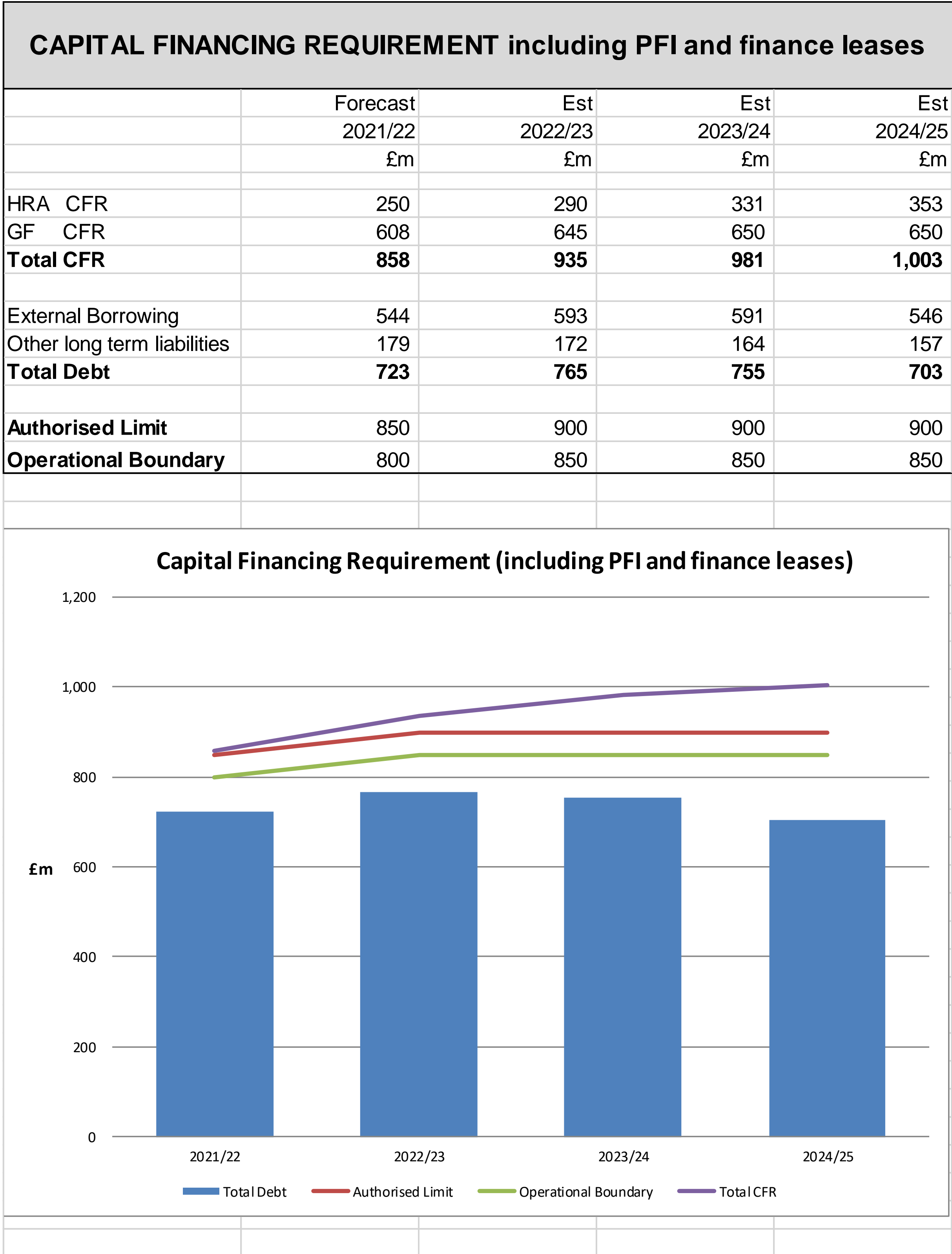
1.4 The second prudential indicator is the Council's Capital Financing Requirement (CFR). A local authority that has an HRA must identify separately estimates of the HRA and General Fund CFR. The CFR is the total historical outstanding capital expenditure which has not yet been paid for from either revenue 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 scheme typically include a borrowing facility and so the Council is not required to separately borrow for these schemes. The CFR below is shown net of these liabilities.

Table 7: Capital Financing Requirement

	2021-22 Forecast	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
	£m	£m	£m	£m
Non-HRA	608.1	645.3	650.0	650.2
HRA	250.1	289.6	330.8	352.9
TOTAL	858.2	934.9	980.9	1,003.1
Movement in CFR	47.4	76.7	46.0	22.2
Net financing need for the year	49.9	80.0	49.4	26.0
Less: MRP and other financing movements	(2.4)	(3.3)	(3.4)	(3.8)
Movement in CFR	47.4	76.7	46.0	22.2

Prudential indicator graph



CAPITAL FINANCING REQUIREMENT including PFI and finance leases				
	Forecast	Est	Est	Est
	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m
HRA CFR	250	290	331	353
GF CFR	608	645	650	650
Total CFR	**858**	**935**	**981**	**1,003**
External Borrowing	544	593	591	546
Other long term liabilities	179	172	164	157
Total Debt	**723**	**765**	**755**	**703**
Authorised Limit	850	900	900	900
Operational Boundary	800	850	850	850

The Operational Boundary

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

Table 8: Operational Boundary for external debt

Operational Boundary	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m
Borrowing	621	678	686	693
Other Long-Term Liabilities	179	172	164	157
Total	**800**	**850**	**850**	**850**

1.7 .

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	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m
Borrowing	671	728	736	743
Other Long-Term Liabilities	179	172	164	157
Total	**850**	**900**	**900**	**900**

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	**2021-22**	**2022-23**	**2023-24**	**2024-25**
	Forecast	Estimate	Estimate	Estimate
Principal sums invested > 365 days	9.6	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 on-boarding Districts

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	**2022-23 Budget**	**2023-24 Budget**	**2024-25 Budget**
Net Financing Costs £m	11.8	12.6	12.1
Net Revenue Stream £m	326.5	342.2	344.9
Proportion of Financing costs to Net Revenue Stream (%)	**3.6%**	**3.7%**	**3.5%**

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 2022, having been postponed from 1 April 2020 due to Covid-19. These new regulations will require the principal element of the majority of lease type arrangements to be treated as capital expenditure. Therefore, for MRP on lease liabilities the MRP will be equivalent to the principal element of the annual lease payment for each asset after adjusting for any sub-lease capital receipts.

Annual Investment Strategy

1 Investment Policy

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.

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

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

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

2 Creditworthiness Policy

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

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

- Meet the requirements of the creditworthiness service provided by the Council's external treasury advisors and;
- UK banking or other financial institutions, or are;
- UK national or local government bodies, or are;
- Countries with a sovereign 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 apply these suggested duration limits to it investments at all times, unless otherwise approved by the S151 officer.

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

2.6 Sole reliance will not be placed on the use of the Council's external treasury 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 remains with the organisation at all times, and as such the Executive Director Finance shall have the discretion during the year to lift or increase the restrictions on the counterparty list and or to adjust the associated lending limits on values and durations should it become necessary, to enable the effective management of risk in relation to its investments.

3 Sovereign Limits

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

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

3.3 The list of countries that qualify using these credit criteria as at February 2022 2020 are shown below. This list will be amended by officers should ratings change in accordance with this policy.

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

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

<table>
<tr><th>Instrument</th><th>Minimum 'High' Credit Criteria</th><th>Maximum Amount</th><th>Transaction limit</th></tr>
<tr><td>Debt Management Agency Deposit Facility (DMADF)</td><td>N-a</td><td rowspan="2">No maximum</td><td rowspan="2">£10m</td></tr>
<tr><td>UK Government Gilts - Treasury Bills</td><td>UK sovereign rating</td></tr>
<tr><td>Certificate of Deposits</td><td>Per Treasury Advisors creditworthiness service</td><td rowspan="3">£20m per individual-group in total</td><td rowspan="3">£10m</td></tr>
<tr><td>Term Deposits and Notice Accounts - Banks and Building Societies</td><td>Per Treasury Advisors creditworthiness service</td></tr>
<tr><td>Term Deposits - Local Authorities and Housing Associations</td><td>Considered on an individual basis</td></tr>
<tr><td>Bank Call-Instant Access Accounts</td><td>Per Treasury Advisors creditworthiness service</td><td rowspan="3">£40m per individual-group in total</td><td rowspan="3">£10m</td></tr>
<tr><td>Collateralised Deposit - Covered Bonds</td><td>AAA</td></tr>
<tr><td>Bonds issued by multilateral development banks</td><td>AAA - UK sovereign rating</td></tr>
</table>

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	£40m per individual-group in total	£10m
2. Bond Funds	Considered on an individual basis		
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.

<table>
<tr><th>Instrument</th><th>Minimum 'High' Credit Criteria</th><th>Maximum Amount</th><th>Transaction limit</th></tr>
<tr><td>UK Government</td><td>Government backed</td><td>No maximum</td><td>£10m</td></tr>
<tr><td>Certificate of Deposits</td><td>Per Treasury Advisors creditworthiness service</td><td rowspan="2">£20m per individual-group in total</td><td rowspan="2">£10m</td></tr>
<tr><td>Term Deposits - Banks and Building Societies</td><td>Per Treasury Advisors creditworthiness service</td></tr>
</table>

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 takes into account the weighting of time spent on managing debt and investments respectively.

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

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

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