GMCA GREATER MANCHESTER COMBINED AUTHORITY

Greater Manchester Combined Authority

Date: **11 February 2022**

Subject: **Treasury Management Strategy Statement and Annual Investment Strategy 2022/23**

Report of: **Councillor David Molyneux, Portfolio Leader for Resources and Steve Wilson, Treasurer to GMCA**

Purpose of Report

To set out the proposed Treasury Management Strategy Statement, Borrowing Limits and Prudential Indicators for 2022/23 to 2024/25 for the Authority. The strategy reflects the draft 2021-2025 capital programme for Transport, Economic Development, Fire and Rescue, Waste and Police.

Recommendations:

The GMCA is requested to

1. Approve the proposed Treasury Management Strategy Statement and Annual Investment Strategy to apply from the 1 April 2022, in particular:

   a) The Treasury and Prudential Indicators listed in Section 4.
   b) The Minimum Revenue Provision (MRP) Strategy in Section 3.
   c) The Treasury Management Scheme of Delegation at Appendix F.
   d) The Borrowing Strategy outlined in Section4.
   e) The Annual Investment Strategy detailed in Section 5.
   f) Delegation to the Treasurer to step outside of the investment limits to safeguard the GMCA's position as outlined in section 5.21.

2. Approve the change in the MRP Strategy to enable it to apply in 2021/22.

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Equalities Impact, Carbon and Sustainability Assessment:
N/A

Risk Management
There are considerable risks to the security of the GMCA's resources if appropriate Treasury Management strategies and policies are not adopted and followed. The GMCA has established good practice in relation to Treasury Management.

Legal Considerations
This report fulfils the statutory requirements to have the necessary prudential indicators to be included in a Treasury Management Strategy.

Financial Consequences – Revenue
Financial revenue consequences are contained within the body of the report

Financial Consequences – Capital
Financial capital consequences are contained within the body of the report

Number of attachments to the report: None

Comments/recommendations from Overview & Scrutiny Committee
N/A

Background Papers
Treasury Management Strategy Statement and Annual Investment Strategy 2021/22, GMCA 12 February 2021

Tracking/ Process

Does this report relate to a major strategic decision, as set out in the GMCA Constitution?

No

Exemption from call in

Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency? No

GM Transport Committee

N/A

Overview and Scrutiny Committee

N/A

1. INTRODUCTION AND BACKGROUND

1.1 The purpose of this report is to set out the proposed Treasury Management Strategy Statement, Borrowing Limits and Prudential Indicators for 2022/23 to 2024/25 for the Authority. The strategy reflects the draft 2021-2025 capital programme for Transport, Economic Development, Fire and Rescue, Waste and Police. This report should be read alongside the Capital Strategy 2022-2023 which is also on this agenda.

1.2 The strategy for 2022/23 covers two main areas:

Capital issues

a) the capital expenditure plans and the associated prudential indicators;
b) the Minimum Revenue Provision (MRP) policy.

Treasury management issues

a) the current treasury position;
b) treasury indicators which limit the treasury risk and activities of the Authority;
c) prospects for interest rates;
d) the borrowing strategy;
e) policy on borrowing in advance of need;
f) debt rescheduling;
g) the investment strategy;
h) creditworthiness policy; and

i) the policy on use of external service providers.

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

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

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

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

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

1.8 GMCA uses Link Group, Treasury solutions as its external treasury management advisors. The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance

is not placed upon the services of external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, the treasury advisers.

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

1.10 Daily treasury management activity is currently provided by Manchester City Council. This will be brought into the GMCA Finance Team from 1st April 2022 following the implementation of a new structure during 2021/22.

2. CIPFA CODES OF PRACTICE

2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

a) a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services

b) an overview of how the associated risk is managed

c) the implications for future financial sustainability.

2.2 CIPFA defines treasury management as:

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

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

2.4 The Authority 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:

   i. the capital plans, (including prudential indicators);

   ii. a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);

   iii. the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and

   iv. an investment strategy, (the parameters on how investments are to be managed).

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

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

2.5 The above reports are required to be adequately scrutinised before being recommended to the Authority. This role is undertaken by the Audit Committee.

Recent changes to the codes of practice

2.6 CIPFA published revised code of practices on 20 December 2021 with formal adoption required by the 2023/24 financial year. The Authority must have regard to the revisions when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy and other related reports which are taken to GMCA for approval.

2.7 The revised codes will have the following implications:

a) a requirement for the authority to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;

b) 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;

c) address Environmental, Social, Governance (ESG) issues within the Capital Strategy;

d) require implementation of a policy to review commercial property, with a view to divest where appropriate;

e) create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices (TMP));

f) ensure that any long-term treasury investment is supported by a business model;

g) a requirement to effectively manage liquidity and longer-term cash flow requirements;

h) amendment to TMP1 to address ESG policy within the treasury management risk framework;

i) 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 authority;

j) a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

2.8 All investments and investment income must be attributed to one of the following three purposes:

a) 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.

b) 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".

c) 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.

2.9 The Treasury Management Strategy Statement and Annual Investment Strategy deals solely with treasury management investments, the categories of service delivery and commercial investments is included 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). The GMCA does not currently have any commercial investments and no proposals for any have been brought forward.

2.10 Members will be updated on how all these changes will impact GMCA's current approach and any changes required will be formally adopted within the 2023/24 TMSS Strategy report to Audit Committee and GMCA early in 2023.

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

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

Capital expenditure and financing

3.2 This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £m	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Transport	207.817	232.254	222.358	97.380
Economic Development and Regeneration	236.576	156.820	104.010	102.725
Fire and Rescue Service	11.185	22.114	13.894	13.919
Waste & Resources Service	24.339	10.354	6.070	2.520
Police Service	57.601	17.013	37.551	18.726
Total	**537.518**	**438.555**	**383.883**	**235.270**

3.3 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure £m	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Capital receipts	98.220	94.377	98.379	94.125
Capital grants	283.302	168.091	104.577	46.087
Revenue Contribution	5.449	2.590	2.590	2.590
Net financing need for the year	**150.547**	**173.497**	**178.337**	**92.468**

3.4 Other long-term liabilities - The above financing need excludes other long-term liabilities, such as Private Finance Initiative (PFI) and leasing arrangements that already include borrowing instruments.

The Authority's borrowing need - the Capital Financing Requirement (CFR)

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

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

3.7 The CFR includes any other long-term liabilities (for example, PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of schemes include a borrowing facility by the PFI, Public-Private Partnership (PPP) lease provider and so the Authority is not required to separately borrow for these schemes. The Authority currently has £41m of such schemes within the CFR.

3.8 The Authority is asked to approve the CFR projections below:

£m	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
CFR	**2,404.273**	**2,480.289**	**2,553.733**	**2,537.651**
Movement in CFR	**63.767**	**76.016**	**73.444**	**(16.082)**

Movement in CFR represented by				
Net financing need for the year (above)	150.547	173.497	178.337	92.468
Less MRP/VRP and other financing movements	(86.780)	(97.481)	(104.893)	(108.550)
Movement in CFR	**63.767**	**76.016**	**73.444**	**(16.082)**

Minimum revenue provision (MRP) policy statement

3.9 The Authority is required to pay off an element of the accumulated General Fund capital spend known as the Capital Financing Requirement (CFR) through an annual revenue charge known as the Minimum Revenue Provision (MRP). The authority is also permitted to undertake additional voluntary payments if required, known as the Voluntary Revenue Provision (VRP).

3.10 DLUHC regulations have been issued which require the full Authority to approve an MRP Statement in advance of each year. A variety of options are provided to authorities, so long as there is a prudent provision.

3.11 A review of GMCA's MRP policy was recently undertaken by Link group, the objective of the review was to provide the Authority with an independent check that the MRP strategy and policy were fit for both the current and future spending plans. It also provides the necessary challenge to ensure that any potential options are not missed when considering the capital financing decisions for new capital expenditure ensuring that the provision remains prudent and compliant with statutory guidance.

3.12 It is recommended that GMCA approve the following MRP Statement:

a) For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- MRP will be calculated using an Asset Life annuity basis over 50 years.

b) From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

- MRP will be calculated on an Asset Life annuity basis. The interest rate applied will be linked to PWLB interest rates and the useful life of the asset.

3.13 MRP overpayments - A change introduced by the revised DLUHC MRP guidance was the allowance that any charges made over the statutory MRP, VRP 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. There were no general fund VRP overpayments up to 31 March 2021.

4. BORROWING

4.1 The capital expenditure plans set out in Section 3 provide details of the service activity of the Authority. The treasury management function ensures that the Authority's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Authority capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

Current portfolio position

4.2 The overall treasury management portfolio as at 31 March 2021 and for the position as at 1 February 2022 are shown below for both borrowing and investments.

	31-Mar-21 £m	1-Feb-22 £m
Treasury Investments		
Banks	88.797	14.950
Local Authorities	50.013	208.500
DMADF (HM Treasury)	-	176.090
Money Markey Funds	-	68.710
Total treasury investments	**138.810**	**468.250**
Treasury External Borrowing		
PWLB	567.494	548.008
Market	627.492	619.926
LOBOs	50.000	50.000
HCA/HIF	210.438	190.128
TfGM	61.780	46.597
Total external borrowing	**1,517.204**	**1,454.659**
Net treasury investments/(borrowing)	**(1,378.394)**	**(986.409)**

4.3 The Authority's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the CFR), highlighting any over or under borrowing.

£m	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
External Debt				
Debt at 1 April	1,517.204	1,379.007	1,348.328	1,315.814
Expected change in Debt	(138.197)	(30.679)	(32.514)	(40.172)
Other long-term liabilities (OLTL)	44.418	40.759	36.677	32.998
Expected change in OLTL	(3.659)	(4.082)	(3.679)	(4.353)
Actual gross debt at 31 March	**1,419.766**	**1,385.005**	**1,348.812**	**1,304.288**
Capital Financing Requirement	**2,404.273**	**2,480.289**	**2,553.733**	**2,537.651**
Under / (over) borrowing	**984.507**	**1,095.284**	**1,204.921**	**1,233.364**

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

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

Treasury Indicators: limits to borrowing activity

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

Operational boundary £m	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Debt	2,524.487	2,604.304	2,681.420	2,664.534
Other long-term liabilities	46.639	42.797	38.511	34.648
Total	2,571.126	2,647.101	2,719.931	2,699.182

4.7 **The authorised limit for external debt**. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Authority. 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.

a) 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.

b) The Authority is asked to approve the following authorised limit:

Authorised limit £m	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Debt	2,644.701	2,728.318	2,809.107	2,791.416
Other long-term liabilities	48.860	44.835	40.345	36.298
Total	2,693.560	2,773.153	2,849.451	2,827.714

Prospects for interest rates

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

Link Group Interest Rate View 20 December 2021														
	Dec 21	**Mar 22**	**Jun 22**	**Sep 22**	**Dec 22**	**Mar 23**	**Jun 23**	**Sep 23**	**Dec 23**	**Mar 24**	**Jun 24**	**Sep 24**	**Dec 24**	**Mar 25**
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 month ave earning	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00
6 month ave earning	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

4.9 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 16 December 2021.

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

Significant risks to the forecasts

a) 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. 25% of the population not being vaccinated is also a significant risk to the NHS being overwhelmed and lockdowns being the only remaining option.

b) Labour and supply shortages prove more enduring and disruptive and depress economic activity.

c) The Monetary Policy Committee (MPC) 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.

d) The MPC tightens monetary policy too late to ward off building inflationary pressures.

e) The Government acts too quickly to cut expenditure to balance the national budget.

f) 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.

g) Longer term US treasury yields rise strongly and pull gilt yields up higher than forecast.

h) 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.

i) 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.

4.11 The balance of risks to the UK economy:

a) 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

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

a) We do not know how severe an impact Omicron could have on the economy and whether there will be another lockdown or similar and, if there is, whether there would be significant fiscal support from the Government for businesses and jobs.

b) There were already increasing grounds for viewing the economic recovery as running out of steam during the autumn and now into the winter. And then along came Omicron to pose a significant downside threat to economic activity. This could lead into stagflation, or even into recession, which would then pose a dilemma for the MPC as to whether to focus on combating inflation or supporting economic growth through keeping interest rates low.

c) Will some current key supply shortages spill over into causing economic activity in some sectors to take a significant hit?

d) Rising gas and electricity prices in October 2021 and April 2022 and increases in other prices caused by supply shortages and increases in taxation in April 2022, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation.

e) On the other hand, consumers are sitting on over £160bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total.

f) It looks as if the economy coped well with the end of furlough on 30 September 2021. It is estimated that there were around 1 million people who came off furlough then and there was not a huge spike up in unemployment. The other side of the coin is that vacancies have been hitting record levels so there is a continuing acute shortage of workers. This is a potential danger area if this shortage drives up wages which then feed through into producer prices and the prices of services i.e., a second-round effect that the MPC would have to act against if it looked like gaining significant momentum.

g) We also recognise there could be further nasty surprises on the Covid front beyond the Omicron mutation.

h) If the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to end up in a no-deal Brexit.

4.13 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.

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

Forecasts for Public Works Loan Board (PWLB) rates and gilt and treasury yields

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

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

4.17 **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 Gross Domestic Product (GDP)) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. However, this was in addition to the $900bn support package already passed in December 2020. This was then followed by additional Democratic ambition to spend $1trn on infrastructure, (which was eventually passed by both houses later in 2021), and an even larger sum on an American families plan over the next decade; this is still caught up in Democrat / Republican haggling. Financial markets were alarmed that all this stimulus was happening at a time when:

a) A fast vaccination programme had enabled a rapid opening up of the economy during 2021.

b) The economy was growing strongly during the first half of 2021 although it has weakened overall during the second half.

c) It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.

d) And the Fed was still providing substantial stimulus through monthly Quantitative Easing (QE) purchases during 2021.

4.18 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 December meeting with an aggressive response to damp inflation down during 2022 and 2023.

4.19 At its 3 November 2021 Fed meeting, the Fed decided to make a start on tapering its $120bn per month of QE purchases so that they ended in June 2022. However, at its 15 December 2021 meeting it doubled the pace of tapering so that they will end all purchases in February 2022. 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 and after the taper ends, all other things being equal. The Fed 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, taking rates back above 2% to a neutral level for monetary policy.

4.20 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.

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

a) How strongly will changes in gilt yields be correlated to changes in US treasury yields (see below). 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 earlier and higher in the US than in the UK if inflationary pressures were to escalate; 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.

b) Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?

c) Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?

d) How strong will inflationary pressures actually turn out to be in both the US and the UK and so put upward pressure on treasury and gilt yields?

e) How will central banks implement their new average or sustainable level inflation monetary policies?

f) How well will central banks manage the withdrawal 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?

g) Will exceptional volatility be focused on the short or long-end of the yield curve, or both?

4.22 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. Inflationary pressures and erosion of surplus economic capacity look much stronger in the US compared to those in the UK, which would suggest that Fed rate increases eventually needed to suppress inflation, are likely to be faster and stronger than Bank Rate increases in the UK. This is likely to put upward pressure on treasury yields which could then spill over into putting upward pressure on UK gilt yields.

4.23 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.

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

a) 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

4.25 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.

a) 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.

b) 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.

c) For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as quickly or 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.

d) 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.

e) 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

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

b) **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.

c) On 25 November 2020, 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: -.

   i. PWLB Standard Rate is gilt plus 100 basis points (G+100bps)

   ii. PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)

   iii. PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)

   iv. PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)

   v. Local Infrastructure Rate is gilt plus 60bps (G+60bps)

d) Borrowing for capital expenditure. Our long-term (beyond 10 years), forecast for Bank Rate is 2.00%. As some PWLB certainty rates are currently below 2.00%, there remains value in considering long-term borrowing from the PWLB where appropriate. 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 an authority is seeking to avoid a “cost of carry” but also wishes to mitigate future re-financing risk.

e) While this Authority will not be able to avoid borrowing in the longer term to finance new capital expenditure, to replace maturing debt and the rundown of reserves and grants received in advance, 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.

Borrowing Strategy

4.26 The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the CFR), has not been fully funded with loan debt as cash supporting the Authority’s reserves, balances and cash flow has been used as a

temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

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

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

b) if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

4.28 Any decisions will be reported to the appropriate decision-making body at the next available opportunity.

Policy on borrowing in advance of need

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

4.30 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.

Debt Rescheduling

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

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

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

4.33 Currently the PWLB Certainty Rate is set at gilts + 80 basis points for borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

a) Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).

b) Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).

c) The Municipal Bonds Agency and UK Infrastructure Bank should they be proven as suitable alternatives.

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

5. ANNUAL INVESTMENT STRATEGY

Investment policy – management of risk

5.1 The DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

5.2 The Authority’s investment policy has regard to the following: -

a) DLUHC’s Guidance on Local Government Investments (“the Guidance”)

b) CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 (“the Code”)

c) CIPFA Treasury Management Guidance Notes 2018.

5.3 The Authority’s investment priorities will be security first, portfolio liquidity second and then yield, (return). The Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the

Authority's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Authority will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

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

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

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

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

d) This Authority has defined the list of types of investment instruments that the treasury management team are authorised to use. See Appendix D.

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

   ii. Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which

require greater consideration by members and officers before being authorised for use.

e) The Authority has determined that it will not use non specified investments.

f) Lending limits, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 5.11.

g) Transaction limits are set for each type of investment in paragraph 5.11.

h) This Authority will not invest for periods longer than 365 days.

i) Investments will only be placed with counterparties from countries with a specified minimum sovereign rating, (see paragraph 5.14).

j) This Authority has engaged external consultants, (see paragraph 1.8), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

k) All investments will be denominated in sterling.

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

5.5 However, this Authority will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 5.17). Regular monitoring of investment performance will be carried out during the year.

Creditworthiness policy

5.6 This Authority applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the

three main credit rating agencies - Fitch, Moody’s and Standard & Poor’s. The credit ratings of counterparties are supplemented with the following overlays:

a) “watches” and “outlooks” from credit rating agencies;

b) Credit Default Swap (CDS) spreads that may give early warning of changes in credit ratings;

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

5.7 This modelling approach combines credit ratings, and any assigned Watches and Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Authority to determine the suggested duration for investments. The Authority will, therefore, use counterparties within the following durational bands:

a) Yellow 5 years (UK Government debt or equivalent)
b) Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
c) Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
d) Purple 2 years
e) Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
f) Orange 1 year
g) Red 6 months
h) Green 100 days
i) No colour not to be used

5.8 The Link creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency’s ratings.

5.9 Typically, the minimum credit ratings criteria the Authority use will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

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

a) if a downgrade results in the counterparty / investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.

b) in addition to the use of credit ratings the Authority will be advised of information in movements in CDS spreads against the iTraxx European Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

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

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long-term rating where applicable)	Max % of total investments / £ limit per institution	Time limit
Banks	yellow	100% / £25m	5yrs
Banks	purple	100% / £25m	2 yrs
Banks	orange	100% / £25m	1 yr
Banks – part nationalised	blue	100% / £25m	1 yr
Banks	red	100% / £25m	6 mths
Banks	green	100% / £25m	100 days
Banks	No colour	Not to be used	
Limit 3 category – Authority's banker (where "No Colour")	No colour	100% / £25m	1 day
DMADF	UK sovereign rating	unlimited	6 months
Local authorities	n/a	100% / £25m	1 year
Money Market Funds	AAA	100% / £25m	liquid

Creditworthiness

5.12 Significant levels of downgrades to Short- and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, as economies are beginning to reopen, there have been some instances of previous lowering of Outlooks being reversed.

CDS prices

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

Other limits

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

a) **Non-specified treasury management investment limit**. The Authority has determined that it will not invest for periods longer than 12 months.

b) **Country limit**. The Authority has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix E. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

Investment strategy

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

a) 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.

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

Investment returns expectations

5.16 The current forecast shown in paragraph 4.8, includes a forecast for a first increase in Bank Rate in May 2022, though it could come in February 2022.

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

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

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

Investment performance / risk benchmarking

5.19 This Authority will use an investment benchmark to assess the investment performance of its investment portfolio of overnight, 7 day, 1, 3, 6 or 12 month compounded / SONIA

End of year investment report

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

Delegation to the Treasurer to Safeguard the Authority's Position

5.21 It may be prudent, depending on circumstances, to temporarily increase the limits shown in paragraph 5.11 if it becomes increasingly difficult for officers to place funds. If this is the case officers will seek approval from the Treasurer for such an increase and approval may be granted at the Treasurer's discretion. Any increase in the limits will be reported to Members of the Audit Committee as part of the normal treasury management reporting process.

6. APPENDICES

A Prudential and treasury indicators

B Interest rate forecasts

C Economic background

D Treasury Management Practice 1

E Approved countries for investments

F Treasury management scheme of delegation

G The treasury management role of the Section 151 Officer

APPENDIX A THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2022/23 – 2024/25

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

1 Capital expenditure

Capital expenditure £m	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	Total Estimate
Transport	207.817	232.254	222.358	97.380	759.809
Economic Development and Regeneration	236.576	156.820	104.010	102.725	600.131
Fire and Rescue Service	11.185	22.114	13.894	13.919	61.112
Waste & Resources Service	24.339	10.354	6.070	2.520	43.283
Police Service	57.601	17.013	37.551	18.726	130.891
Total	**537.518**	**438.555**	**383.883**	**235.270**	**1,595.226**

2 Affordability prudential indicators

2.1 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 Authority's overall finances. The Authority is asked to approve the following indicators:

2.2 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.

%	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Ratio of Financing Costs	13.3%	13.7%	13.7%	13.6%

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

2.3 Maturity structure of borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Authority's exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Authority is asked to approve the following treasury indicators and limits:

Maturity structure of fixed interest rate borrowing 2022/23		
	Lower	**Upper**
Under 12 months	0%	10%
12 months to 2 years	0%	10%
2 years to 5 years	0%	20%
5 years to 10 years	0%	50%
10 years and over	0%	75%
Maturity structure of variable interest rate borrowing 2022/23		
	Lower	**Upper**
Under 12 months	0%	0%
12 months to 2 years	0%	0%
2 years to 5 years	0%	0%
5 years to 10 years	0%	0%
10 years and over	0%	0%

APPENDIX B INTEREST RATE FORECASTS 2021-2025

PWLB forecasts shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1 November 2012.

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

APPENDIX C ECONOMIC BACKGROUND

1 COVID-19 vaccines

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

2 A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

2.1 In December 2021, the Bank of England became the first major western central bank to put interest rates up in this upswing in the current business cycle in western economies as recovery progresses from the Covid recession of 2020.

2.2 The next increase in Bank Rate could be in February 2022 or May 2022, dependent on how severe an impact there is from Omicron.

2.3 If there are lockdowns in January 2022, this could pose a barrier for the MPC to putting Bank Rate up again as early as 3 February 2022.

2.4 With inflation expected to peak at around 6% in April 2022, the MPC may want to be seen to be active in taking action to counter inflation on 5 May 2022, the release date for its Quarterly Monetary Policy Report.

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

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

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

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

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

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

2.11 Purchases of gilts under QE ended in December 2021. Note that when Bank Rate reaches 0.50%, the MPC has said it will start running down its stock of QE.

3. MPC MEETING 16 DECEMBER 2021

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

3.2 The MPC disappointed financial markets by not raising Bank Rate at its November 2021 meeting. Until Omicron burst on the scene, most forecasters, therefore, viewed a Bank Rate increase as being near certain at this December 2021 meeting due to the

way that inflationary pressures have been comprehensively building in both producer and consumer prices, and in wage rates. However, at the November 2021 meeting, the MPC decided it wanted to have assurance that the labour market would get over the end of the furlough scheme on 30 September 2021 without unemployment increasing sharply; their decision was, therefore, to wait until statistics were available to show how the economy had fared at this time.

3.3 On 10 December 2021 we learnt of the disappointing 0.1% m/m rise in GDP in October 2021 which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November 2021. Early evidence suggests growth in November 2021 might have been marginally better. Nonetheless, at such low rates of growth, the government's "Plan B" COVID-19 restrictions could cause the economy to contract in December 2021.

3.4 On 14 December 2021, the labour market statistics for the three months to October 2021 and the single month of October 2021 were released. The fallout after the furlough scheme was smaller and shorter than the Bank of England had feared. The single-month data were more informative and showed that Labour Force Survey (LFS) employment fell by 240,000, unemployment increased by 75,000 and the unemployment rate rose from 3.9% in September 2021 to 4.2%. However, the weekly data suggested this didn't last long as unemployment was falling again by the end of October 2021. What's more, the 49,700 fall in the claimant count and the 257,000 rise in the Pay As You Earn (PAYE) measure of company payrolls suggests that the labour market strengthened again in November 2021. The other side of the coin was a further rise in the number of vacancies from 1.182m to a record 1.219m in the three months to November 2021 which suggests that the supply of labour is struggling to keep up with demand, although the single-month figure for November 2021 fell for the first time since February 2021, from 1.307m to 1.227m.

3.5 These figures by themselves, would probably have been enough to give the MPC the assurance that it could press ahead to raise Bank Rate at this December 2021 meeting. However, the advent of Omicron potentially threw a spanner into the works as it poses a major headwind to the economy which, of itself, will help to cool the economy. The financial markets, therefore, swung round to expecting no change in Bank Rate.

3.6 On 15 December 2021 we had the Consumer Price Index (CPI) inflation figure for November 2021 which spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, Omicron also caused a sharp fall in world oil and other commodity prices; (gas and electricity inflation has

generally accounted on average for about 60% of the increase in inflation in advanced western economies).

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

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

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

3.10 On the other hand, it did also comment that "the Omicron variant is likely to weigh on near-term activity". But it stressed that at the November 2021 meeting it had said it would raise rates if the economy evolved as it expected and that now "these conditions had been met". It also appeared more worried about the possible boost to inflation form Omicron itself. It said that "the current position of the global and UK economies was materially different compared with prior to the onset of the pandemic, including elevated levels of consumer price inflation". It also noted the possibility that renewed social distancing would boost demand for goods again, (as demand for services would fall), meaning "global price pressures might persist for longer". (Recent news is that the largest port in the world in China has come down with an Omicron outbreak which is not only affecting the port but also factories in the region.)

3.11 On top of that, there were no references this month to inflation being expected to be below the 2% target in two years' time, which at November 2021's meeting the MPC referenced to suggest the markets had gone too far in expecting interest rates to rise to over 1.00% by the end of the year.

3.12 These comments indicate that there has been a material reappraisal by the MPC of the inflationary pressures since their last meeting and the Bank also increased its forecast for inflation to peak at 6% in April 2022, rather than at 5% as of a month ago. However, as the Bank retained its guidance that only a "modest tightening" in policy will be required, it cannot be thinking that it will need to increase interest rates that much more. A typical policy tightening cycle has usually involved rates rising by 0.25% four times in a year. "Modest" seems slower than that. As such, the Bank could be thinking about raising interest rates two or three times next year to 0.75% or 1.00%.

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

3.14 As for the timing of the next increase in Bank Rate, the MPC dropped the comment from November 2021's statement that Bank Rate would be raised "in the coming months". That may imply another rise is unlikely at the next meeting in February 2022 and that May 2022 is more likely. However, much could depend on how adversely, or not, the economy is affected by Omicron in the run up to the next meeting on 3 February 2022. Once 0.50% is reached, the Bank would act to start shrinking its stock of QE, (gilts purchased by the Bank would not be replaced when they mature).

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

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

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

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

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

4 US

4.1 Shortages of goods and intermediate goods like semi-conductors, have been fuelling increases in prices and reducing economic growth potential. In November 2021, CPI

inflation hit a near 40-year record level of 6.8% but with energy prices then falling sharply, this is probably the peak. The biggest problem for the Fed is the mounting evidence of a strong pick-up in cyclical price pressures e.g., in rent which has hit a decades high.

4.2 Shortages of labour have also been driving up wage rates sharply; this also poses a considerable threat to feeding back into producer prices and then into consumer prices inflation. It now also appears that there has been a sustained drop in the labour force which suggests the pandemic has had a longer-term scarring effect in reducing potential GDP. Economic growth may therefore be reduced to between 2 and 3% in 2022 and 2023 while core inflation is likely to remain elevated at around 3% in both years instead of declining back to the Fed's 2% central target.

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

5 EU

5.1 The slow role out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Q1, Q2 came in with strong growth of 2%. With Q3 at 2.2%, the EU recovery was then within 0.5% of its pre Covid size. However, the arrival of Omicron is now a major headwind to growth

in quarter 4 and the expected downturn into weak growth could well turn negative, with the outlook for the first two months of 2022 expected to continue to be very weak.

5.2 November 2021's inflation figures breakdown shows that the increase in price pressures is not just due to high energy costs and global demand-supply imbalances for durable goods as services inflation also rose. Headline inflation reached 4.9% in November 2021, with over half of that due to energy. However, oil and gas prices are expected to fall after the winter and so energy inflation is expected to plummet in 2022. Core goods inflation rose to 2.4% in November 2021, its second highest ever level, and is likely to remain high for some time as it will take a long time for the inflationary impact of global imbalances in the demand and supply of durable goods to disappear. Price pressures also increased in the services sector, but wage growth remains subdued and there are no signs of a trend of faster wage growth which might lead to persistently higher services inflation - which would get the ECB concerned. The upshot is that the euro-zone is set for a prolonged period of inflation being above the ECB's target of 2% and it is likely to average 3% in 2022, in line with the ECB's latest projection.

5.3 **ECB tapering**. The ECB has joined with the Fed by also announcing at its meeting on 16 December 2022 that it will be reducing its QE purchases - by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases for over half of next year. However, as inflation will fall back sharply during 2022, it is likely that it will leave its central rate below zero, (currently -0.50%), over the next two years. The main struggle that the ECB has had in recent years is that inflation has been doggedly anaemic in sticking below the ECB's target rate despite all its major programmes of monetary easing by cutting rates into negative territory and providing QE support.

5.4 The ECB will now also need to consider the impact of Omicron on the economy, and it stated at its December 2021 meeting that it is prepared to provide further QE support if the pandemic causes bond yield spreads of peripheral countries, (compared to the yields of northern EU countries), to rise. However, that is the only reason it will support peripheral yields, so this support is limited in its scope.

5.5 The EU has entered into a period of political uncertainty where a new German government formed of a coalition of three parties with Olaf Scholz replacing Angela Merkel as Chancellor in December 2021, will need to find its feet both within the EU and in the three parties successfully working together. In France there is a presidential election coming up in April 2022 followed by the legislative election in June. In addition, Italy needs to elect a new president in January with Prime Minister Draghi being a favourite due to having suitable gravitas for this post. However, if he switched office,

there is a significant risk that the current government coalition could collapse. That could then cause differentials between Italian and German bonds to widen when 2022 will also see a gradual running down of ECB support for the bonds of weaker countries within the EU. These political uncertainties could have repercussions on economies and on Brexit issues.

6 China

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

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

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

7 Japan

7.1 2021 has been a patchy year in combating Covid. However, recent business surveys indicate that the economy has been rebounding rapidly in 2021 once the bulk of the population had been double vaccinated and new virus cases had plunged. However, Omicron could reverse this initial success in combating Covid.

7.2 The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was actually negative in July 2021. New Prime Minister Kishida, having won the November 2021 general election, brought in a supplementary budget to boost growth, but it is unlikely to have a major effect.

8 World growth

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

9 Supply shortages

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

APPENDIX D TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

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

2 **NON-SPECIFIED INVESTMENTS**: These are any investments which do not meet the specified investment criteria. The Authority does not invest for periods longer than 1 year and therefore does not have any non-specified investments.

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

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

	Minimum credit criteria / colour band	Max % of total investments / £ limit per institution	Max. maturity period
Debt Management Account Deposit Facility (DMADF) – UK Government	yellow	100%/ unlimited	6 months (max. is set by the Debt Management Office (DMO)
UK Government gilts	yellow	Not used	5 years
UK Government Treasury bills	yellow	Not used	364 days (max. is set by the DMO*)
Bonds issued by multilateral development banks	yellow	Not used	5 years
Money Market Funds	AAA	100%/ £25m	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	Not used	Liquid

Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	Not used	Liquid
Local authorities	yellow	100%/ £25m	5 years
Term deposits with housing associations	Blue Orange Red Green No Colour	Not used	12 months 12 months 6 months 100 days Not for use
Term deposits with banks and building societies	Blue Orange Red Green No Colour	100%/ £25m	12 months 12 months 6 months 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	100%/ £25m	12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating	Not used	

APPENDIX E APPROVED COUNTRIES FOR INVESTMENTS

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

Based on lowest available rating

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

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

5.7 TREASURY MANAGEMENT SCHEME OF DELEGATION

APPENDIX F TREASURY MANAGEMENT SCHEME OF DELEGATION

1 Full Authority

a) receiving and reviewing reports on treasury management policies, practices and activities;

b) approval of annual strategy.

2 Audit Committee

a) approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;

b) budget consideration and approval;

c) approval of the division of responsibilities;

d) receiving and reviewing regular monitoring reports and acting on recommendations;

3 Treasurer

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

APPENDIX G THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

a) recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;

b) submitting regular treasury management policy reports;

c) submitting budgets and budget variations;

d) receiving and reviewing management information reports;

e) reviewing the performance of the treasury management function;

f) ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;

g) ensuring the adequacy of internal audit, and liaising with external audit;

h) recommending the appointment of external service providers.