



NOTTINGHAMSHIRE
POLICE & CRIME
COMMISSIONER

Treasury Management Strategy 2022-27 **Updated October 2022**

Incorporating the Minimum Revenue Provision Policy
Statement and Annual Investment Strategy 2022-27

Contents

- 1. Introduction** **Pages 1 - 5**
 - 1.1. Background
 - 1.2. Reporting Requirements
 - 1.3. Treasury Management Strategy 2022-27
 - 1.4. Treasury Management Consultants
 - 1.5. Training

- 2. The Capital Prudential Indicators 2022-23 to 2026-27** **Pages 6 - 9**
 - 2.1. Capital Expenditure
 - 2.2. Commissioner's borrowing need (Capital Financing Requirement)
 - 2.3. Minimum Revenue Provision (MRP) policy statement
 - 2.4. Core funds and expected investment balances
 - 2.5. Affordability
 - 2.6. Ratio of financing costs to net revenue stream
 - 2.7. Incremental impact of capital investment decisions on council tax

- 3. Borrowing** **Pages 8 - 15**
 - 3.1. Current portfolio position
 - 3.2. Treasury Indicators - Limits to borrowing activity
 - 3.3. Prospects for interest rates and economic background
 - 3.4. Policy on borrowing in advance of need
 - 3.5. Debt rescheduling
 - 3.6. Borrowing Strategy and Municipal Bond Agency

- 4. Annual Investment Strategy** **Pages 16 - 20**
 - 4.1. Investment policy
 - 4.2. Non-financial investments policy
 - 4.3. Creditworthiness policy
 - 4.4. Country limits
 - 4.5. Investment Strategy
 - 4.6. Investment risk benchmarking

- 5. Section 151 Officer** **Page 21**
 - 5.1. Treasury Management role

1. INTRODUCTION

1.1 Background

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

The second main function of the treasury management service is the funding of the Commissioner's capital plans. These capital plans provide a guide to borrowing need, and longer term cash flow planning to ensure that the NOPCC can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans. If advantageous debt previously borrowed may be restructured to meet NOPCC risk or cost objectives.

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

The responsible officer for treasury management is the Chief Finance Officer to the Chief Constable (CFO). The Chartered Institute of Public Finance and Accountancy (CIPFA) defines Treasury Management as:

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

1.2 Reporting requirements

The Police and Crime Commissioner (PCC) is required to receive and approve, as a minimum, three main Treasury Management reports each year, which incorporate a variety of polices, estimates and actuals.

1.2.1 Prudential and treasury indicators and treasury strategy (this report – updated at October 2022) – The first and most important report covers:

- the capital plans (see also the strategy report), prudential indicators and borrowing plans
- a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
- the treasury management strategy, (how the investments and borrowings are to be organised) including treasury indicators; and an investment strategy (the parameters on how investments are to be managed)

1.2.2 A mid-year treasury management report – This is primarily a progress report and will update the Commissioner on the capital position, amending prudential indicators as necessary. It also monitors whether the treasury activity is meeting the strategy and whether any policies require revision.

1.2.3 An annual treasury report – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

A detailed capital strategy report is also required, this is contained in a separate report.

Scrutiny

The responsibility for scrutiny lies with the Commissioner supported by the Joint Independent Audit Committee (JIAC). The above reports are also reviewed at the Strategic Resources and Performance meetings of the Commissioner.

The values within the strategy have been rounded appropriately, and the extent of rounding is clearly labelled. This rounding will in some cases cause a note to be apparently mathematically incorrect.

1.3 Treasury Management Strategy 2022-27

The strategy covers two main areas:

Capital issues

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

Treasury management issues

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

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, Ministry of Housing, Communities and Local Government (MHCLG) MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

1.4 Treasury management consultants

NOPCC uses the Link Group Treasury Services as its external treasury management advisors.

NOPCC recognises that responsibility for treasury management decisions remain with the organisation at all times and will ensure that undue reliance is not placed upon our external advisors. All decisions will be undertaken with regards to all available information, including, but not solely from, our treasury advisers.

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

1.5 Training

The CIPFA Code requires that the responsible officer ensures that relevant personnel receive adequate training in treasury management. This especially applies to the Commissioner and members who are responsible for scrutiny. Appropriate training will be provided to the new PCC, any new members of JIAC and other responsible officers/staff as soon as practicable and as a minimum within 12 months of starting their role.

The training needs of treasury management officers are also periodically reviewed so they maintain continuous professional development as required by the CIPFA Code of Practice.

2. THE CAPITAL PRUDENTIAL INDICATORS 2022-23 to 2026-27

The Commissioner's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, to give an overview and confirm capital expenditure plans. Full information regarding capital expenditure plans is included within the separate capital strategy report and capital programme report.

2.1 Capital expenditure

This prudential indicator is a summary of the Commissioner's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

The Commissioner is asked to approve the capital expenditure forecasts.

The table below summarises the updated capital expenditure plans as at the report date and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a net financing need.

Table 1	2021-22 Outturn* £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m	2026-27 Estimate £m
Capital Expenditure						
Estates	17.246	7.269	2.044	2.440	2.508	2.600
Information Services	0.850	0.578	1.182	2.497	0.315	0.112
Fleet	0.670	4.493	2.720	2.854	2.935	2.650
Other	0.000	0.000	0.000	0.000	0.000	0.000
Capital Programme	18.766	12.340	5.946	7.791	5.758	5.362
Financed by:						
Capital Receipts	(5.716)	(1.200)	(0.535)	(0.300)	(0.300)	(0.300)
Capital Grants	(0.199)	0.000	0.000	0.000	0.000	0.000
Capital Contributions	(1.911)	0.000	0.000	0.000	0.000	0.000
Direct Revenue Financing	(3.800)	(4.300)	0.000	0.000	0.000	0.000
Capital Reserve	(5.843)	0.000	0.000	0.000	0.000	0.000
Total Financed By:	(17.469)	(5.500)	(0.535)	(0.300)	(0.300)	(0.300)
Net Financing Need	1.297	6.840	5.411	7.491	5.458	5.062

*Accounts subject to audit

2.2 Commissioner's borrowing need (Capital Financing Requirement)

The second prudential indicator is the Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure, which has not yet been financed from either revenue or capital resources. It is essentially a measure of the underlying borrowing need after the application of other forms of capital resources have been applied, where possible these resources are applied to shorter life assets first. Any capital expenditure above, which has not immediately been financed, will increase the CFR. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) offsets this cost. The MRP is a statutory annual revenue charge that broadly reduces the borrowing need in line with each asset's life.

The CFR includes any other long term liabilities. Whilst these increase the CFR, and therefore the borrowing requirement, these types of schemes include a borrowing facility by the provider and so the Commissioner is not required to borrow separately for these schemes.

The Commissioner is asked to approve the CFR projections below:

Table 2 Capital Financing Requirement (CFR)	2021-22 Outturn* £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m	2026-27 Estimate £m
Opening CFR	68.388	66.355	69.858	71.510	75.391	76.773
Movement in CFR (Table 3)	(2.032)	3.502	1.652	3.882	1.381	0.653
Closing CFR	66.355	69.858	71.510	75.391	76.773	77.425

Table 3 Movement in CFR represented by	2021-22 Outturn* £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m	2026-27 Estimate £m
Net financing need for the year (above)	1.297	6.840	5.411	7.491	5.458	5.062
Less MRP/VRP and other financing movements	(3.329)	(3.338)	(3.759)	(3.609)	(4.077)	(4.409)
Movement in CFR	(2.032)	3.502	1.652	3.882	1.381	0.653

*Accounts subject to audit

2.3 Minimum Revenue Provision (MRP) policy statement

NOPCC is required to pay off an element of the accumulated capital spend each year (the CFR) and make a statutory charge to revenue for the repayment of debt, known as the Minimum Revenue Provision (MRP). The MRP policy sets out how the PCC will pay for capital assets through revenue each year. The PCC is also permitted to make additional Voluntary Revenue Payments (VRP).

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

The additional provision that has been made to date is shown in the table below:

Table 4 - Additional Revenue Provision	£m
2016-17	0.750
2017-18	0.250
2019-20	0.800
Total Additional Provision	1.800

MHCLG regulations have been issued, which require the Commissioner to approve an MRP Statement in advance of each year. A variety of options are available to the Commissioner, as long as there is a prudent provision. No changes are proposed from the existing policy.

- The Commissioner is recommended to approve the following MRP Statement for capital expenditure incurred before 1 April 2008, MRP will be based on the Regulatory Method. MRP will be written down over a fixed 50 year period
- For capital expenditure incurred from 1 April 2008, the MRP will be based on the 'Asset Life Method', whereby MRP will be based on the estimated life of the assets requiring financing as follows:
 - Land – 50 years
 - Buildings – 25 years
 - Plant & Equipment – 7 years
 - Fleet/Vehicles – 6 years
- For finance leases, an 'MRP equivalent' sum will be paid off each year.

2.4 Core funds and expected investment balances

Investments will be made with reference to the core balances, future cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Table 3 below provides an estimate of the year-end balances for each resource and anticipated day to day cash flow balances.

	2021-22 Outturn* £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m	2026-27 Estimate £m
Fund Balances/Reserves (exc JOs)	19.296	19.602	17.198	17.293	16.843	16.306
Capital Receipts Reserve	0.000	0.000	0.000	0.000	0.000	0.000
Provisions	4.160	4.160	4.160	4.160	4.160	4.160
Cash and Bank	2.283	2.283	2.283	2.283	2.283	2.283
Total Core Funds	25.739	26.044	23.640	23.735	23.285	22.748
Working Capital**	(1.207)	(1.207)	(1.207)	(1.207)	(1.207)	(1.207)
(Under)/Over borrowing	(0.986)	(4.464)	(5,770)	(7.813)	(4,232)	(2.423)
Expected Investments	23.546	19.252	16.664	14.716	17.846	19.119

*Accounts subject to audit

**Working capital balances shown are estimated year-end; these may be higher mid-year

2.5 Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Commissioners overall finances.

The Commissioner is requested to approve the following indicators:

2.6 Ratio 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. This indicator is not a mandatory indicator under the revised code, but it has been reviewed and considered a good indication of the commitment from capital spending.

The estimates of financing costs include current commitments and a reasonable assessment of forthcoming capital proposals.

Ratio	2021-22 Outturn*	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate	2026-27 Estimate
	1.9%	1.9%	2.3%	2.4%	2.4%	2.5%

*Accounts subject to audit

2.7 Incremental impact of capital investment decisions on council tax

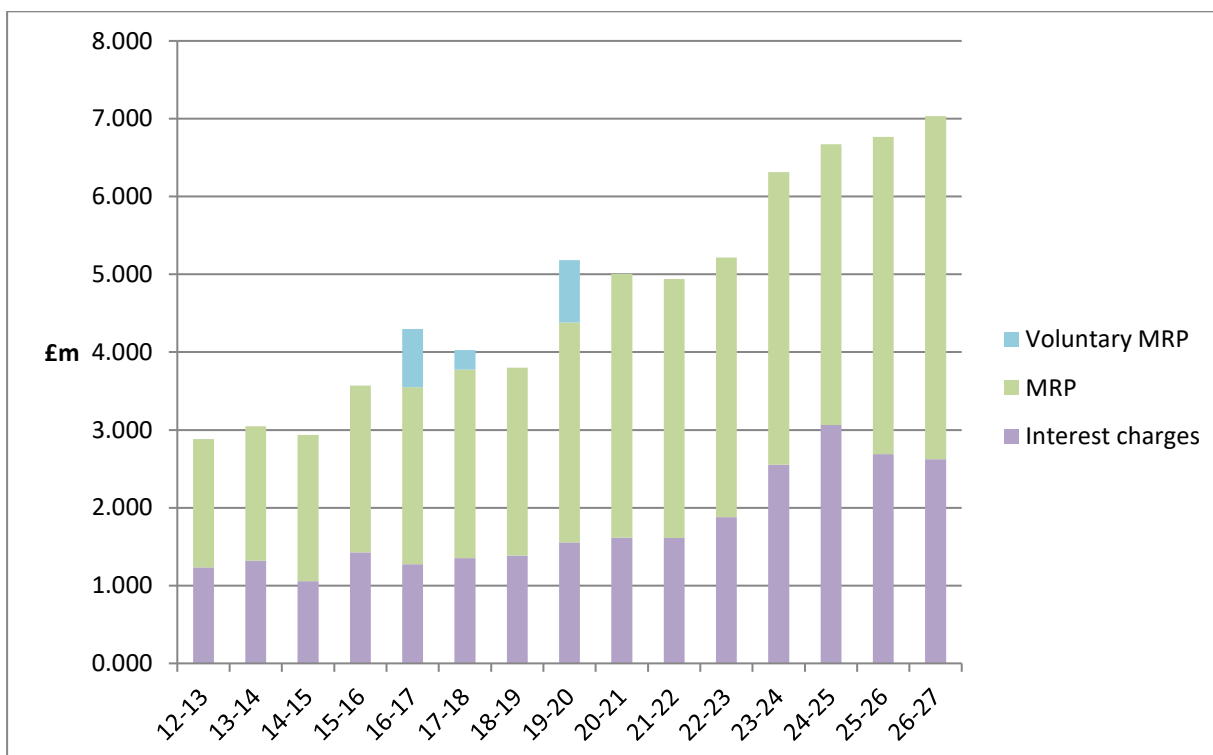
This indicator identifies the revenue costs associated with a reasonable assessment of forthcoming capital proposals, compared to the Commissioners existing approved commitments and current plans. The assumptions are based on current plans, but will invariably include some estimates, such as the level of Government support, which is not published over a three year period. Again, this indicator is not a mandatory indicator under the revised code, but it has been reviewed and considered a good indicator of the commitment from capital spending.

Incremental impact of capital investment decisions on the band D council tax

Ratio	2021-22 Outturn*	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate	2026-27 Estimate
	£0.00	£0.00	£0.00	£1.08	£2.55	£4.67

*Accounts subject to audit

The graph below shows the financial impact of capital expenditure and borrowing on the Revenue Account:



3. BORROWING

The treasury management function ensures that the Commissioners cash is organized in accordance with the relevant professional codes, so that sufficient cash is available to meet the capital expenditure plan summarised in Section 2. This will involve both the organisation of the cash flow, including the arrangement of borrowing as appropriate. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions, and the annual investment strategy.

3.1 Current portfolio position

The Commissioners borrowing portfolio position at March 2021, with forward projections is summarised below. The table shows external debt against the underlying capital borrowing need (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

Debt & Borrowing	2021-22 Outturn* £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m	2026-27 Estimate £m
Debt as at 1st April	58.837	65.370	64.273	65.740	67.579	72.541
New Borrowing	10.000	2.000	6.000	6.000	6.000	6.000
Borrowing Repaid	(3.468)	(3.097)	(4.533)	(4.161)	(1.038)	(3.538)
Movement in Borrowing	6.532	(1.097)	1.467	1.839	4.962	2.462
Debt as at 31st March	65.370	64.273	65.740	67.579	72.541	75.002
Cap Financing Requirement	66.355	69.858	71.510	75.391	76.773	77.425
Other Long Term Liabilities	0.000	0.000	0.000	0.000	0.000	0.000
Underlying Borrowing Need	66.355	69.858	71.510	75.391	76.773	77.425
Under/(Over) Borrowing	0.986	5.585	5.770	7.813	4.232	2.423
Investments	23.546	19.252	16.664	14.716	17.846	19.119
Net Debt	41.824	45.020	49.076	52.863	54.694	55.884

*Accounts subject to audit

Within the prudential indicators there are a number of key indicators to ensure that activities operate within well defined limits. One of these is that the Commissioner needs to ensure that his gross debt does not (except in the short term), exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2021-22 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The CFO reports that this prudential indicator will be complied with in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators - Limits to borrowing activity

Operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR.

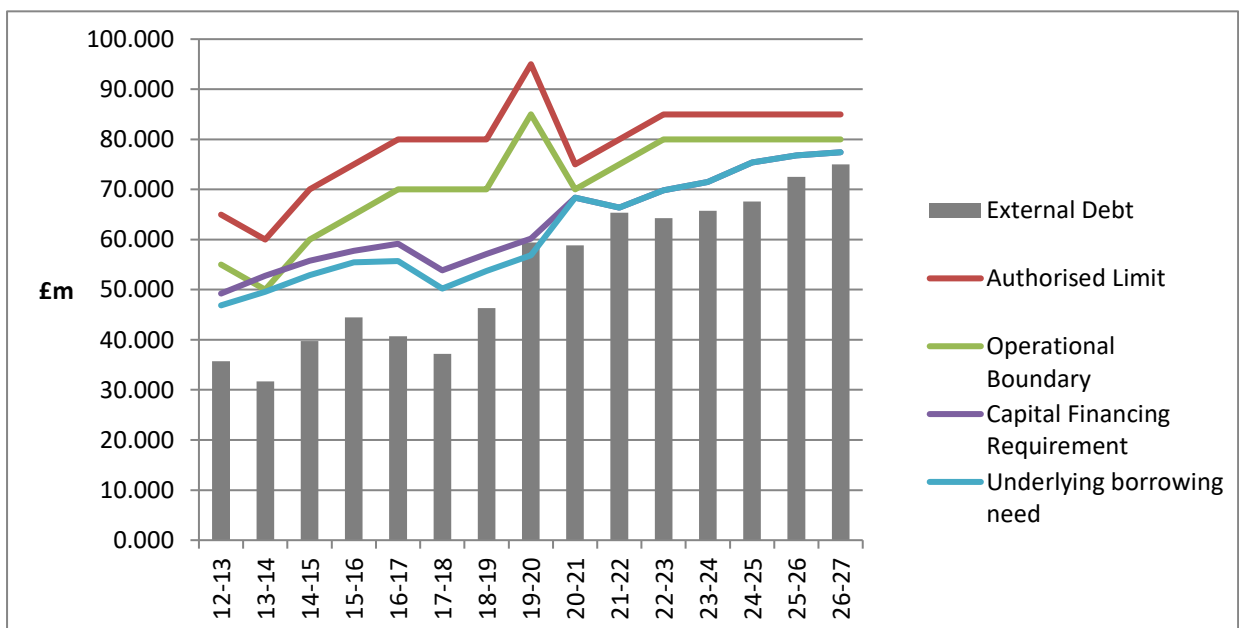
Operational Boundary	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m
	75.000	80.000	80.000	80.000	80.000	80.000

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

The Commissioner is requested to approve the following authorised limit:

Authorised Limit	2021-22 £m	2022-23 £m	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m
	80.000	85.000	85.000	85.000	85.000	85.000

The graph below shows CFR and debt figures from paragraphs 2.2 and 3.1 compared with relevant borrowing limits.



3.3 Prospects for interest rates and economic background

One of the services provided by Link Asset Services (Link) is to assist the Commissioner in formulating a view on interest rates.

The latest forecast on 27th September 2022 sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, whilst the government is providing a package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices.

The increase in PWLB rates reflects a broad sell-off in sovereign bonds internationally but more so the disaffection investors have with the position of the UK public finances after September's "fiscal event". To that end, the MPC has tightened short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control, but its job is that much harder now.

Our PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View 27.09.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

- The yield curve has fluctuated since June 2022 and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 2.5% to 3.25%.
- Link view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the poor inflation outlook.
- It is difficult to say currently what effect the Bank of England starting to sell gilts at a rate of £10bn per quarter, from September, will have. But Links judgment is that US Treasury yield influences (driven by inflation and jobs/pay data) will affect gilt yields more than the gilt sales.

The balance of risks to the UK economy:

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

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

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).
- **The Bank of England** acts too quickly, or too far, over the next two years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

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

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

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates an even more rapid series of increases in Bank Rate faster than we currently expect.
- **The Government** acts too quickly to cut taxes and/or increases expenditure in the light of the cost-of-living squeeze.
- **The pound weakens on the back of UK/EU trade friction** resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer term **US treasury yields** continue to rise strongly and pull gilt yields up higher than forecast.

Link now expect the Monetary Policy Committee to swiftly increase Bank Rate during the remainder of 2022 and into Q1 2023 to combat the sharp increase in inflationary pressures. Link do not think that the MPC will embark on a series of increases in Bank Rate that would take it to more than 2.75%, but it is possible.

Gilt yields and PWLB rates:

The general situation is for volatility in bond yields to endure as investor fears and confidence ebb and flow between favouring relatively more “risky” assets i.e., equities, or the safe haven of government bonds, despite material inflationary concerns. The overall longer-run trend is for gilt yields and PWLB rates to rise moderately in the near-term, given the extent to which market expectations are already priced in and then to fall back once inflation starts to fall through 2023.

Borrowing advice:

Links long-term (beyond 10 years) forecast for Bank Rate stands at 2.25%. As all PWLB certainty rates are now above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered out to 5 years. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive as part of a balanced debt portfolio.

3.4 Treasury Management limits on activity

There are three debt related treasury activity limits. The purpose of these are to constrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set too restrictively they will impair the opportunities to reduce costs/improve performance.

The indicators are:

- **Upper limits on variable interest rate exposure.** This identifies a maximum limit for variable interest rates based upon the debt position net of investments
- **Upper limits on fixed interest rate exposure.** This gives a maximum limit on fixed interest rates;
- **Maturity structure of borrowing.** These gross limits are set to reduce the exposure to large fixed rate sums falling due for refinancing.

The Commissioner is requested to approve the following treasury indicators and limits:

Upper Interest rate exposures 2022-23 to 2026-27		
Limits on fixed interest rates:		
• Debt only		100%
• Investments only		100%
Limits on variable interest rates		
• Debt only		50%
• Investments only		100%
Maturity structure of fixed interest rate borrowing 2022-23 to 2026-27		
	Lower	Upper
Under 12 months	0%	30%
12 months to 2 years	0%	40%
2 years to 5 years	0%	50%
5 years to 10 years	0%	70%
10 years and above	0%	100%

3.5 Policy on borrowing in advance of need

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

Borrowing in advance will be made within the following constraints:

- It will be limited to no more than 50% of the expected increase in borrowing need (CFR) over the three year planning period
- Would not be more than 18 months in advance of need

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

3.6 Debt rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

Following the decision by the PWLB on 9th October 2019 to increase their margin over gilt yields by 100 bps to 180 basis points on loans lent to local authorities, consideration will also need to be given to sourcing funding at cheaper rates from the following:

- Local authorities (primarily shorter dated maturities)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates)
- Municipal Bonds Agency (no issuance at present but there is potential)

The degree which any of these options proves cheaper than PWLB Certainty Rates is still evolving at the time of writing, but our advisors will keep us informed.

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long

term debt to short term debt. However, these savings will need to be compared to the cost of debt repayment (premiums incurred). Also the current treasury position needs due consideration.

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
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility)

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

All rescheduling will be reported to the Commissioner at the earliest opportunity.

3.7 Borrowing Strategy and Municipal Bond Agency

It is possible that the Municipal Bond Agency, will offer loans to Local Authorities at borrowing rates lower than those offered by the Public Works Loan Board (PWLB). The Commissioner intends to make use of this new source of borrowing if rates are favourable.

4. ANNUAL INVESTMENT STRATEGY

4.1 Investment Policy

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

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

The Commissioner's investment priorities will be security first, liquidity second and then return.

In accordance with guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the NOPCC has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. This enables diversification and avoids the concentration of risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk. Therefore, providing security of investment and minimisation of risk.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets, by actively engaging with advisors to maintain monitoring on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information regarding the banking sector. This allows a robust scrutiny process on investment counterparties.

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

4.2 Non-financial Investments Policy

Non-financial investments are essentially the purchase of income yielding assets. Currently radio masts are held and income is received for an item that is no longer operational. They were not acquired with that as a purpose and were originally operational. The current income yield is circa £0.090m per annum. There is no intention to purchase these kinds of investments and any divergence from this would be the subject of a future report.

4.3 Creditworthiness Policy

The primary criterion is the security of investments. The liquidity (availability) of the investments is secondary consideration. The yield (return) on the investment is also a further consideration. The Commissioner will ensure that:

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

The CFO will maintain a counterparty list in compliance with the following considerations and will keep the criteria under review. It provides an overall pool of counterparties considered high quality which the Commissioner may use, rather than defining what types of investment instruments are to be used.

The lowest credit rating from the main agencies is used when considering counterparties. It is considered that this does not significantly increase risk but may widen the pool of available counter parties. Credit rating information is supplied by Link Asset Services, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. Link Asset Services updates counterparties who qualify under the list on a daily basis.

Country and sector considerations - Due care will be taken to consider the country, group and sector exposure of the Commissioners investments. In addition to the considerations already outlined the limits in place will apply to a group of companies and sector limits will be monitored regularly for appropriateness. Investments will only be made in sterling.

Use of additional information other than credit ratings - Additional requirements under the Code requires the Commissioner to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks and relevant news articles) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to all investments. The time and monetary limits for institutions on the Commissioners counterparty list are as follows: No changes are proposed. The range of values for Low Volatility Net Asset Value Funds and Ultra Short Dated Bond Funds have the lower limit being the 'normal limit' and above this being at the CFO's discretion.

	Fitch Long Term Rating (or equivalent)	Existing Money and/or % Limit	Proposed Money and/or % Limit	Time Limit
Banks 1 Higher Quality	AAA	£5m	£10m	1 year
Banks 1 Medium Quality	AA-	£5m	£8m	1 year
Banks 1 Medium/lower quality	A	£4m	£5m	6 months
Banks 1 Lower quality	A-	£3m	£5m	3 months
Banks 2 – Part Nationalised	N/A	£5m	£5m	1 year
Additional criteria for non UK Banks				
Sovereign Country	AA-	25%/£5m	25%/£5m	
Banks 3 category – Commissioners banker (not meeting Banks 1)	N/A	£5m	£5m	1 day
UK Govt - DMADF	AAA	Unlimited	Unlimited	6 months
Local Authorities	N/A	£8m	£10m	2 years
Low Volatility Net Asset Value Funds (LVNAV) (Used to be called Enhanced money market funds with instant access)	AAA	£12/15m	£15/20m	liquid

4.4 Country Limits

The Commissioner has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch. For information the UK is currently rated AA-.

Approved Non UK countries for investments as at 07th October 2022

Based on lowest available rating – Source Link

AAA	AA+	AA	AA-
Australia Denmark Germany Luxembourg Netherlands Norway Singapore Sweden Switzerland	Canada Finland U.S.A.	Abu Dhabi France	Belgium Hong Kong Qatar UK

4.5 Investment Strategy

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

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations – The Bank of England’s Bank Rate has risen to 3.0% as at Nov 2022 which is having a positive impact on investment returns from money market-related instruments.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about six months during each financial year are as follows:

Average earnings in each year	Existing %	Proposed %*
2022-23	0.10	1.30**
2023-24	0.10	2.10
2024-25	0.25	2.10
2025-26	0.25	2.10
2026-27	0.25	2.10

*Based on 6 month SONIA Figures (LIBOR and LIBID rates ceased at the end of 2021 and LIBOR has been replaced by a rate based on SONIA (Sterling Overnight Index Average)).

** This is a blended rate for 2022/23

Investment treasury indicator and limit - total principal funds invested for greater than 365 days are limited with regard to liquidity requirements and to reduce the need for early redemption.

The Commissioner is requested to approve the treasury indicator and limit:

Maximum principal sums invested > 365 days	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m
	5.000	5.000	5.000	5.000	5.000

There are currently no funds invested for greater than 365 days. For cash flow generated balances, the CFO will seek to utilise instant access and notice accounts, LVNAVs and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest. Ultra Short Dated Bond Funds will be used if considered appropriate by the CFO.

4.6 Investment Risk Benchmarking

These benchmarks are simple guides to maximum risk, and may be breached occasionally, depending on circumstances. The purpose of the benchmarks is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.

Security - The Commissioner’s maximum security risk benchmark for the current portfolio,

when compared to these historic default tables, is 0.06% historic risk of default when compared to the whole portfolio.

Liquidity - in respect of this area the Commissioner seeks to maintain:

- Bank overdraft - avoided if possible
- Liquid short term deposits of at least £5.0m available on instant access
- Weighted average life benchmark is expected to be 1 month, with a maximum of 6 months

Yield - local measures of yield benchmarks is that investments achieve returns above the 7 day LIBID rate.

5 SECTION 151 OFFICER

5.1 Treasury Management Role

The S151 (responsible) officer is the Chief Financial Officer to the Commissioner and they have responsibility for the following:

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- Submitting regular treasury management policy reports
- Submitting budgets and budget variations
- Receiving and reviewing management information reports
- Reviewing the performance of the treasury management function
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- Ensuring the adequacy of internal audit, and liaising with external audit
- Recommending the appointment of external service providers
- Preparation of a capital strategy to include capital expenditure, capital financing and treasury management, with a long term timeframe