Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement
and
Annual Investment Strategy

London Borough of Enfield

2022/23

Treasury Management Strategy - 2022/23

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Treasury Management Strategy Statement 2022/23

1. Introduction

1.1. Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. Borrowing arises from spending on the Council's Capital Programme; this report should be considered alongside the Ten Year Capital Programme. The Council has borrowed and/or invested substantial sums of money and is therefore exposed to potential financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

1.2. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

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

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

1.5. CIPFA defines treasury management as:

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

1.6. Investments held for service purposes or for cashflow purposes are considered in a different report, the Investment Strategy (**Section 4**).

2. Economic Outlook

2.1. **Appendix A** sets out the economic national context within which this Strategy has been constructed. The post COVID global economy has entered a higher inflationary phase, driven by a combination of resurgent demand and supply bottlenecks in goods and energy markets. Geopolitics are also playing a role, driving energy prices upwards which are being passed onto consumers. Tighter labour markets due to reduced participation rates have prompted concerns about wage-driven inflation, leading central banks to tighten policy to ensure inflation expectations remain anchored.

2.2. The Bank of England (BoE) increased Bank Rate to 0.50% in February 2022 while maintaining its Quantitative Easing programme at £895 billion. However, The Committee also voted unanimously for the Bank of England to begin to reduce the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, by ceasing to reinvest maturing assets and by a programme of corporate bond sales to be completed no earlier than towards the end of 2023 that should unwind fully the stock of corporate bond purchases.

2.3. The MPC will raise Bank rate further to dampen aggregate demand and reduce the risk of sustained higher inflation. Arlingclose therefore expects Bank Rate to rise to 0.75% in March and 1.0% in May. Despite this expectation, risks to the forecast remain weighted to the upside for 2022, becoming more balanced over time. The Arlingclose central forecast remains below the market forward curve.

2.4. Gilt yields will remain broadly flat from current levels, which have risen sharply since mid-December 2021. Significant volatility is, however, likely which should offer tactical opportunities for borrowing and investment.

2.5. The risks around the gilt yield forecasts are broadly balanced. While gilt yields may face downward pressure as Bank Rate expectations ease from current levels, the runoff of the Bank's corporate bond portfolio, and later the gilt portfolio, as it reverses QE, could impact some upward pressure on yields.

2.6. A forecast of future interest rates provided by the Council's Treasury Management advisers Arlingclose is set out in **Appendix B**. For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.50%, and that new long-term loans will be initially borrowed at an average rate of 2.5% during financial years 2021/22 to 2022/23; and 3.5% from 2023/24 onwards.

2.7. **Credit outlook**: Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low and had steadily edged down throughout the year up until mid-November when the emergence of Omicron has caused them to rise modestly. However, the generally

improved economic outlook during 2021 helped bank profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.

2.8. The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable and even making a handful of rating upgrades.

3. Balance Sheet Summary and Forecast

3.1. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

3.2. The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans. In considering the affordability of its capital plans, the Council is required to consider all of the resources currently available to it/estimated for the future, together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the following two years

3.3. On 31st December 2021, the Council held £938.6m of borrowing and £32.5m of treasury investments. Forecast changes in these sums are shown in the balance sheet analysis in Table 1 below.

Table 1: Balance Sheet Analysis

	31.3.22 Estimate £m	**31.3.23 Forecast £m**	**31.3.24 Forecast £m**	**31.3.25 Forecast £m**	**31.3.26 Forecast £m**	**31.3.27 Forecast £m**	**31.3.28 to 31.3.32 Forecast £m**
General Fund CFR	1,034.1	1,150.5	1,246.5	1,301.3	1,312.8	1,303.8	1,358.6
HRA CFR	273.6	334.8	467.6	467.6	529.6	540.6	608.2
Total / Borrowing CFR	**1,307.7**	**1,485.3**	**1,714.1**	**1,768.8**	**1,842.4**	**1,844.4**	**1,966.8**
PFI Liability	30.3	26.3	22.1	17.7	13.8	10.7	0.0
Total Debt CFR	**1,338.0**	**1,511.7**	**1,736.2**	**1,786.5**	**1,856.2**	**1,855.1**	**1,966.8**
Less: Internal	(297.5)	(182.8)	(179.3)	(175.1)	(173.2)	(171.0)	(171.9)

borrowing							
External borrowing	**1,040.4**	**1,328.9**	**1,557.0**	**1,611.4**	**1,683.1**	**1,684.1**	**1,794.9**
Breakdown of external borrowing:							
Existing Borrowing Profile	930.1	906.3	883.5	859.8	836.4	813.3	678.4
New Borrowing to be raised	**110.3**	**422.6**	**673.5**	**751.6**	**846.7**	**870.9**	**1,116.5**

3.4. The Council currently holds £938.5 million of loans, an increase of £8.5 million on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 above shows that the Council expects to borrow up to £423 in 2022/23. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £1,655 million.

3.5. The Council has an increasing CFR due to the requirements of the Council's capital programme and will therefore be required to borrow up to £1,299m over the 10-Year forecast period (2022/23 to 2031/32). As detailed in Table 2 below, The Council's 10 year programme is £2,659m of which £1,299m is funded through borrowing and over the next 5 years is £1,770m of which £850.5m is funded through borrowing.

Table 2: Capital Expenditure & Financing

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 to 2031/32 £m	Total 10 Yr. Capital Programme £m
Meridian Water	45.6	147.7	203.0	114.1	105.8	45.7	235.8	852.1
Companies	35.5	57.9	59.4	37.0	0.0	0.0	0.0	154.3
Joyce & Snells (GF)	0.0	0.0	0.0	0.0	0.0	0.0	41.3	41.3
Other General Fund	55.0	117.9	77.9	52.1	47.3	30.7	164.2	490.2
HRA	84.9	132.9	217.5	96.0	129.2	97.8	447.4	1,120.9
Total	**221.0**	**456.4**	**557.9**	**299.1**	**282.4**	**174.2**	**888.8**	**2,658.8**
Financed by:								
External Grants & Contributions	(55.5)	(163.7)	(159.8)	(111.4)	(102.1)	(58.7)	(165.6)	(761.3)

S106 & CIL	(0.4)	(1.1)	(2.2)	(1.7)	(0.2)	(0.2)	(28.5)	(33.9)
Revenue Contributions	(0.5)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.4)	(0.8)
Capital Receipts	(13.4)	(24.8)	(60.2)	(60.7)	(39.6)	(17.4)	(128.8)	(331.5)
Earmarked Reserves	(21.7)	(21.4)	(6.9)	0.0	0.0	(19.5)	(48.6)	(96.4)
Major Repairs Allowance (MRA)	(11.2)	(11.7)	(12.1)	(14.1)	(14.5)	(15.0)	(68.2)	(135.6)
Prudential Borrowing	**118.3**	**233.6**	**316.6**	**111.1**	**125.8**	**63.3**	**448.7**	**1,299.2**

3.6. Table 2 includes projects that have not yet been approved or recommended in the 10-Year Capital Programme, such as the General Fund element of the Joyce & Snells regeneration project. This project has been included due to the size of borrowing required to finance the project, and the need to illustrate the impact the borrowing will have on Council finances and debt limits. The HRA element is included within the HRA business plan for 3,500 new affordable homes.

3.7. **Table 3 below** illustrates the impact of borrowing on the Council's Capital Financing Requirement (CFR)

Table 3: Change in Capital Financing Requirement

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Meridian Water	*63.0*	*6.2*	*4.1*	*4.9*	*4.2*	*(1.3)*	*(16.6)*	*(3.3)*	*9.6*	*38.2*	*0.8*
Companies	*15.8*	*56.6*	*57.3*	*33.3*	*(3.9)*	*(4.0)*	*(4.4)*	*(4.7)*	*(4.8)*	*(4.9)*	*(5.1)*
Joyce & Snells (GF)	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Other General Fund	*21.8*	*53.7*	*34.6*	*16.5*	*11.3*	*(3.7)*	*(2.7)*	*9.9*	*1.0*	*2.6*	*(2.0)*
Total General Fund	100.6	116.5	96.0	54.7	11.6	(9.0)	(23.8)	1.9	5.9	35.8	(6.4)
HRA	33.4	61.2	132.8	0.0	62.0	11.0	30.0	(17.4)	55.0	0.0	0.0
Total	**134.0**	**177.7**	**228.8**	**54.7**	**73.6**	**2.0**	**6.2**	**(15.5)**	**60.9**	**35.8**	**(6.4)**

** Other General Fund (which excludes Meridian Water; Joyce & Snells; and Companies) capital expenditure over the ten years that is being funded through borrowing includes, but is not limited to, £31m on ICT; £93m Highways & Street Scene; £24m on Vehicle Replacement; £33m on Build the Change; £47m on Corporate Property programme and £51m on Montagu Industrial Estate*

3.8. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years – Table 4 sets out the position over the forecasted period. It is

worth noting that each year the Council sets aside a certain proportion of monies for borrowing via its Minimum Revenue Provision charge.

Table 4: Relation between Total Borrowing & Capital Financing Requirement (CFR)

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Meridian Water	*399.9*	*406.1*	*410.2*	*415.1*	*419.4*	*418.0*	*401.4*	*398.1*	*407.8*	*446.0*	*446.7*
Companies	*155.4*	*212.0*	*269.3*	*302.6*	*298.7*	*294.6*	*290.2*	*285.5*	*280.7*	*275.8*	*270.7*
Joyce & Snells (GF)	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*10.7*	*33.3*	*41.3*
Other General Fund	*478.7*	*532.5*	*567.0*	*583.5*	*594.8*	*591.1*	*588.4*	*598.2*	*599.3*	*601.8*	*599.8*
Total General Fund	1,034.1	1,150.5	1,246.5	1,301.3	1,312.8	1,303.8	1,280.0	1,281.9	1,298.5	1,356.9	1,358.6
HRA	273.6	334.8	467.6	467.6	529.6	540.6	570.6	553.2	608.2	608.2	608.2
Total CFR	**1,307.7**	**1,485.3**	**1,714.1**	**1,768.8**	**1,842.4**	**1,844.4**	**1,850.6**	**1,835.1**	**1,906.7**	**1,965.1**	**1,966.8**
Net Borrowing	**1,040.4**	**1,328.9**	**1,557.0**	**1,611.4**	**1,683.1**	**1,684.1**	**1,688.1**	**1,669.5**	**1,739.5**	**1,795.5**	**1,794.9**

**Other General Fund (which excludes Meridian Water; Joyce & Snells; and Companies) capital expenditure over the ten years that is being funded through borrowing includes, but is not limited to, £31m on ICT; £93m Highways & Street Scene; £24m on Vehicle Replacement; £33m on Build the Change; £47m on Corporate Property programme and £51m on Montagu Industrial Estate*

3.9. Table 5 below shows how the interest is funded, broken down by fund. It is important to note that it is based on an interest rate of 2.5% for 2022/23 and 3.5% for years 2023/24 onwards as the Council is being deliberately overly prudent. The Council is currently able to borrow in the short term at approximately sub1% and current PWLB rates for 20 to 25 years is circa 2%. Borrowing at 1% equates to £1m of interest for every £100m borrowed. Therefore, as the Council borrows long-term for the Capital Programme and re-financing existing debt the Council will update the Treasury Management Strategy with revised (and reduced figures).

3.10. The impact on the General Fund in 2022/23 of £26.609m (made up of £19.578m MRP charge and £7.031m of interest payments) is therefore net off:

a) Housing Revenue Account recharge of £12.072m, which is funded by rents

b) Income generated by companies, which have separate sound business cases

c) £9.218m Capitalised interest on Meridian Water (inclusive of loan arrangement fees), which will be repaid by capital receipts and which is anticipated to be completely repaid by 2043/44 and the difference of which will then be used to finance other aspects of the Capital Programme.

Table 5: Breakdown of Indicative Interest rates (more detail in Appendix C)

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32

	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Gross Interest	27,235	32,388	40,347	45,721	48,420	50,114	50,849	51,052	52,425	55,067	56,439
Debt Fees	90	101	121	59	66	41	46	41	64	58	39
Total Debt Cost	**27,325**	**32,489**	**40,468**	**45,780**	**48,486**	**50,155**	**50,895**	**51,093**	**52,488**	**55,125**	**56,478**
Recharges:											
Meridian Water	(9,876)	(9,218)	(10,578)	(10,015)	(10,857)	(10,681)	(10,681)	(10,350)	(11,147)	(11,868)	(12,263)
Companies	(3,729)	(4,125)	(5,530)	(8,063)	(8,723)	(8,607)	(8,319)	(8,133)	(7,997)	(7,858)	(7,714)
Joyce & Snells	0	0	0	0	0	0	0	0	(373)	(1,165)	(1,445)
HRA	(10,019)	(12,072)	(14,622)	(16,054)	(17,164)	(17,990)	(18,660)	(18,776)	(19,773)	(20,578)	(20,474)
Debt Fees	(67)	(43)	(68)	(13)	(23)	(4)	(11)	0	(26)	(21)	(3)
Interest Charged to Gen. Fund	**3,635**	**7,031**	**9,669**	**11,634**	**11,718**	**12,873**	**13,224**	**13,834**	**13,171**	**13,636**	**14,579**
MRP	17,198	19,578	22,680	19,346	21,492	20,973	20,306	17,562	17,051	16,093	18,632
Total Financing Cost Charged to Gen. Fund	**20,832**	**26,609**	**32,349**	**30,980**	**33,210**	**33,846**	**33,530**	**31,396**	**30,222**	**29,729**	**33,211**

3.11. The Council ensures that its borrowing is affordable by ensuring that appropriate budgets exist. Consequently, the Council is increasing capital financing budgets from £26.495m in 2022/23 to £33.238m in 2024/25. This increase of over £7m is recognised in its Medium Term Financial Plan (MTFP) this is to ensure the Council can afford its aspirations.

3.12. As outlined in the table below, the Council is able to draw down on the Capital Financing Reserves that it prudently put aside to mitigate any impact on revenue. If the Capital Programme was delayed or the Council was able to borrow at rates below 3.5% for an extended period of time, it would have the ability to release these reserves for other purposes. This is particularly important with the continual demographic pressures that Councils face.

3.13. **Table 6 below** shows the Capital Financing charges to the General Fund budget. Under the current capital programme projections, the earmarked reserve would continue to support existing capital financing budgets over the remainder of the ten-year capital programme comfortably and not become strained or overspent.

Table 6: Capital Financing Impact on General Fund Revenue Budget (net of recharges to companies, HRA and Meridian Water, I.e. General Fund impact)

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Interest Charged to General Fund	3,635	7,031	9,669	11,634	11,718	12,873	13,224	13,834	13,171	13,636	14,579

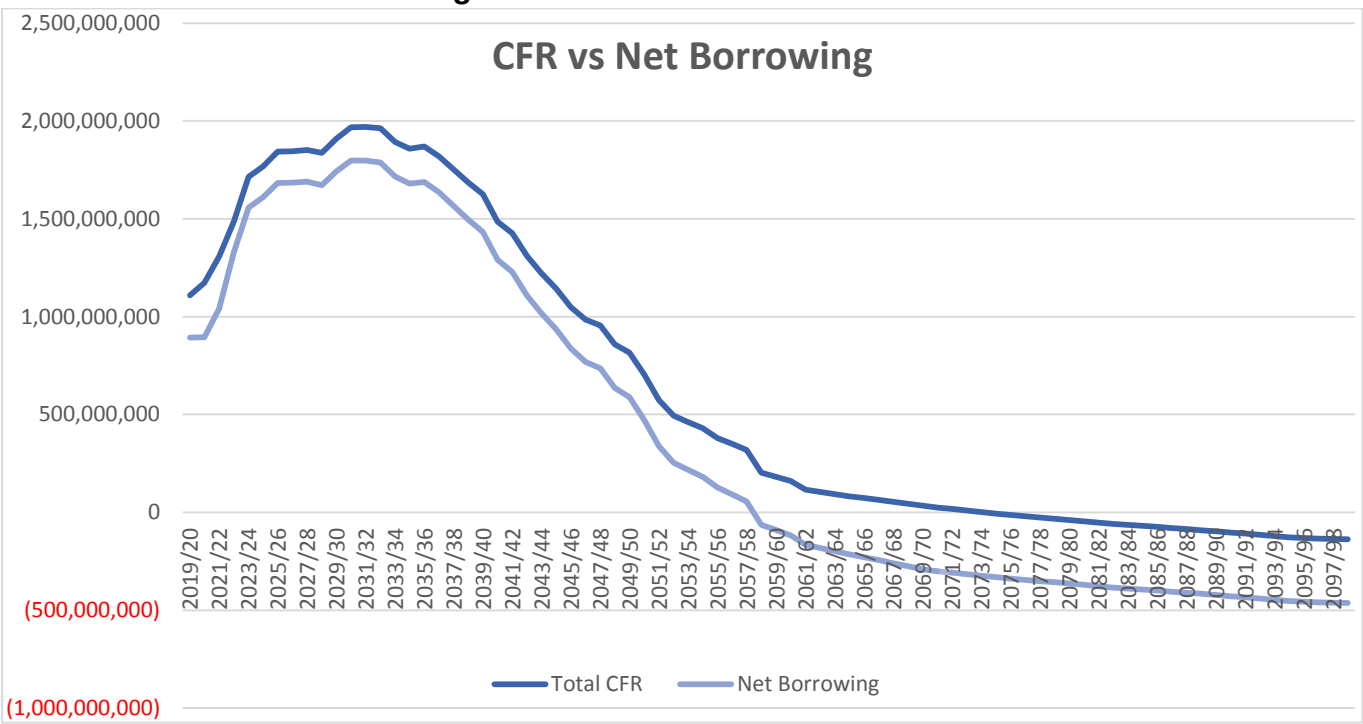
MRP	17,198	19,578	22,680	19,346	21,492	20,973	20,306	17,562	17,051	16,093	18,632
Total Financing Cost Charged to General Fund	**20,832**	**26,609**	**32,349**	**30,980**	**33,210**	**33,846**	**33,530**	**31,396**	**30,222**	**29,729**	**33,211**
Budget	**22,565**	**26,495**	**29,288**	**33,238**	**35,036**	**36,036**	**37,036**	**38,036**	**39,036**	**40,036**	**41,036**
Variance	**(1,733)**	**114**	**3,061**	**(2,258)**	**(1,826)**	**(2,190)**	**(3,506)**	**(6,640)**	**(8,814)**	**(10,307)**	**(7,825)**
Reserves	**25,150**	**25,037**	**21,976**	**24,234**	**26,061**	**28,250**	**31,756**	**38,396**	**47,210**	**57,517**	**65,342**

3.14. To ensure the financing position is sustainable, the Council also chooses to have both a 5-Year MTFP and a 10-Year Capital Programme and to project capital financing costs in the TMSS over a 10-year period. The Council carefully analyses how its debt is repaid.

3.15. Chart 1 below shows the Council's net loan debt over a 77-year horizon and compares it to the capital financing requirement, which peaks at £1,967m. The debt peak is slightly below the Council's self-imposed debt cap of £2bn.

3.16. The decrease in the curve reflects debt being repaid over time. The below graph also reflects the current plans of the Council and assumes that the Council does not choose to speed up its debt repayments by increasing asset sales or leasing finished assets. The debt projections include the debt financing of the Joyce & Snells (General Fund) project.

Chart 1: CFR vs Net Borrowing Trend



3.17. Every year, the Council refreshes its 10-Year Capital Strategy, ensuring that it focusses on the Corporate Priorities and that the programme is affordable, which

can mean non progression of a capital scheme; reprofiling capital schemes; and adding new schemes to the programme.

Chart 2: Borrowing CFR Profile

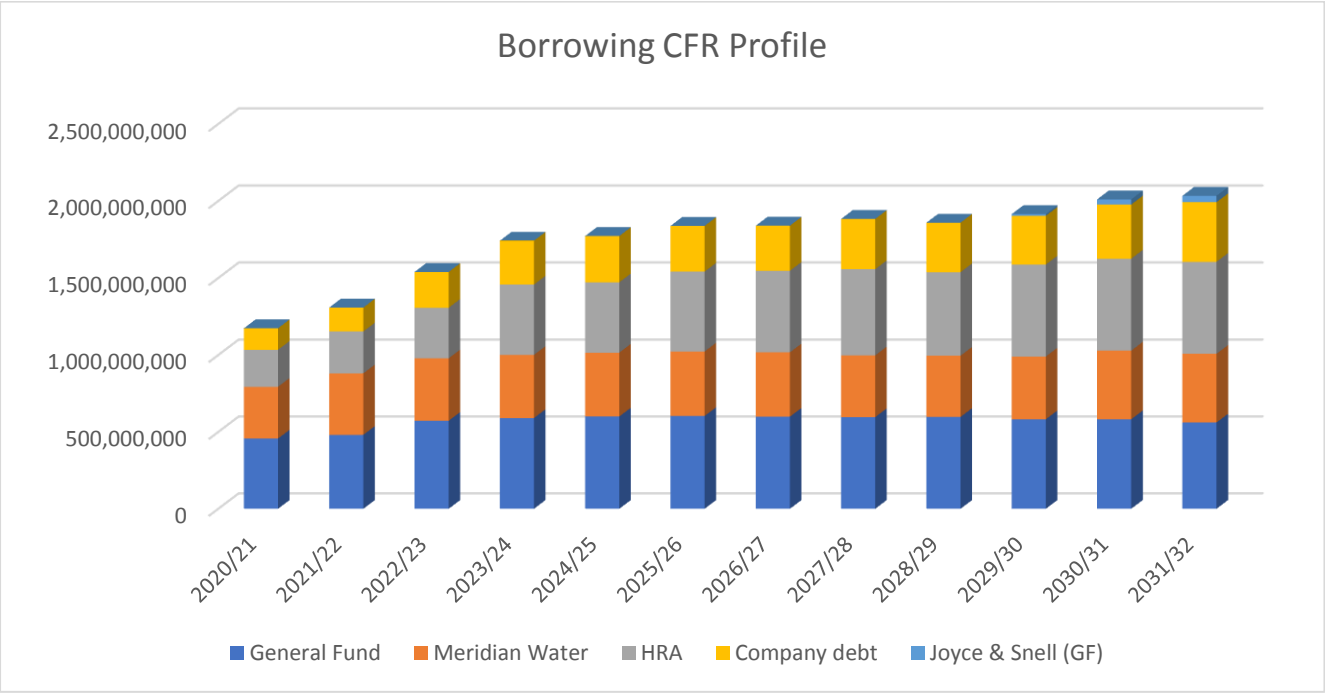
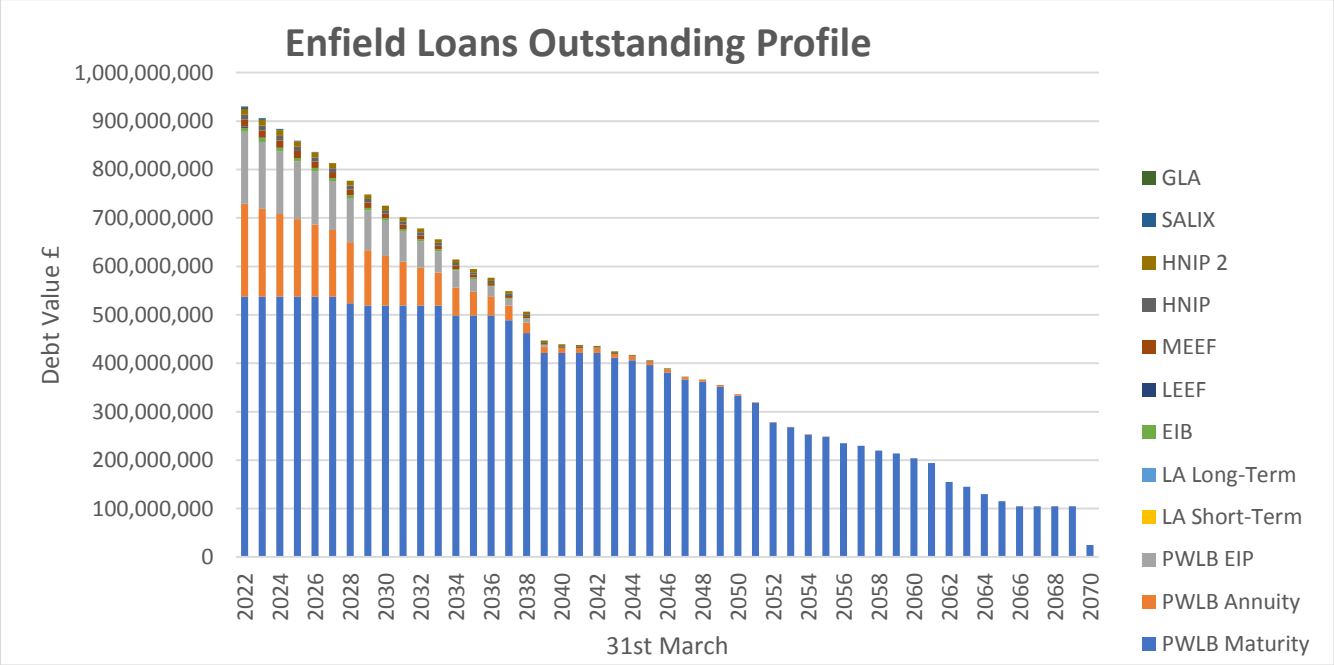


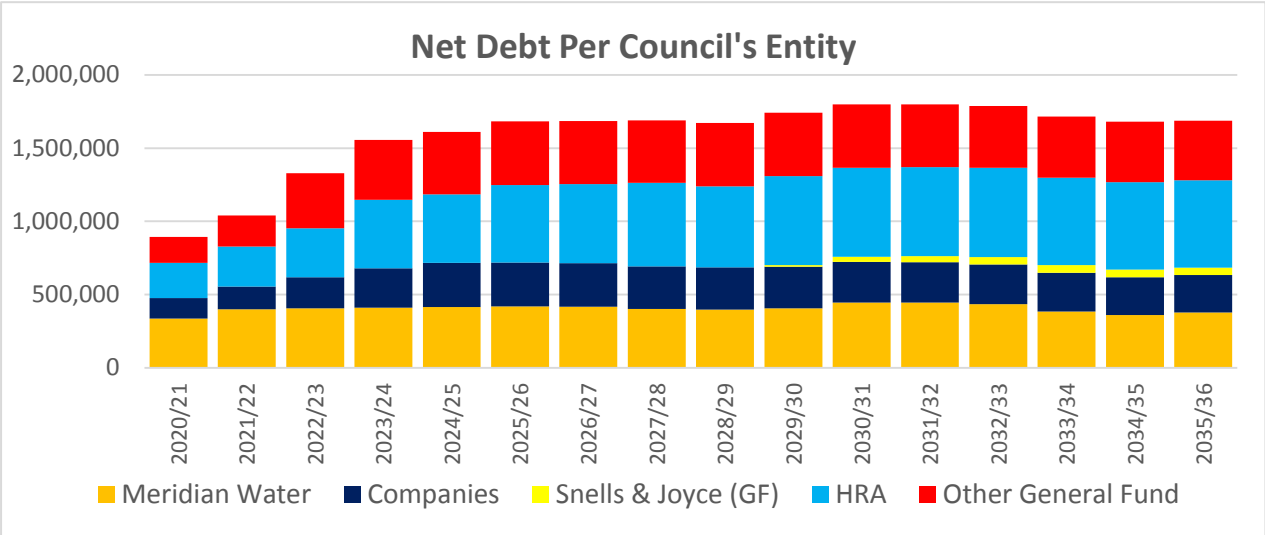
Chart 3: Loans Outstanding Profile



3.18. The 2022/23 Treasury Strategy now includes debt financing and associated borrowing costs for Joyce & Snells General Fund project following the report to Cabinet on 15 September 2021. The project is now approved by Council and the 2022/23 Strategy demonstrates the impact of the project on the CFR profile as well as the revenue budget

3.19. The Council's debt portfolio is split between **FIVE** main categories (as shown in the chart above): Meridian Water; Companies; Joyce & Snells (General Fund); HRA; and Other General Fund (GF). This enables more efficient management of debt and capital financing costs. It is worth noting that increasingly the Housing Revenue Account and non-Meridian Water General Fund capital expenditure will drive the Group Borrowing over the next 10 years.

Chart 5: Net Debt Per Council Entity



3.20. Meridian Water has a business plan in place which repays all debt by 2043/44. The Council lends to the Companies at rates higher than it borrows and therefore, the company borrowing does not have an adverse impact on the revenue budget. The HRA borrowing is supported through the 30-year HRA business plan and in part, some of the General Fund borrowing increases income and reduces expenditure.

3.21. The Treasury Management Prudential Indicators, as shown in **Appendix D,** set out the limits on Council borrowing and supports the decision-making process around the affordability of the capital programme over the budgeted period.

3.22. **Appendix E** sets out how the Council accounts for the repayment of debt. This is termed the Minimum Revenue Provision (MRP). This ensures the Council repays loan debt over a period of in line with the economic life of the assets.

3.23. **Objectives:** The Council's primary objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

3.24. **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the long-term stability of the debt portfolio. With short term interest rates currently lower than long term rates, it is likely to be more cost effective in the short term to either use internal resources, or

to borrow short term loans instead. However, this approach will need to be managed pro-actively to prevent exposure to re-financing risk, the risk of interest rates moving in the future that will result in refinancing short-term loans or internal borrowing more expensive than the present time.

3.25. The above strategy will allow the Council reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal/short term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long term fixed rates in 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short term.

3.26. **Sources of borrowing:** The approved sources of long term and short-term borrowing are:

i. Public Works Loan Board (PWLB) and any successor body
ii. any institution approved for investments (see below)
iii. any other bank or building society authorised to operate in the UK
iv. any other UK public sector body
v. UK public and private sector pension funds (except the London Borough of Enfield Pension Fund)
vi. capital market bond investors
vii. UK Municipal Bonds Agency plc and other special purpose companies created to enable local Council bond issues
viii. Mayor of London Energy Efficiency Fund (MEEF)
ix. London Energy Efficiency Fund (LEEF)
x. European Investment Bank (EIB)
xi. Insurance Funds

3.27. **Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

i. Leasing and hire purchase
ii. Private Finance Initiative
iii. sale and leaseback

3.28. **The PWLB -** The Council has previously raised the majority of its long-term borrowing from the PWLB. In late November 2020 HM Treasury published its outcome of the July 2020 consultation process and resulted in the PWLB issuing revised lending terms. Local authorities can now only access the PWLB as a means to refinance existing borrowings or internal borrowing; and financing expenditure relating to service delivery; housing; regeneration; and preventative action. Loans from the PWLB cannot be used to finance expenditure relating to commercial investments for yield generation. Failure to comply with the revised terms would result in suspension of access to the PWLB; repayment of loans (with

penalties) and a wider Government review of local authorities borrowing framework.

3.29. The Council will only borrow from the PWLB to finance expenditure relating to:

i) Service delivery
ii) Housing
iii) Regeneration of the Borough
iv) Preventative action
v) Refinance existing loans (maturing or non-maturing)
vi) Refinance internal borrowing

3.30. The Council will continue to seek other funding opportunities such as borrowing from the marketplace.

3.31. To borrow efficiently, the Council may need to have a credit rating in order to raise finance in the bond markets. Arlingclose believe that there will likely be a 'stratification of funding costs between "strong" and "weak" authorities. Due to the ambition of the Council, it is unlikely to attract the lowest rates. This may affect the investment models for projects, if they involve greater levels of debt, regardless of the investment return. This will form part of the next steps.

3.32. **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

3.33. **Short term and variable rate loans**: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

3.34. **Debt rescheduling:** The PWLB allows authorities to repay loans before maturity. This results in the Council either paying a premium (additional cost) to prematurely repay the loan or receiving a discount (refund of cost by PWLB). Premiums and discounts are calculated according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. Currently, due to historically low interest rates and the high cost of premature redemption by PWLB, this is not viewed as a likely option for the near future. However, the Council will keep debt rescheduling opportunities under review and update Members as part of the treasury management reporting cycle throughout the financial year.

3.35. **Other Options**: As the Table below indicates, there are several options available to the Council, which the Council has not previously used, such as leasing assets in an income strip arrangement for a shorter period than the asset life (30 years) in order to retain the asset for the Council, while reducing the debt. The reason that the Council needs to consider the wider range of options increasingly is that with its ambitious capital programme, costs may go up with greater borrowing if it is forced to borrow from the private sector.

Table 7: Borrowing Options

	PWLB	Short Term LA	Commer -cial Paper	LA Bills	Long Term LA	Bank Loans	Private Place- ment	MBA	Public Bonds	Income Strip
Size	Any	<£10m	£100m	<£10m	<£10m	>£5m	>25m	?	>£200m	>20m
Interest	V, F	V	V	V	V, F	V, F, I	V, F, I	F?	F, I	F,V, I
Maturity	<50yr	<1yr	<1yr	<1yr	?	<10yr	10 to 50yr	?	10yr +	10yr +
Repayment	M, A	M	M	M	M, A	M, A	M, A	M?	M, A	M, A
Tradeable	No	No	Yes	Maybe	Maybe	Maybe	Maybe	Yes	Yes	No
Credit Assessment	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Legal Documents	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
Process	Easy	Easy	Inten- sive	Mod- erate	Mod- erate	Mod- erate	Mo- derate	Inten- sive	Inten- sive	Intens- ive
Margin	Highest	Low	Low	Low	Medium	Medium	Medium	Medium	Medium	Higher

3.36. The Council will continue in 2022/23 to refinance the internal borrowing with longer term loans, locking in the very low rates that are on offer. However, as cash investments reduce to near zero, the Council may be forced to rely on short term loans to finance the Councils cashflow activity while it takes time to determine as to how it will finance the capital programme given the large slippage position in 2021/22 financial year.

4. <u>Investment Approach</u>

4.1. The Council invests primarily via its capital programme. This is because during this era of low interest rates, treasury returns on cash balances tend to be lower and its cost effective to develop the Council's estate with such low revenue charges for interest. However, this does not mean that there is no limit to borrowing. As the Council is primarily a borrower for social purposes and less for commercial investment, the returns are lower and the Council's Treasury Advisors, Arlingclose, have advised us that it would become increasingly difficult to borrow and/or expensive as it approaches £2 billion in today's monetary terms.

4.2. Ultimately, the Council prudently budgets at a 3.5% interest rate except for 2022/23, following Arlingclose advice. This is because the former rate is close to its historical rate of borrowing and is also the current Treasury (HMT) Discount Rate and the latter reflects that interest rates in the immediate future are unlikely

to rise quickly. All rate are continually under review, as the Bank of England Bank Rate increased from 0.25% to 0.50% due to inflationary concerns suggests more rate rises in the future but rates would need to rise dramatically for even budgeted levels of 2.5% to need to change. Any spare monies would be transferred to reserves and the Council is reviewing whether to create a voluntary MRP budget to reduce debt quicker.

4.3. As such, the Council will limit itself to a hard cap of £2 billion plus inflation from 2022/23 onwards. In practice, it would also like to maintain a £0.2 billion gap below that in case any urgent needs are determined. For instance, previously the Council needed to find resources for fire prevention works and inevitably new unanticipated priorities will be uncovered.

4.4. There is the related challenge of officer capacity and capability to manage the capital programmes that needs to be recognised. Currently, the organisation is heavily reliant on a few key officers and agency staff in critical roles. In particular, Finance, Legal, Property and Regeneration are gradually developing new skillsets that will take time to embed. The Capital Programme must be understood against the backdrop of the development of existing staff and the practical capacity limits on the Council to support the range of schemes against the service demands, especially in social care.

4.5. Overall, the Council's investment approach is aligned with its corporate priorities and as such regenerating the Borough and delivering affordable homes form the largest part of its capital programme and its borrowing requirements. That is not to say that investment in new schools, highways and transport improvements and internal investment to support productivity improvements are not included. It is just that the latter, with the exception of those necessary for operations (ICT, centralisation of office buildings), tend to be heavily grant funded or are less resource intensive.

4.6. The Council's investment in social and affordable housing in the Borough can be demonstrated in Meridian Water and other planned schemes such as Joyce & Snells. However, as social housing struggles to cover the capital financing costs (interest and principal repayments), even with grants, the Council has to be innovative in ensuring it can achieve on its aspirations.

4.7. Over the next nine months, the Council will be reviewing the financing arrangements and delivery models of the Capital Programme as it seeks to maximise the leveraging of its balance sheet, while minimising the risk it undertakes. There is a clear intent for this review to be reported to Council with the mid year Treasury Management report and to be undertaken under the context of retaining and developing existing assets, whenever it is in the best interests of the Borough.

4.8. The next year will also see the development of a fully fledged property strategy that examines all existing assets for their investment potential as compared with their realisable market value will be progressed. Currently, the Council has limited data as to the most efficient 'sweating' of assets. The Asset Management

Software that is being commissioned by Property should support the considered decision making necessary to maximise the assets of the Council's estates.

5. Treasury Investment Strategy

5.1. The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. All cash balances the Council holds during the year are invested with approved financial institutions as set out in **Appendix F**. The Council plans to have a zero daily current bank closing balance every day ensuring all surplus cash is always appropriately invested.

5.2. The level of cash deposit will fluctuate during the course of the year. During 2021/22, the Council on average held £40m in investments. However, this position is unlikely to continue in the forthcoming year, as the Council runs down its investments rather than undertake borrowing. Appendix C sets the position as at 31st December 2021. The ideal year-end actual invested cash balance is anticipated to be £35m, however, this may be higher as the Council may receive late grant awards from Central Government and Agencies.

5.3. **Objectives:** The CIPFA Code requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

5.4. **Strategy:** Given the low interest rate environment and that the Council continues not to hold any non-core cash (i.e. deposits that will not be used in year). The Council continues to diversify cash deposits between short term unsecured bank deposits and money market funds.

5.5. **Business models:** Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

5.6. **Approved counterparties:** The Council may invest its surplus funds with any of the counterparty types set out in **Appendix F**, subject to the cash limits (per counterparty).

5.7. **Credit rating:** Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions

are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

5.8. **Banks unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

5.9. **Banks secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

5.10. **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

5.11. **Lending to Wholly Owned Council Companies:** The Council can loan to its wholly owned companies, but a business case must be undertaken and a review process that demonstrates that they are a sound option (non-loss making) and support the Council's Medium Term Financial Plan Objectives. This plan must have been approved at the relevant requisite Committee.

5.12. **Lending to Joint ventures (JVs), Associates and Similar entities:** The Council can invest in such organisations when they meet the same conditions as above. Moreover, there are instances when the Council is de facto required to invest or to deliver an alternative scheme (such as the North London West Authority).

5.13. **Lending to Companies or Charities, that are not wholly owned:** The Council may lend to local Charities, that deliver services supporting the Medium-Term Financial Plan, but it is must regularly confirm that the principal on the loans are protected. Similarly, the Council can loan to companies, but the standard is that the loans must be on a commercial basis and that the Council has confidence in the nature that principal will be protected. The Council may make small loans to organisations that are at a higher risk to support the local economy, possibly in relation to a complex regeneration scheme, but such loans, regardless of the amount, will require a delegated approval report, signed off by the Leader or the Cabinet Member responsible for Finance.

5.14. **Working Capital Facilities:** These are explicitly not capital expenditure because they exist to manage cashflows, nor intended to be of a long-term nature. The Council can loan on a commercial basis to other organisations and the approval

process is via the Section 151 Officer, **who depending on the size of the loan may choose to request additional approval from the relevant Cabinet member**. However, regular reviews of cashflow are a requirement, taking place no less than on a quarterly basis. It is anticipated that majority of such facilities would take in relation to wholly owned companies or JVs, and that they would be on a commercial basis. However, where they do not, additional approval from the relevant Cabinet member, depending on the size of the loan, should be sought. One key aspect that must be considered in relation to working capital is that the cashflow review is not just for the demonstration of the healthiness of the borrower and ability to repay (plus interest), but to ensure that the loan is not being used for capital purposes and is solely due to the timing of cashflows. The latter requires a different governance process as noted within the financial regulations.

5.15. **Pooled funds:** Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

5.16. Bond, equity and property funds offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

5.17. **Operational bank accounts:** The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail in, and balances will therefore be kept below £15 million per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed in than made insolvent, increasing the chance of the Council maintaining operational continuity.

5.18. **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by the Council's treasury management advisers, Arlingclose, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made;
- any existing investments that can be recalled or sold at no cost will be; and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

5.19. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

5.20. **Other information on the security of investments**: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council’s treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

5.21. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council’s cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested

5.22. **Investment limits**: The Council will limit the risk of loss from a default from lending to any one organisation (other than the UK Government) will be £25 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers’ nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

5.23. **Liquidity management:** The Council uses its own in-house cash flow forecasting software model (Predictor) to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long term investments are set by reference to the Council’s medium term financial plan and cash flow forecast.

6. Treasury Management Indicators

6.1. The Council measures and manages its exposures to treasury management risks using the following indicators.

6.2. **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
Portfolio average credit score	6

6.3. **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

Liquidity risk indicator	Target
Total cash available within 3 months	£25m

6.4. **Interest rate exposures**: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one year revenue impact of a 1% rise in interest rates	+£4.0m
Upper limit on one year revenue impact of a 1% fall in interest rates	-£4.0m

6.5. The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates. The effect of an increase in interest rates will be mitigated through the Council's risk budget.

6.6. **Maturity structure of borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	30%	0%
12 months and within 24 months	35%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	45%	0%
10 years and above	100%	0%

6.7. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

6.8. **Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2022/23	2023/24	2024/25
Limit on principal invested beyond year end	£15m	£15m	£15m

7. Related Matters

7.1. The CIPFA Code requires the Council to include the following in its treasury management strategy.

7.2. **Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

7.3. The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

7.4. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

7.5. **Financial Derivatives:** In the absence of any explicit legal power to do so, the Council will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

7.6. **Housing Revenue Account:** On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet

resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the Council's average interest rate on investments, adjusted for credit risk. This is currently under review, as going forward keeping the historical HRA debt separate seems appropriate but it would be simpler and cheaper for both funds for the remaining debt to be split on a financing requirement basis, as it would prevent unnecessary borrowing.

7.7. **Markets in Financial Instruments Directive**: The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Director of Finance believes this to be the most appropriate status.

7.8. **Local Council Companies:** The Council will only lend to wholly own companies by the Council or where the Council has a controlling majority interest in the company.

7.9. All borrowing to companies owned by the London Borough of Enfield will require a formal on-lending agreement.

7.10. Prior to that they will have to achieve to meet the following requirements:

- An independently reviewed business case and cashflow forecast.
- To be able to demonstrate the ability to repay both interest and principal over the agreed repayment scheduled.
- Where possible the Council will secure the loan on the Council

7.11. **Lending to Schools with the HSBC Banking Scheme**: Where LA schools with a HSBC bank account are in a structural overdraft position then the Council will provide a credit facility to ensure the school(s) remain in a credit position. Interest will be charged at ½% above the prevailing bank rate.

8. <u>Other Options Considered</u>

8.1. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below:

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be

		greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A

Economic Context

1. At its meeting of 2nd February 2022, the MPC voted by a majority of 5-4 to increase Bank Rate by 0.25 percentage points, to 0.5%. The MPC voted unanimously for the Bank of England to begin to reduce the stock of UK government bond purchases by ceasing to reinvest maturing assets. The Committee also voted unanimously for the Bank of England to begin to reduce the stock of sterling non-financial investment-grade corporate bond purchases by ceasing to reinvest maturing assets and by a programme of corporate bond sales to be completed no earlier than the end of 2023.

The Global Economy & Financial Conditions

2. At the time of the last MPC meeting, the economic uncertainty surrounding the Omicron variant of coronavirus was much more prevalent and the forecast for growth was depressed as a result. Since then the uncertainty surrounding this variant has declined and the negative effects that it might have had on the global economy have been shown to be less damaging and more short lived than previously expected. On the other hand, exceptionally strong demand for goods combined with supply chain disruptions and rising energy prices have weighed on activity throughout the early parts of Q1 2022.

UK Demand & Output

3. Although remaining concerns over the Omicron variant somewhat slowed growth in the UK throughout December and January, the MPC expects a recovery in activity throughout February and March leading to output returning to pre-pandemic levels by the start of Q2 2022. This is supported by strong labour force numbers which saw the unemployment rate fall to 4.1% in the three months to November; the expectation is for this trend to continue into 2022 and the rate fall further to 3.8% by the end of Q1 2022. Looking to the medium-term, growth is expected to be hampered by the squeeze on income and spending which is largely driven by the increasing costs of global energy and tradable goods. The rising cost of goods has led to a more negative forecast for the labour market which sees the unemployment rate reach 5% and excess labour supply building to around 1% at the end of the forecast period.

Inflation

4. 12-month CPI inflation for December was 5.4% which is one percentage point above the expectations set out in the November Monetary Policy Report. Rising energy prices and core goods prices are the leading drivers of this inflation but services price inflation, and the prices of second-hand cars and hospitality have also risen sharply. Surveys of input and output price PMIs were at historically high levels in January as raw material prices and wage growth lead to surging output prices faced by consumers.

5. The MPC projects CPI inflation will continue its upward trajectory in the coming months to around 6% in February and March before peaking at 7.25% in April. This is two percentage points higher than the November report. Costs from the Supplier of Last Resort Mechanism - a policy put in place to cover losses for energy companies that took on customers from other failed energy companies – are likely to be passed on to consumers through increasing prices in household energy bills. Businesses may also see prices increase in the near-term as increasing wage pressures put upward pressure on prices, which will be exacerbated by businesses with contracts linked to CPI inflation increasing prices as well. shifts lower later. The risk for longterm yields is weighted to the upside.

The MPC's Policy Decision

6. Since the last MPC meeting the level of CPI inflation has continued to rise globally, driven by the rising cost pressures outlined above. The Committee expect these pressures to ease over the forecast period as demand moves away from goods and into services and global bottlenecks become less prevalent. Nonetheless the level of prices for tradable goods are expected to remain well above prepandemic levels. At the last meeting the Committee outlined that some monetary tightening may be necessary to keep inflation in line with their projections, the most preferable tool being an increase in the Bank Rate.

7. The MPC concluded that persistence of rising prices and tightness in the labour market were sufficient to warrant an increase in the Bank Rate. The Committee did note that these factors would also weigh on aggregate UK income and spending, but that monetary policy was unable to prevent this and should focus on its main task of controlling inflation.

8. As such, by a small majority of 5-4 the Committee agreed to a 0.25 percentage point increase in the Bank Rate. The minority in this case were in favour of a larger increase of 0.5 percentage points. Although inflation is forecast to continue upwards over the remainder of the year, the decision to raise rates was taken to reduce the risk of persistent inflation in pay growth and consumer prices becoming firmly embedded which would make it increasingly difficult to bring inflation back down to target over the remainder of the forecast period.

9. The MPC also decided to unwind the programme of corporate bond purchases by beginning to sell bonds with the aim to have unwound the programme no earlier than by towards the end of 2023. The decision to wind down the purchase of UK government bonds was also undertaken which means that the Bank will cease reinvestment in these assets but reaffirmed their intention to not undertake any sales of UK government bonds until Bank Rate reached at least 1%.

10. The Committee also reaffirmed its commitment to using changes in the Bank Rate as the main tool to combat inflation and that any changes in the asset purchase programmes would only be undertaken should the potential movements in Bank Rate be deemed insufficient to reach the inflation target. The MPC concluded that should the economy develop broadly in line with its forecasts set out as part of the

February report, some further tightening of monetary policy would likely still be appropriate in the coming months.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix B.

Appendix B

Arlingclose Economic and Interest Rate Forecast February 2022

Underlying assumptions:

i) The post COVID global economy has entered a higher inflationary phase, driven by a combination of resurgent demand and supply bottlenecks in goods and energy markets. Geopolitics are also playing a role, driving energy prices upwards which are being passed onto consumers. Tighter labour markets due to reduced participation rates have prompted concerns about wage-driven inflation, leading central banks to tighten policy to ensure inflation expectations remain anchored.

ii) Global inflation is riding high. While some indicators suggest supply bottlenecks in goods markets are easing, oil and gas prices have risen significantly and threaten a more sustained level of uncomfortably high inflation than previously expected. In the UK, Ofgem has confirmed a significant rise in retail energy prices, which will maintain relatively high CPI rates throughout 2022.

iii) Supply constraints are also evident in the labour market. Underlying wage growth is running above pre-COVID levels despite employment being lower now than in early 2020. Evidence suggests that labour pools have diminished. Higher wage growth will be a contributory factor to sustained above-target inflation this year.

iv) The lower severity of Omicron means that the economic impact should be limited. The UK economy had a weak Q4 2021 due to the virus, but growth is likely to bounce back in Q1 2022.

v) However, higher inflation will dampen demand. In the UK, households face a difficult outlook. Fiscal and monetary headwinds alongside a sharp reduction in real income growth will weigh on disposable income, ultimately leading to slower growth.

vi) The Bank of England will tighten policy further over the next few months to ensure that aggregate demand slows to reduce business pricing power and labour wage bargaining power. Markets have priced in a significant rise in Bank Rate, but we believe the MPC will be more cautious given the medium term outlook, assessing the impact of the first round of rises rather than following the market higher.

vii) Bond yields have risen sharply to accommodate tighter monetary policy, including the runoff of central bank bond portfolios. The interplay between slowing growth and falling inflation, and tightening policy, will likely keep yields relatively flat.

viii) UK aggregate income and spending will reduce due to higher goods and energy prices. Households cut back on spending as real incomes decline, due to high inflation and rises in taxes. Some of the decline in real income will be offset by

households using accumulated savings to support spending. Demand growth is expected to slow as support from fiscal and monetary policy ebbs compared to previous years.

ix) As spending growth declines, unemployment is expected to rise, up by about 1% compared to the current 4.1% rate. Slowing growth and rising inflation leads to a margin of spare capacity opening up by the end of 2022 and growing to around 1%.

x) CPI inflation is expected to rise further in the near term to a peak of 7.25% in April 2022. This mainly reflects the increase in global prices, with around three quarters of the rise in inflation between December and April due to higher contributions from energy and goods prices. Higher wage settlements place further upward pressure on CPI throughout 2022.

xi) The contribution to inflation from higher energy prices is expected to decline to zero by the start of 2023. Goods price inflation is also expected to fall back as supply bottlenecks ease. Incorporating the market's expectation for the path of Bank Rate (peaking at 1.5% in med2023), CPI is expected to fall back to target by the end of 2023. The CPI rate is projected to drop below target in 2024 due to the margin of spare capacity created by slowing demand growth in relation to supply.

Forecast:

i) The MPC will raise Bank rate further to dampen aggregate demand and reduce the risk of sustained higher inflation.

ii) Arlingclose therefore expects Bank Rate to rise to 0.75% in March and 1.0% in May. Despite this expectation, risks to the forecast remain weighted to the upside for 2022, becoming more balanced over time. The Arlingclose central forecast remains below the market forward curve.

iii) Gilt yields will remain broadly flat from current levels, which have risen sharply since mid-December 2021. Significant volatility is, however, likely which should offer tactical opportunities for borrowing and investment.

iv) The risks around the gilt yield forecasts are broadly balanced. While gilt yields may face downward pressure as Bank Rate expectations ease from current levels, the run off of the Bank's corporate bond portfolio, and later the gilt portfolio, as it reverses QE, could impact some upward pressure on yields.

Current	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24

Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	**0.50**	**0.75**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**
Downside risk	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
3-month money market rate													
Upside risk	0.00	0.05	0.20	0.35	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	**0.50**	**0.85**	**1.20**	**1.25**	**1.15**	**1.10**	**1.10**	**1.10**	**1.10**	**1.10**	**1.10**	**1.10**	**1.10**
Downside risk	0.00	-0.25	-0.25	-0.30	-0.30	-0.30	-0.35	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50
5yr gilt yield													
Upside risk	0.00	0.35	0.45	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55
Arlingclose Central Case	**1.22**	**1.20**	**1.20**	**1.20**	**1.20**	**1.20**	**1.20**	**1.15**	**1.15**	**1.15**	**1.15**	**1.15**	**1.15**
Downside risk	0.00	-0.20	-0.25	-0.25	-0.30	-0.35	-0.40	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
10yr gilt yield													
Upside risk	0.00	0.40	0.45	0.55	0.60	0.65	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Arlingclose Central Case	**1.37**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**
Downside risk	0.00	-0.20	-0.30	-0.35	-0.40	-0.45	-0.50	-0.55	-0.55	-0.55	-0.60	-0.60	-0.60
20yr gilt yield													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.60	0.65	0.65	0.65	0.65	0.65	0.65
Arlingclose Central Case	**1.54**	**1.55**	**1.55**	**1.55**	**1.55**	**1.55**	**1.55**	**1.55**	**1.55**	**1.55**	**1.55**	**1.55**	**1.55**
Downside risk	0.00	-0.30	-0.35	-0.40	-0.40	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
50yr gilt yield													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.60	0.65	0.65	0.65	0.65	0.65	0.65
Arlingclose Central Case	**1.22**	**1.20**	**1.20**	**1.20**	**1.20**	**1.20**	**1.20**	**1.20**	**1.20**	**1.20**	**1.20**	**1.20**	**1.20**
Downside risk	0.00	-0.30	-0.35	-0.40	-0.40	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

Appendix C

Detailed Breakdown of Interest and MRP Impact on Budgets

This table breaks down the interest charges as to how they are funded. It also shows the impact on the General Fund, and how the underspends and overspends are managed through an earmarked capital financing reserve. Commissioning costs are fees payable to the lender upon raising new debt finance.

Table C1 - Detailed Breakdown of Interest and MRP Impact on Budgets

Interest	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
PWLB-Maturity	17,661	17,847	17,847	17,847	17,847	17,847	17,847	17,514	17,396	17,396	17,396
PWLB- EIP	2,542	2,354	2,183	2,029	1,875	1,721	1,567	1,413	1,259	1,105	951
PWLB-Annuity	3,744	3,553	3,359	3,160	2,958	2,752	2,542	2,328	2,110	1,888	1,661
LA- Short-Term	0	0	0	0	0	0	0	0	0	0	0
LA Long-Term	0	0	0	0	0	0	0	0	0	0	0
EIB	189	181	173	165	156	148	139	130	120	111	101
LEEF	42	31	19	7	0	0	0	0	0	0	0
MEEF	149	180	180	181	172	161	150	139	99	118	108
HNIP	19	18	18	17	17	16	15	14	14	13	12
Salix	0	0	0	0	0	0	0	0	0	0	0
GLA	0	0	0	0	0	0	0	0	0	0	0
Future Borrowing	2,890	8,225	16,569	22,314	25,395	27,470	28,589	29,514	31,426	34,436	36,209
PWLB Commission	65	76	96	34	41	16	21	16	39	33	14
Temporary Loans Commission	25	25	25	25	25	25	25	25	25	25	25
Total Gross Interest & Fees	**27,326**	**32,489**	**40,468**	**45,780**	**48,486**	**50,155**	**50,895**	**51,093**	**52,488**	**55,125**	**56,478**
Recharges:											
Meridian Water	(9,876)	(9,218)	(10,578)	(10,015)	(10,857)	(10,681)	(10,681)	(10,350)	(11,147)	(11,868)	(12,263)
Companies	(3,729)	(4,125)	(5,530)	(8,063)	(8,723)	(8,607)	(8,319)	(8,133)	(7,997)	(7,858)	(7,714)
Joyce & Snells (GF	0	0	0	0	0	0	0	0	(373)	(1,165)	(1,445)
HRA	(10,019)	(12,072)	(14,622)	(16,054)	(17,164)	(17,990)	(18,660)	(18,776)	(19,773)	(20,578)	(20,474)
Meridian Water Commission	(43)	(2)	(1)	(2)	(1)	0	0	0	(3)	(13)	(0)
Companies Commission	(8)	(20)	(20)	(12)	0	0	0	0	0	0	0
Joyce & Snells (GF) Commission	0	0	0	0	0	0	0	0	(4)	(8)	(3)
HRA Commission	(17)	(21)	(46)	0	(22)	(4)	(11)	0	(19)	0	0
Interest Charged to General Fund	**3,635**	**7,031**	**9,669**	**11,634**	**11,718**	**12,873**	**13,224**	**13,834**	**13,171**	**13,636**	**14,579**

MRP	17,198	19,578	22,680	19,346	21,492	20,973	20,306	17,562	17,051	16,093	18,632
Total Financing Cost Charged to GF	**20,832**	**26,609**	**32,349**	**30,980**	**33,210**	**33,846**	**33,530**	**31,396**	**30,222**	**29,729**	**33,211**
Budget	**22,565**	**26,495**	**29,288**	**33,238**	**35,036**	**36,036**	**37,036**	**38,036**	**39,036**	**40,036**	**41,036**
Variance	**(1,733)**	**114**	**3,061**	**(2,258)**	**(1,826)**	**(2,190)**	**(3,506)**	**(6,640)**	**(8,814)**	**(10,307)**	**(7,825)**
Reserves	**25,150**	**25,037**	**21,976**	**24,234**	**26,061**	**28,250**	**31,756**	**38,396**	**47,210**	**57,517**	**65,342**

Table C2 - Existing Investment & Debt Portfolio Position

Type of Loan	1st April 2021	Movement	31st December 2021
	£m	£m	£m
PWLB	875.9	10.0	**885.9**
European Investment Bank	8.3	(0.4)	**7.9**
GLA	2.1	(0.5)	**1.6**
HNIP	21.6	0.0	**21.6**
LEEF	2.7	(0.5)	**2.2**
MEEF	15.0	0.0	**15.0**
SALIX	4.5	0.0	**4.5**
Total	**930.1**	**8.5**	**938.6**

Table C3 - Investments

Type of Loan	1st April 2021	31st Dec 2021
	£m	£m
Money Market Funds (MMFs)	21.5	25.0
On-call accounts	14.0	7.5
	35.5	**32.5**

Appendix D

Prudential Indicators

This report covers the requirements of the 2017 CIPFA Prudential Code to set prudential indicators. This item should be approved by the full Council before the start of the new financial year which is a legislative requirement. The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow.

The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Prudential Indicator: Capital Expenditure

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans. In considering the affordability of its capital plans, the Council is required to consider all of the resources currently available to it/estimated for the future, together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the following two years.

Table D1 - Capital Expenditure

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28-2031/32 £m	Total 10 Yr Capital Programme £m
Meridian Water	45.6	147.7	203.0	114.1	105.8	45.7	235.8	852.1
Companies	35.5	57.9	59.4	37.0	0.0	0.0	0.0	154.3
Joyce & Snells (GF	0.0	0.0	0.0	0.0	0.0	0.0	41.3	41.3
Other General Fund	55.0	117.9	77.9	52.1	47.3	30.7	164.2	490.2
HRA	84.9	132.9	217.5	96.0	129.2	97.8	447.4	1,120.9
Total	**221.0**	**456.4**	**557.9**	**299.1**	**282.4**	**174.2**	**888.8**	**2,658.8**
Financed by:								
External Grants & Contributions	(55.5)	(163.7)	(159.8)	(111.4)	(102.1)	(58.7)	(165.6)	(761.3)
S106 & CIL	(0.4)	(1.1)	(2.2)	(1.7)	(0.2)	(0.2)	(28.5)	(33.9)
Revenue Contributions	(0.5)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.4)	(0.8)
Capital Receipts	(13.4)	(24.8)	(60.2)	(60.7)	(39.6)	(17.4)	(128.8)	(331.5)
Earmarked Reserves	(21.7)	(21.4)	(6.9)	0.0	0.0	(19.5)	(48.6)	(96.4)
Major Repairs Allowance (MRA)	(11.2)	(11.7)	(12.1)	(14.1)	(14.5)	(15.0)	(68.2)	(135.6)
Borrowing	**118.3**	**233.6**	**316.6**	**111.1**	**125.8**	**63.3**	**448.7**	**1,299.2**

Need per year								

Prudential Indicator: Capital Financing Requirement (CFR)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historical outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next four years. The tables and graph below show that the Council expects to comply with this recommendation during 2022/23.

Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium-term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Table D2 - Gross Debt and the Capital Financing Requirement

Estimated Debt	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31**	**2031/32**
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Borrowing Capital Financing Requirement	1,308	1,485	1,714	1,769	1,842	1,844	1,851	1,835	1,907	1,965	1,967
PFI and Finance Leases	30	26	22	18	14	11	7	4	1	(0)	(0)
Total Capital Financing Requirement	**1,338**	**1,512**	**1,736**	**1,787**	**1,856**	**1,855**	**1,858**	**1,839**	**1,908**	**1,965**	**1,967**
External Borrowing	1,040	1,329	1,557	1,611	1,683	1,684	1,688	1,669	1,739	1,795	1,795
Other Long-Term Liabilities	30	26	22	18	14	11	7	4	1	(0)	(0)
Gross Debt	**1,071**	**1,355**	**1,579**	**1,629**	**1,697**	**1,695**	**1,696**	**1,674**	**1,741**	**1,795**	**1,795**

Prudential Indicator: Operational Boundary

The operational boundary is based on the Council's estimate of most likely, i.e. prudent, but not worst-case scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance leases, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt.

Table D3 - Operational Boundary

Operating Boundary	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31**	**2031/32**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Borrowing	1,040	1,329	1,557	1,611	1,683	1,684	1,688	1,669	1,739	1,795	1,795

Other Long Term Liabilities	30	26	22	18	14	11	7	4	1	(0)	(0)
Total Operational Limit	**1,070**	**1,355**	**1,579**	**1,629**	**1,697**	**1,695**	**1,696**	**1,674**	**1,741**	**1,795**	**1,795**

Prudential Indicator: Affordable Borrowing / Authorised Limit

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

Table D4 - Affordable Borrowing / Authorised Limit

Authorised Limit	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31**	**2031/32**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Operational Limit	1,070	1,355	1,579	1,629	1,697	1,695	1,696	1,674	1,741	1,795	1,795
Headroom	300	300	300	300	300	300	300	300	300	300	300
Total Authorised Limit	**1,370**	**1,655**	**1,879**	**1,929**	**1,997**	**1,995**	**1,996**	**1,974**	**2,041**	**2,095**	**2,095**

Prudential Indicator – 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 and the gross revenue budget for the General Fund and the Housing Revenue Account, respectively. It also exemplifies the element of housing rental that relates to financing costs, this calculation is notional and assumes all other things are equal.

Table D5 - Ratio of Financing Costs to Net Revenue Stream

Estimated Ratio of Financing Costs to:	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31**	**2031/32**
General Fund Net Revenue Stream	8.00%	10.22%	12.42%	11.32%	11.59%	11.27%	11.03%	10.20%	9.70%	9.43%	10.41%
Housing Revenue Account Gross Revenue Budget	16.75%	19.12%	22.10%	23.47%	24.06%	23.86%	22.75%	22.37%	22.82%	23.43%	22.99%

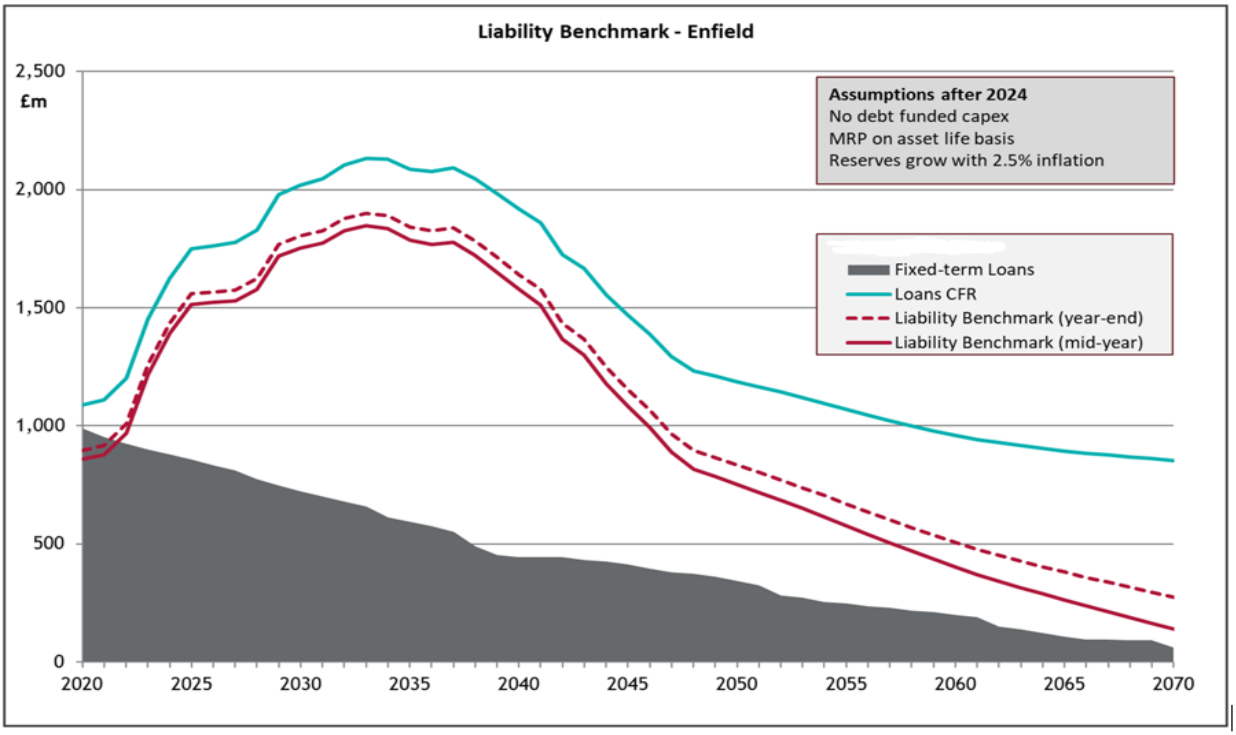
Treasury Indicator - Liability benchmark – CIPFA recommends that the liability benchmark is produced for at least 10 years and should ideally cover the debt profile of a local authority, it is a new indicator to measure borrowing levels and the profile of its debt overtime.

The Chart below illustrates the Council's treasury position as per the approved 2021/22 Treasury Management Strategy Statement. It can be seen that the Enfield Council's debt does not exceed the liability benchmarks.

This indicator is based on the Council's future cash flows and its minimum revenue payment (MRP) forecast for repayment of debt in the future.

If debt exceeds the liability benchmark the authority has a cash surplus and is holding on deposit. It is a measure of the Council's existing (and committed) loans portfolio compared with its forecast loan needs. This benchmark should enable the authority to understand and manage its exposure to treasury risks.

Chart 1: Liability Benchmark



Appendix E

Annual Minimum Revenue Provision Statement (With effect from 1 April 2022)

1) When the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Council to have regard to the Ministry for Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance).

2) The broad aim of the MHCLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

3) The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods. Council is asked to approve the continuation of the existing policy for the calculation of MRP, which is consistent with the guidance issued under the regulations and the introduction of the following:

   a) the principle that the determination of a prudent amount of MRP for any given year will take account of payments made in previous years, and an assessment of whether those payments exceed what the current policy would require in terms of prudence;

   b) For capital expenditure incurred before 1 April 2008, and for capital expenditure incurred from 1 April 2008 to 31 March 2011, and which is Supported Capital Expenditure (SCE), MRP will be calculated at 2% on a straight-line basis.

4) The approaches are therefore as follows, with effect from 1 April 2022.

   a) For capital expenditure incurred before 1 April 2008, and for capital expenditure incurred from 1 April 2008 to 31 March 2011, and which is Supported Capital Expenditure (SCE), MRP will be calculated at 2% on a straight-line basis;

   b) For unsupported borrowing incurred from 1 April 2008 onwards, MRP is calculated based on amortising the amount borrowed over the estimated lives of the assets acquired (or the enhancement made) as a result of the related expenditure using the annuity repayment method in accordance with MHCLG Statutory guidance. A discount rate of 3.50% is used in the annuity calculation.

   c) For borrowing by LBE companies for housing assets for onward rental, loan duration of up to 75 years will be considered by the Council to match the respective asset life.

   d) While no MRP is required to be charged in respect of assets held within the Housing Revenue Account, the Council may provide for a voluntary MRP charge so that all schemes undertaken are viable (i.e. repay all their debt over an appropriate period) and so that the HRA maintains borrowing capacity for future years.

e) No MRP is charged on Meridian Water as the project is under construction. MRP will only be charged on completed phases that have become operational. Capital receipts from the sale of identified land will also be used to repay the debt incurred to finance the associated capital expenditure. A voluntary MRP charge may be applied where opportunities persist in order to accelerate debt extinguishment.

f) Capital expenditure financed from borrowing incurred during one financial year will not be subject to an MRP charge until the asset moves into operation, except where the Section 151 officer deems it appropriate to charge it an earlier date.

g) Assets acquired with the intention of onward sale, which will not be used in the delivery of services, will not attract MRP. Capital receipts generated by sale of the asset will be set aside to repay debt that was used to initially acquire the asset.

h) Loans made to third parties to enable them to incur capital expenditure are repaid by the borrower and so MRP provision does not need to be made by the Council from Council Tax. In the case of loans for investment assets, a prudent amount will be set aside for MRP in accordance with Government Guidance based on asset life.

i) From 1 April 2022 onwards, asset lives for MRP charges will be charged on the following basis, except for schemes in which the asset is already in operation:

    i) ICT equipment – 5 years

    ii) Vehicles – 10 years

    iii) Highways & Transport Assets – 25 years

    iv) Parks & Landscape – 25 years

    v) Investment Assets – 40 years unless a business can be made that there is a residual value that means a longer asset life is possible

    vi) School buildings and community assets – 40 years unless a business case for a specific asset justifies a different lifespan

    vii) Housing Assets – 50 years

    viii) Leased Assets on the basis of the lease asset unless the above categories have a smaller asset life

    ix) All capital expenditure schemes less than £50k will be charged immediately to revenue

j) MRP in respect of PFI liabilities will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability

k) Where former operating leases have been brought onto the balance sheet on 1st April 2022 due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or discounts, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.

l) Unless a specific justification for another MRP rate is given, the Council's hurdle rate for investment of 3.5% shall be used.

5) Table E1 summarises the Council's approach to applying the Statutory requirements of MRP:

Table E1: Application of MRP Policy

Capital Expenditure Activity	**MRP Application**
General Fund (Excluding Companies; Meridian Water; Joyce & Snells)	MRP is charged annually to the Comprehensive Income and Expenditure Account. MRP for the General Fund is calculated in the following ways: • Historic supported borrowings – MRP is calculated on a 2% straight-line basis. The value of historical unfinanced capital expenditure as at 01 April 2022 is £138.82m. • Unsupported borrowings- MRP is calculated on annuity basis using 3.50% as the discount rate over the life of the asset.
Meridian Water	No MRP is charged as the project is still under construction. It is anticipated that capital receipts generated from the sale of land will be used to repay associated debt. For completed phases that have become operational, MRP is charged on an annuity basis at 3.50% over the life of the asset. The Section 151 Officer may apply Voluntary MRP where opportunities persist.
LBE Companies	No MRP is charged. However, loan repayments for loans used for capital purposes will be treated as the equivalent MRP charge.
Joyce & Snells (General Fund element)	MRP will be charged when the asset becomes operational. MRP will be calculated on an annuity basis using 3.50% as the discount rate over 50 years.

	Construction works will commence in 2029/30 and forecasted to complete in 2032/33. The first MRP charge will be in 2033/34.
PFI	MRP is charged equivalent to the annual capital repayments of the PFI liability.
HRA	No MRP is charged presently

Minimum Revenue Provision (MRP) – Estimation for 2022/23

6) This policy will take effect from 2022/23. Government Guidance requires that an annual statement on the Council's policy for its MRP should be submitted to Council for approval before the start of the financial year to which the provision will relate but that changes during the year are permitted if approved by full Council. Based on the Council's latest estimate of its Capital Financing Requirement on 31st March 2022, the MRP for 2022/23 is estimated as follows:

Table E2 – MRP for 2022/23

	Est. CFR 31 Mar 22	**Est. MRP 2022/23**
	£m	**£m**
General Fund		
Capital expenditure before 1 April 2008 and Supported capital expenditure from 1 April 2008 to 31 Mar 2011	138.82	2.8
Voluntary MRP	0.00	0.8
Unsupported capital expenditure after 31 Mar 2008	339.92	14.7
Unsupported capital expenditure after 31 Mar 2008- Meridian Water	399.93	1.2
Unsupported capital expenditure after 31 Mar 2008- Joyce & Snells (GF)	0.00	0.00
Total General Fund	**878.67**	**19.6**
Loans to Council owned companies (met by repayments from the companies)	155.38	1.0
Total General Fund (including company loan repayments)	**1,034.06**	**20.6**
HRA	273.59	0.00
Overprovision set aside in MRP Reserve	0.00	0.00
Total CFR Excluding PFI, including company loan repayments	**1,307.65**	**20.6**
PFI Liability Repayments	30.31	4.0
Total / Charge PFI to General Fund	**1,337.96**	**24.6**

Table E3 – MRP for 2022/23 and Beyond

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28 - 2031/32	Future Years	Total MRP & Similar Charges
	Estimated	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Historical Supported Borrowing	2.8	2.8	2.8	2.8	2.8	2.8	14.2	110.5	**138.8**
Historical Supported Borrowing (TFR to earmarked Reserve)	0.8	0.8	0.8	0.8	0.8	0.8	4.0	22.4	**30.4**
Total Historical Supported Borrowing	**3.6**	**3.6**	**3.6**	**3.6**	**3.6**	**3.6**	**18.2**	**132.9**	**169.2**
Unsupported Borrowing	12.4	14.7	17.8	14.4	16.5	15.9	63.7	545.9	**689.0**
General Fund MRP (Ex PFI)	**16.0**	**18.4**	**21.4**	**18.0**	**20.1**	**19.6**	**81.9**	**678.8**	**858.2**
HRA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Meridian Water	1.2	1.2	1.3	1.3	1.3	1.4	7.7	1,320.8	**1,335.0**
Joyce & Snell (GF)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	52.4	**52.4**
Total MRP Excluding PFI and Company Loans	**17.2**	**19.6**	**22.7**	**19.3**	**21.5**	**21.0**	**89.6**	**2,051.9**	**2,245.6**
PFI Repayment	3.6	4.0	4.2	4.4	3.8	3.1	10.7	0.0	**30.3**
Company Loan Repayments	0.8	1.0	2.1	3.6	3.9	4.0	23.6	266.7	**304.8**
Total MRP Including PFI & Company Loan Repayments	**21.6**	**24.6**	**29.0**	**27.4**	**29.2**	**28.1**	**124.0**	**2,318.6**	**2,580.8**

Counterparties **Appendix F**

Table F1 - Approved Investment Counterparties and Limits

General Counterparty List	Credit Rating	Cash Limit	Max Time Limit
Banks Unsecured	AAA	£25m	5 years
	AA+		5 years
	AA		4 years
	AA-		3 years
	A+		2 years
	A	£15m	12 months
	A-		6 months
Banks Secured	AAA	£25m	20 years
	AA+	£25m	10 years
	AA		5 years
	AA-		4 years
	A+		3 years
	A		2 years
	A-		13 months
UK Government	AA+	Unlimited	50 years
Corporates	AA+	£5m	10 years
	AA		5 years
	AA-		4 years
Registered Providers	AA+	£5m	10 years
	AA		10 years
	AA-		10 years
Money Market Funds*	AAA	£25m	Next Day

* As from 21 July 2018, there are three structural options for existing MMFs, these are as follows:
1. Public Debt Constant Net Asset Value ("CNAV") MMFs (mainly government assets)
2. Low Volatility NAV ("LVNAV") MMFs (market fund doesn't deviate by more than 20bps)
3. Variable NAV ("VNAV") MMFs (more fluctuating assets)

A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below

The following table provides additional information on the counterparties mentioned above

Table F2

Councils' Main Bank Account - HSBC	The Council banks with HSBC and will continue to bank with HSBC with a revised contract. At the current time, it does meet the minimum credit criteria of A- (or equivalent) long term. If the credit rating falls below the Council's minimum criteria A-, it will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements. If funds come into the bank account during the day (after daily dealing has been undertaken) and cannot be placed out with any other approved financial institutions, they can be placed into the HSBC Call Account to attract interest even if it breaches the counterparty limit (the matter will be reported to the Director of Finance, Resources & Customer Services). The temporary breach will be addressed on the next banking business day.
Banks Unsecured	Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.
Banks Secured	Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.
Government	Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.
Corporates	Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.
Registered Providers	Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed
Money Market	Shares in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the

Funds	advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.
Bond, Equity and Property Funds	These offer the potential for enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

Appendix G

Annuity	A method of repaying a loan where the cash payment remains constant over the life of the loan, but the proportion of interest reduces, and the proportion of principal repayment increases over time. Repayment mortgages and personal loans tend to be repaid by the annuity method.
Asset backed security (ABS)	A bond that pays to investors the return received on its collateral.
Authorised limit	The maximum amount of debt that a local Council may legally hold, set annually in advance by the Council itself. One of the Prudential Indicators.
BACS	Bankers' automated payment system. UK bulk payments system allowing transfers between bank accounts with two days' notice, for a small charge.
Bail-in	A bail-in is rescuing a financial institution on the brink of failure by making its creditors and depositors take a loss on their holdings rather than the government or taxpayers.
Bail-out	A bailout is a colloquial term for the provision of financial help to a corporation or country which otherwise would be on the brink of failure or bankruptcy.
Bank	Regulated firm that provides financial services to customers. But see also Bank of England.
Bank of England	The central bank of the UK, based in London, sometimes just called "the Bank". See also Monetary Policy Committee and PRA.
Bank Rate	The official interest rate set by the Monetary Policy Committee, and the rate of interest paid by the Bank of England on commercial bank deposits. Colloquially termed the "base rate".
BCA	Baseline credit assessment - a credit rating agency's risk assessment of a bank's intrinsic credit risk, before considering the impact of junior debt and external support.
Bid	A bid to buy a security at a certain price (the bid price), or a bid to borrow money at a certain interest rate (the bid rate). See also offer.
Bill	A certificate of short-term debt issued by a company, government, or other institution, which is tradable on financial markets
Bond	A certificate of long-term debt issued by a company, government, or other institution, which is tradable on financial markets.
Bond fund	A collective investment scheme that invests mainly in bonds.
Bookrunner	Investment bank that maintains the book of orders from potential investors for a new bond or share issue.
Borrowing	Usually refers to the stock of outstanding loans owed and bonds issued.
Borrowing Portfolio	A list of loans held by the Council.
Borrowing Requirements	The principal amount the Council requires to borrow to finance capital expenditure and loan redemptions.
Broker	Regulated firm that matches either borrowers and lenders (a money broker) or buyers and sellers of securities (a stockbroker) with each other in order to facilitate transactions.
Brokerage	Fee charged by a broker, normally paid by the borrower.
Call account	A deposit account that can be called back, normally on

	instant access.
Cap	Derivative option that requires payment when a variable, such as an interest rate, rises above a certain level. Can be embedded in a floating rate loan or deposit to prevent the variable rate rising above a certain limit. See also collar and floor.
Capital	(1) Long-term, as in capital expenditure and capital receipt. (2) Principal, as in capital gain and capital value. (3) Investments in financial institutions that will absorb losses before senior unsecured creditors.
Capital expenditure	Expenditure on the acquisition, creation or enhancement of fixed assets that are expected to provide value for longer than one year, such as property and equipment, plus expenditure defined as capital in legislation such as the purchase of certain investments.
Capital finance	Arranging and managing the cash required to finance capital expenditure, and the associated accounting.
Capital finance regulations	Legislation covering local authorities' activities in capital finance, treasury management and accounting. Separate regulations are published for the four nations of the UK.
Capitalisation direction or regulations	Approval from central government to fund certain specified types of revenue expenditure from capital resources.
Capital Financing Requirement (CFR)	Capital Financing Requirement- a measure of the Council's underlying need to borrow to fund capital expenditure.
Capital gain or loss	An increase or decrease in the capital value of an investment, for example through movements in its market price.
Capital markets	The markets for long-term finance, including bonds and shares. See also money markets.
Capital receipt	Cash obtained from the sale of an item whose purchase would be capital expenditure. The law only allows local authorities to spend capital receipts on certain items, such as new capital expenditure. They are therefore held in a capital receipts reserve until spent.
Capital strategy	An annual report required by the Prudential Code that sets out a local authorities' high-level plans for capital expenditure, debt and investments and its Prudential Indicators for the forthcoming financial year.
Cash plus fund	A collective investment scheme similar to a money market fund but with a WAM up to around six months.
Central bank	A government agency responsible for setting interest rates, regulating banks and maintaining financial stability.
CET1	Core equity tier 1 - the purest form of capital for a financial institution, which is available to absorb losses while it remains a going concern, usually expressed as a ratio to risk weighted assets.
Certainty rate	Discount on PWLB rates for new loans borrowed, available to all local authorities that provide a forecast for their borrowing requirements.
Certificates of Deposits	A certificate of deposit (CD) is a time deposit, a financial product. CDs are similar to savings accounts in that they are insured and thus virtually risk free; they are "money in the bank." They are different from savings accounts in that the CD has a specific, fixed term (often monthly, three months, six months, or one to five years) and, usually, a fixed interest

	rate. It is intended that the CD be held until maturity, at which time the money may be withdrawn together with the accrued interest.
CHAPS	Clearing House Automated Payment System. UK payments system for same-day transfer between bank accounts, commonly used for treasury management payments.
CIPFA The Chartered Institute of Public Finance and Accountancy	The professional body for accountants working in the public sector. CIPFA also sets various standards for local government – see Treasury Management Code and Prudential Code.
Constant net asset value (CNAV)	A money market fund where the net asset value is held at a constant £1 per share providing the value of the underlying investments is between 99.5p and 100.5p per share. Since 2019, this style of fund is restricted to those that only invest in government securities.
Collar	A combination of a cap and floor, so that the variable moves within a certain range only. Where the premium payable on the cap is equal to the premium receivable on the floor, it is known as a zero-cost collar.
Collateral	Assets that provide security for a loan or bond, for example the house upon which a mortgage is secured.
Collective investment scheme	Scheme in which multiple investors collectively hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as ‘pooled funds’).
Commercial investment	An investment whose main purpose is generating income, such as investment property.
Commercial property	Land and buildings used by businesses, as opposed to households.
Commercial paper	Commercial paper is a money-market security issued (sold) by large corporations to obtain funds to meet short-term debt obligations (for example, payroll), and is backed only by an issuing bank or corporation's promise to pay the face amount on the maturity date specified on the note. Since it is not backed by collateral, only firms with excellent credit ratings from a recognized credit rating agency will be able to sell their commercial paper at a reasonable price. Commercial paper is usually sold at a discount from face value, and carries higher interest repayment rates than bonds
Cost of carry	When a loan is borrowed in advance of need, the difference between the interest payable on the loan and the income earned from investing the cash in the interim.
Counterparties	Organisations or Institutions the Council lends money to e.g. Banks; Local Authorities and MMF.
Counterparty limit	The maximum amount an investor is willing to lend to a counterparty, in order to manage credit risk.
Corporate bonds	A corporate bond is a bond issued by a corporation. It is a bond that a corporation issues to raise money effectively in order to expand its business. The term is usually applied to longer-term debt instruments, generally with a maturity date falling at least a year after their issue date.
Country limit	The maximum amount an investor is willing to lend to all counterparties based in a foreign country, in order to manage credit risk.

Coupon	The contractual interest rate payable on a bond, as a percentage of the nominal amount. This normally reflects market conditions when the bond was originally issued.
Covenant	A clause in a loan contract where the borrower makes certain commitments, for example to maintain a particular financial ratio or to publish regular financial statements. Breach of a covenant is usually classed as a default.
Covered bonds	Bond issued by a financial institution that is secured on that institution's assets, usually residential mortgages, and is therefore lower risk than unsecured bonds. Covered bonds are exempt from bail-in.
Consumer Prices Index & Retail Prices Index (CPI & RPI)	The main inflation rate used in the UK is the CPI. The Chancellor of the Exchequer bases the UK inflation target on the CPI. The CPI inflation target is set at 2%. The CPI differs from the RPI in that CPI excludes housing costs. Also used is RPIX, which is a variation of RPI, one that removes mortgage interest payments.
Credit Default Swap (CDS)	A kind of protection that can be purchased by MMF companies from insurance companies (for their investment) in exchange for a payoff if the organisation they have invested in does not repay the loan i.e. they default.
Credit watch	Variety of special programmes offered by credit rating agencies and financial institutions to monitor organisation/individual's (e.g. bank) credit report for any credit related changes. A credit watch allows the organisation/individuals to act on any red flags before they can have a detrimental effect on credit score/history.
Credit Arrangements	Methods of Financing such as finance leasing
Credit Ratings	A scoring system issued by credit rating agencies such as Fitch, Moody's and Standard & Poors that indicate the financial strength and other factors of a bank or similar Institution.
Creditworthiness	How highly rated an institution is according to its credit rating.
Custodian	Regulated firm that provides custody.
Custody	The safekeeping of securities that are dematerialised, i.e. no longer held in paper form, including the vast majority of bonds and shares traded on financial markets.
Debt	(1) A contract where one party owes money to another party, such as a loan, deposit or bond. Contrast with equity. (2) In the Prudential Code, the total outstanding borrowing plus other long-term liabilities.
Debt Management Office (DMO)	The DMO is an agency of the HM Treasury which is responsible for carrying out the Government's Debt Management Policy.
Debt Rescheduling	The refinancing of loans at different terms and rates to the original loan.
Depreciation Method	The spread of the cost of an asset over its useful life.
Default	Failure to meet an obligation under a debt contract, including the repayment of cash or compliance with a covenant, usually as a result of being in financial difficulty (rather than an administrative oversight).
Deflation	Negative inflation, which central banks are keen to avoid since households tend to delay spending waiting for prices to fall further, leading to further deflation.

Deposit	A regulated placing of cash with a financial institution. Deposits are not tradable on financial markets.
Depositary	Regulated firm that performs safeguarding, record keeping and ownership verification of a collective investment scheme's assets, including those which are not held in custody.
Derivative	Financial instrument whose value is derived from an underlying instrument or index, such as a swap, option or future. Derivatives can be used to gain exposure to, or to help protect against, changes in the value of the underlying. See also embedded derivative and hedge.
Discount	(1) The amount that the early repayment cost of a loan is below its principal, or the price of a bond is below its nominal value. See also premium. (2) To calculate the present value of an investment taking account of the time value of money.
Discount rate	The interest rate used in a present value calculation. Diversification The spreading of risk across a variety of exposures in order to reduce the risk. For example, investing in a range of counterparties to limit credit risk or borrowing to a range of maturity dates to limit refinancing risk.
Diversified income fund	A collective investment scheme that invests in a range of bonds, equity and property in order to minimise price risk, and also focuses on investments that pay income
Dividend	Income paid to investors in shares and collective investment schemes. Dividends are not contractual, and the amount is therefore not known in advance.
DMADF	Debt Management Account Deposit Facility – a facility offered by the DMO enabling local authorities to deposit cash at very low credit risk. Not available in Northern Ireland.
DMO	Debt Management Office – an executive agency of HM Treasury that deals with central government's debt and investments.
Dove	Monetary policy maker with a preference for lower interest rates. See also hawk.
Duration	In relation to a bond or bond fund, the weighted average time of the future cash flows from today, usually expressed in years. The longer the duration, the more the price moves for a given change in interest rates.
ECB	European Central Bank – the central bank of the Eurozone, based in Frankfurt, Germany.
EIB	European Investment Bank – a supranational bank owned by the member states of the European Union that mainly lends within the Union.
EIP	Equal instalments of principal. A method of repaying a loan where the principal is repaid over the life of the loan, in equal instalments. Interest payments reduce over time as the principal is repaid.
EIR	Effective interest rate - IFRS term for the average interest rate on a financial instrument, including the effect of premiums, discounts and fees. For a simple deposit or loan, the EIR is usually equal to the contractual interest rate; for a bond the EIR is usually equal to the yield.

Embedded derivative	A derivative that is combined into another financial instrument, such as the options embedded in a LOBO.
ESG	Environmental, social and governance considerations.
Equity	(1) The residual value of an entity's assets after deducting its liabilities. (2) An investment in the residual value of an entity, for example ordinary shares.
Equity fund	A collective investment scheme that mainly invests in company shares.
Ex-dividend date	The first date that a share or unit is traded without the right to receive the next dividend. The price therefore falls by the amount of the dividend.
FATCA	Foreign Account Tax Compliance Act – a US regime applicable worldwide to limit tax evasion by US citizens. Local authorities are classed as exempt beneficial owners under FATCA.
Fair value	IFRS term for the price that would be obtained by selling an investment, or paid to transfer debt, in a market transaction.
FCA	Financial Conduct Council – UK agency responsible for regulating financial markets and the conduct of financial institutions, brokers, custodians, fund managers and treasury management advisors.
Federal Reserve	The central bank of the USA often just called "the Fed".
Fiscal policy	Measures taken by government to boost or slow the economy via taxation and spending decisions. Fiscal loosening or easing refers to cuts in taxes or increases in spending, while fiscal tightening refers to the opposite. See also monetary policy.
Financial institution	A bank, building society or credit union. Sometimes the term also includes insurance companies. Financial instrument IFRS term for investments, borrowing and other cash payable and receivable.
Financing costs	In the Prudential Code, interest payable on debt less investment income plus premiums less discounts plus MRP.
Floating rate note (FRN)	A bond where the interest rate changes at set intervals linked to a market variable, most commonly 3-month LIBOR.
Floor	Derivative option that requires payment when a variable, such as an interest rate, falls below a certain level. Can be embedded in a floating rate loan or deposit to prevent the variable rate falling below a certain limit. See also cap and collar.
Foreign exchange (FX) risk	The risk that unexpected changes in foreign exchange rates cause a loss. Rarely an issue for local authorities since they are unable to borrow and tend not to invest in foreign currency.
Forward deal	An arrangement where a loan or deposit is arranged in advance of the cash being transferred, with the advance period being longer than the standard period (if any) for such a transaction.
Financial Services Compensation Scheme	UK deposit guarantee scheme that will compensate most depositors up to £85,000 in the event of a bank failure. However, most public sector organisations, financial institutions and collective investment schemes are excluded from receiving compensation.

FSMA	Financial Services and Markets Act 2000, the main piece of UK legislation regulating financial services.
FTSE	Financial Times stock exchange – a series of indices on the London Stock Exchange. The FTSE 100 is the index of the largest 100 companies on the exchange, the FTSE 250 is the next largest 250 and the FTSE 350 combines the two.
Future	A derivative whose payments depend on the future value of a variable.
Fund manager	Regulated firm that manages collective investment schemes. Gate Restriction on the subscription or redemption of shares or units in a collective investment scheme.
GDP	Gross domestic product – the value of the national aggregate production of goods and services in the economy. Increasing GDP is known as economic growth.
General Fund	A local Council reserve that holds the accumulated surplus or deficit on revenue income and expenditure, except on council housing. See also Housing Revenue Account.
Gilt	Gilt-edged securities are bonds issued by certain national governments. The term is of British origin, and originally referred to the debt securities issued by the Bank of England, which had a gilt (or gilded) edge. Hence, they are known as gilt-edged securities, or gilts for short. Today the term is used in the United Kingdom as well as some Commonwealth nations, such as South Africa and India. However, when reference is made to "gilts", what is generally meant is "UK gilts," unless otherwise specified.
Gilt yield	Yield on gilts. Commonly used as a measure of risk-free long-term interest rates in the UK
Guarantee	An arrangement where a third party agrees to pay the contractual payments on a loan to the lender if the borrower defaults. Haircut A reduction in the value of a bond or deposit as the result of a bail-in or other restructuring of the counterparty.
Hawk	Monetary policy maker with a preference for higher interest rates. See also dove.
Hedge	An arrangement where one instrument (typically a derivative) is used to offset the variability in another instrument. For example, an interest rate swap where interest is receivable at a variable rate can be an effective hedge for a variable rate loan.
Hedge accounting	Optional IFRS accounting arrangements to ensure that the accounting impact of a hedge matches the economic impact.
IFRS	International Financial Reporting Standards, the set of accounting rules in use by UK local authorities since 2010.
Impairment	A reduction in the value of an investment caused by the counterparty being in financial difficulty.
Income return	Return on investment from dividends, interest and rent but excluding capital gains and losses. See also total return.
Income strip	Long-term lease arrangement where the tenant pays index-linked rent and has an option to buy back the property at the end of a lease for a nominal payment. Effectively a form of loan finance.
Inflation risk	The risk that unexpected changes in inflation rates cause an

	unplanned loss, for example by costs rising faster than income.
Interest	Compensation for the use of cash paid by borrowers to lenders on debt instruments.
Interest Rate exposures	A measure of the proportion of money invested and what impact movements in the financial markets would have on them.
Interest rate risk	The risk that unexpected changes in interest rates cause an unplanned loss, for example by increased payments on borrowing or lower income on investments.
Interest rate swap	A derivative where the parties swap a fixed and a variable interest rate on an agreed nominal sum for an agreed period of time. Widely used to manage interest rate risk.
Internal borrowing	A local government term for when actual “external” debt is below the capital financing requirement, indicating that difference has been borrowed from internal resources instead; in reality this is not a form of borrowing.
Inverted yield curve	Yield curve where yields decrease over time, suggesting that short-term interest rates will fall in future. A possible indicator of a recession. See also normal yield curve.
Investment bank	A bank that provides services including issuing new securities in the primary market and arranging company mergers and acquisitions. Investment banks may also undertake proprietary trading, i.e. investing the bank’s own money with a view to making a profit.
Investment grade	Entities and securities with a credit rating of BBB- and above, and therefore relatively unlikely to default.
Investment guidance	Statutory guidance issued by MHCLG and the devolved governments on local government investments. Local authorities are required by law to have regard to the relevant investment guidance.
Investment property	Land and buildings that are held purely for rental income and/or capital growth. Investment properties are not owner-occupied and provide no direct service benefit.
Investment strategy	A document required by investment guidance that sets out a local Council’s investment plans and parameters for the coming year. Sometimes forms part of the Council’s treasury management strategy.
The International Monetary Fund (IMF)	is an intergovernmental organisation which states its aims as to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.
Impaired investment	An investment that has had a reduction in value to reflect changes that could impact significantly on the benefits expected from it.
Junior creditor	Creditor that ranks below senior unsecured creditors but above equity investors in the event of a bank insolvency or bail-in, for example, subordinated bonds.
Lease	A contract where one party permits another to make use of an asset in return for a series of payments. It is economically similar to buying the asset and borrowing a loan, and therefore leases are often counted as a type of debt.
Lessee	Party to a lease contract that uses an asset owned by the

	lessor.
Lessor	Party to a lease contract that own an asset but permits another (the lessee) to use it.
Leverage ratio	A measure of financial strength of a financial institution, calculated as tier 1 capital divided by total assets plus lending commitments.
Liability benchmark	Term in CIPFA's Risk Management Toolkit which refers to the minimum amount of borrowing required to keep investments at a minimum liquidity level. Used to compare against the actual and forecast level of borrowing.
LIBID	The London Interbank Bid Rate – it is the interest rate at which major banks in London are willing to borrow (bid for) funds from each other, traditionally 0.125% lower than LIBOR.
LIBOR	London interbank offer rate - the benchmark interest rate at which banks offer to lend cash to other banks. Published every London working day at 11am for various currencies and terms. Due to be phased out by 2022.
Liquidity risk	The risk that cash will not be available to meet financial obligations, for example when investments cannot be recalled and new loans cannot be borrowed.
Loan	Contract where the lender provides a sum of money (the principal) to a borrower, who agrees to repay it in the future together with interest. Loans are not normally tradable on financial markets. There are specific definitions in government investment guidance.
Loan commitment	An arrangement where a lender is committed to lend a loan if the borrower requests it.
Loans CFR	The capital financing requirement less the amount met by other long-term liabilities; i.e. the amount to be met by borrowing.
LOBO	Lender's option borrower's option – a long-term loan where the lender has the option to propose an increase in the interest rate on pre-determined dates. The borrower then has the option to either accept the new rate or repay the loan without penalty. LOBOs increase the borrower's interest rate risk and the loan should therefore attract a lower rate of interest initially.
Local indicators	Prudential indicators or treasury management indicators that are not required by the relevant code of practice but have been designed locally to meet similar purposes.
Local infrastructure rate	Discount on PWLB rates for new loans borrowed, available to local authorities that have been successful in a bidding round.
Long-term	Usually means longer than one year. Long-term rating A credit rating, assessing of the risk of default over the long-term. Where an agency publishes a range of long-term ratings, Arlingclose reports the rating most relevant to wholesale depositors. See also short-term rating.
LVNAV	Low volatility net asset value – the most common type of money market fund introduced in 2019 that can be bought and sold for £1 per share providing that the true net asset value is between 99.8p to 100.2p.
Mark to market	A process by which investments are revalued to market prices, usually with the entity accounting for the capital gain

	or loss as income or expenditure.
Market risk	The risk that movements in market variables will have an unexpected impact. Usually split into interest rate risk, price risk and foreign exchange risk.
Market Loans	Loans from banks available from the London Money Market including LOBOS (Lender Option, Borrowing Option) which enable the Council to take advantage of low fixed interest for a number of years before an agreed variable rate comes into force.
Maturity	(1) The date when an investment or borrowing is scheduled to be repaid. (2) A type of loan where the principal is only repaid on the maturity date.
Maturity profile	A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. MHCLG
Minimum Revenue Provision (MRP)	This is the amount which must be set aside from the revenue budget each year to cover future repayment of loans.
MiFID	The second Markets in Financial Instruments Directive - a legislative framework instituted by the European Union to regulate financial markets in the bloc and improve protections for investors.
Money Market Fund (MMF)	A 'pool' of different types of investments managed by a fund manager that invests in lightly liquid short term financial instruments with high credit rating.
Monetary Policy	Measures taken by central banks to boost or slow the economy, usually via changes in interest rates. Monetary easing refers to cuts in interest rates, making it cheaper for households and businesses to borrow and hence spend more, boosting the economy, while monetary tightening refers to the opposite. See also fiscal policy and quantitative easing.
Monetary Policy Committee (MPC)	Committee designated by the Bank of England; whose main role is to regulate interest rates. Responsible for implementing monetary policy in the UK by changing Bank Rate and quantitative easing with the aim of keeping CPI inflation at around 2%.
Money markets	The markets for short-term finance, including deposits and T-bills.
Money Markets Code	Code of practice issued by the Bank of England for the operation of the London money market, which is mostly unregulated by MiFID II.
Municipal bond	Bond issued or guaranteed by local authorities.
Municipal bonds agency (MBA)	Company that issues bonds in the capital market and lends the proceeds back to local authorities. The bonds are guaranteed by the local authorities.
NDA	Non-disclosure agreement. Contract where two organisations agree not to disclose each other's confidential information. Often required at the start of commercial loan negotiations.
Negative Pledge	Covenant where a borrower agrees to not to pledge certain assets as collateral for other loans.
Net asset value (NAV)	The current value of a fund's assets, net of its liabilities, usually expressed as an amount per share or unit.
Net borrowing	Borrowing minus treasury investments.
Net revenue stream	In the Prudential Code, income from general government

	grants, Council Tax and rates.
Normal yield curve	A yield curve where yields increase over time, which is the more common shape. See also inverted yield curve.
Nominal	The face value of a bond or share, often quite different from the market value.
Note	Another term for a bond.
Notice account	A deposit account where the cash can be called back after a given notice period.
Non Specified Investments	Government term for investments not meeting the definition of a specified investment or a loan upon which limits must be set. Since 2018, the term does not apply to treasury investments in England.
Non treasury investment management practices (NTIMPs)	Document required by the Treasury Management Code setting out a local Council's detailed processes and procedures for commercial investments and service investments.
OCF	Ongoing charges figure – amounts charged to collective investment scheme that reduce the return for investors. Includes the AMC plus direct charges such as brokerage.
OEIC	Open-ended investment company, a type of collective investment scheme that is structured as a company, where investors buy shares in the company.
Offer	An offer to sell a security at a certain price (the offer price or ask price), or an offer to lend money at a certain interest rate (the offer rate).
Other long term liabilities	Prudential Code term for credit arrangements.
Operational boundary	A prudential indicator showing the most likely, prudent, estimated level of external debt, but not the worst-case scenario. Regular breaches of the operational boundary should prompt management action.
Operational risk	The risk that fraud, error or system failure leads to an unexpected loss.
Option	A derivative where the holder pays a premium to have the right, but not the obligation, to buy or sell a security or enter into a defined transaction.
PRA	Prudential Regulation Council – the part of the Bank of England that regulates UK banks.
Present value	The value today of a series of future cash flows, calculated using a discount rate.
Premium	(1) The amount that the early repayment cost of a loan is above the principal (for example cost of early repayment of loan to PWLB to compensate for any losses that they may incur), or the price of a bond is above its nominal value. (2) The initial payment made under a derivative.
Price risk	The risk that unexpected changes in market prices lead to an unplanned loss. Managed by diversifying across a range of investments.
Primary market	A financial market where securities are initially issued, and investors buy from issuers or their agents. See also secondary market.
Principal	The amount of money originally lent on a debt instrument.
Private finance initiative	A government scheme where a private company designs, builds, finances and operates assets on behalf of the public sector, in exchange for a series of payments, typically over 30

	years. Counts as a credit arrangement and debt.
Private placement	A loan or bond that is not traded on a financial market.
Professional client	MiFID II term for a client of a regulated firm that has a higher level of experience in financial markets than a retail client, and therefore needs a lower level of protection. Local authorities may “opt up” to be treated as professional clients if they meet certain requirements.
Property fund	A collective investment scheme that mainly invests in property. Due to the costs of buying and selling property, including stamp duty land tax, there is usually a significant fee charged on initial investment, or a significant difference between the bid and offer price.
Prudential borrowing	Another term for unsupported borrowing. Prudential Code Developed by CIPFA and introduced in April 2004 as a professional code of practice to support local Council capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice. Local authorities are required by law to have regard to the Prudential Code.
Prudential indicators	Indicators required by the Prudential Code and determined by the local Council to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable.
PWLB	Public Works Loans Board - a statutory body operating within the DMO that lends money from the National Loans Fund to local authorities and other prescribed bodies and collects the repayments.
Quantitative easing (QE)	Process by which central banks directly increase the quantity of money in the economy in order to promote GDP growth and prevent deflation. Normally achieved by the central bank buying government bonds in exchange for newly created money. Reversing QE by selling back bonds, or allowing them to mature without replacement, is sometimes called quantitative tightening.
Rating watch	A term used by credit rating agencies to indicate that a credit rating is under review, and that a change is likely within three months. The direction of potential change is usually indicated.
Realised gain or loss	Gain or loss that will not be reversed later, e.g. because the instrument has been sold. See also unrealised gain or loss.
Revolving credit facility (RCF)	It is a type of credit that does not have a fixed number of payments but comes with an established maximum amount, for a business and the business can access the funds at any time when needed. Typically used to provide liquidity for a company's day-to-day operations.
Recession	A period of economic slowdown. The technical definition is two consecutive quarters of negative GDP growth.
Specified Investments	Investments that meet the Council’s high credit quality criteria and repayable within 12 months.
Security	(1) A financial instrument that can be traded on a secondary market. (2) The concept of low credit risk. (3) Collateral.
Secured investment	An investment that is backed by collateral and is therefore

	normally lower credit risk and lower yielding than an equivalent unsecured investment.
Senior unsecured	Creditors that are not secured, but rank above junior creditors and equity in the event of insolvency or bail-in.
Service investments	Investments made to promote a local Council's public service objectives, for example a loan to a local charity or shares in a local company.
Share	An equity investment, which usually also confers ownership and voting rights.
Share class	A class of shares in a collective investment scheme with a set AMC and minimum investment size.
Short bond fund	A bond fund with a duration of less than one year. Short-term Usually means less than one year.
Short-term rating	A credit rating, reflecting the risk of default within the next 13 months, usually linked directly to the long-term rating.
Soft loan	A loan made at below market interest rates. See also state aid.
SONIA	Sterling overnight interest average – a benchmark interest rate for overnight deposits.
SORP	Statement of Recommended Practice – an old term for the Code of Practice on Local Council Accounting in the United Kingdom.
Specified investments	Term used in government investment guidance for investments that are denominated in sterling, mature in less than a year, are not defined as capital expenditure, and are made with the UK government, another UK local Council or a high credit quality body, as defined by the local Council. Since 2018, the term does not apply to treasury investments in England.
Speculative grade	Investments with a credit rating of BB+ or below, and therefore more vulnerable to default than investment grade securities.
Stamp duty land tax (SDLT)	Tax levied on property transactions at between 0 and 15% of the purchase price. The rate on commercial property valued above £250,000 is 5%.
State aid	Financial assistance provided by the public sector to the private sector, such as grants and soft loans, which has the potential to distort competition and is therefore often, but not always, illegal.
Strategic bond fund	Bond fund with a duration of longer than one year.
Strategic funds	Collective investment schemes that are designed to be held for the long-term, comprising strategic bond funds, diversified income funds, equity funds and property funds.
Subordinated bonds	Bonds that rank below other bonds in the event of an insolvency or bail-in. They are therefore higher risk, but also higher yielding.
Subscription	The process of placing cash in a collective investment scheme and creating units or shares.
Support rating	A credit rating agency's view on the likelihood and ability of parent companies or governments to provide external support to prevent a bank failure leading to losses for investors.
Supported borrowing	Borrowing for which the repayment costs are supported by government grant.
Supranational bonds	Supranational bonds are issued by institutions that represent

	a number of countries, not just one. Thus, organisations that issue such bonds tend to be the World Bank or the European Investment Bank. The issuance of these bonds are for the purpose of promoting economic development
Swap	A derivative where the counterparties exchange cash flows, for example fixed rate interest and variable rate interest. See also interest rate swap.
Swap rate	The fixed rate on an interest rate swap. Commonly used as a measure of risk-free long-term interest rates.
Tap	Process by which additional amounts of an existing bond are issued.
Temporary borrowing	Borrowing with a term of less than one year. Term deposit A deposit that is repayable after a fixed period of time.
TMS	(1) Treasury management strategy. (2) Treasury management system.
Total return	The overall return on an investment, including interest, dividends, rent, fees and capital gains and losses. See also income return.
Transferred debt	Debt contractually held by one local Council but whose costs are borne by another Council, usually following local government reorganisation.
Treasury bills (or T-bills)	Treasury bills (or T-bills) mature in one year or less. Like zero-coupon bonds, they do not pay interest prior to maturity; instead they are sold at a discount of the par value to create a positive yield to maturity. Many regard Treasury bills as the least risky investment available.
Treasury investments	Investments made for treasury management purposes, as opposed to commercial investments and service investments.
Treasury management	The management of an organisation's cash flows, investment and borrowing, with a particular focus on the identification, control and management of risk. Specifically excludes the management of pension fund investments
Treasury management advisor	Regulated firm providing advice on treasury management, capital finance and related issues.
Treasury Management Code (TM Code)	CIPFA's Code of Practice for Treasury Management in the Public Services and Cross-Sectoral Guidance Notes, to which local authorities are required by law to have regard.
Treasury management indicators	Indicators required by the Treasury Management Code to assist in the management of credit risk, interest rate risk, refinancing risk and price risk. Treasury management policy statement Document required by the Treasury Management Code setting out a local Council's definition of and objectives for treasury management.
Treasury management practices (TMPs)	Document required by the Treasury Management Code setting out a local Council's detailed processes and procedures for treasury management.
Treasury Management Strategy Statement	Annual report required by the Treasury Management Code covering the local Council's treasury management plans for the forthcoming year.
Treasury management system	Computer programme for recording investments, borrowing, cash flow forecasts and market data to assist with treasury management operations.

Unrated institution	An institution that does not possess a credit rating from one of the main credit rating agencies.
Unrealised gain or loss	Gain or loss that may be reversed later, e.g. from marking to market. Also called a paper gain or loss. See also realised gain or loss.
Unsupported Borrowing	Borrowing where costs are wholly financed by the Council. Sometimes called prudential borrowing since it was not permitted until the introduction of the Prudential Code in 2004. See also supported borrowing.
Usable reserves	Resources available to finance future revenue and/or capital expenditure. Some usable reserves are ringfenced by law for certain expenditure such as on schools or council housing.
Vanilla	A simple instrument without any additional features such as embedded derivatives.
Volatility	A measure of the variability of a price or index, usually expressed as the annualised standard deviation.
WAL	Weighted average life – the average time to maturity of an investment portfolio, weighted by the size of the investment and normally expressed in days.
WAM	Weighted average maturity – the average time to the next interest rate reset on an investment portfolio, weighted by the size of the investment and normally expressed in days. A portfolio of fixed rate investments will have a WAM identical to its WAL.
Working capital	The cash surplus or deficit arising from the timing differences between income/expenditure in accounting terms and receipts/payments in cash terms.
Yield	A measure of the return on an investment, especially a bond. The yield on a fixed rate bond moves inversely with its price.
Yield curve	A chart of yields or interest rates for similar instruments over a range of maturity dates. See also inverted yield curve and normal yield curve.