Report to:

Joint Audit and Governance Committee
Cabinet
Council

Report of Head of Finance

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To:	JOINT AUDIT & GOVERNANCE COMMITTEE on	25 January 2022
	CABINET on	03 February 2022
	COUNCIL on	17 February 2022

Treasury Management and Investment Strategy 2022/23

Recommendations

That Joint Audit and Governance Committee approves each of the following key elements of this report, and recommends these to Cabinet:

1. To approve the treasury management strategy 2022/23 set out in appendix A to this report;
2. To approve the prudential indicators and limits for 2022/23 to 2024/25 as set out in, appendix A.
3. To approve the annual investment strategy 2022/23 set out in appendix A, and the lending criteria detailed in table 6.

That Cabinet considers any comments from committee and recommends Council to approve report.

Purpose of report

1. This report presents the council’s Treasury Management Strategy (TMS) for 2022/23. This sets out how the council’s treasury service will support financing of capital investment decisions, and how treasury management operates day to day. It sets out the limitations on treasury management activity informed by the prudential indicators, within which the council’s treasury function must operate.

2. The strategy is included as appendix A to the report. This report includes the three elements required by legislation as follows:

   - The **prudential and Treasury indicators** required by the CIPFA Prudential Code 2017 for Capital Finance in Local Authorities and CIPFA TM code of Practice 2017;

   - The **annual investment strategy**. This sets out the council's criteria for selecting counterparties and limiting exposure to the risk of loss on its investments.

   - A statutory duty to approve a **minimum revenue provision** policy statement, (appendix A, paragraphs 15-20).

   It is a requirement of the CIPFA Code of Practice on Treasury Management 2017 that this report is approved by full Council on an annual basis.

Strategic objectives

3. Managing the finances of the authority in accordance with the treasury management strategy will help to ensure that resources are available to deliver its services and meet the council's strategic objectives.

Background

4. Treasury management is defined as: "The management of the local authority's 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."

5. The primary function of the treasury management service is to manage cashflow and ensure cash is available when needed. Surplus monies are deposited with low-risk counterparties and financial instruments with adequate liquidity to fund expenditure commitments.

6. The funding of the council's capital expenditure is also a function of treasury management. The capital programme provides a guide to the funding needs of the council and informs long-term cash flow plans to ensure that the council can meet its capital spending obligations. All expenditure of a capital nature is managed through the council's capital programme and is not covered by this report.

7. The treasury management and annual investment strategy set out the council's policies for managing investments and confirms the council gives priority to the security and liquidity of those investments. It also includes the prudential indicators for the next three years; these demonstrate that the council's capital investment plans are affordable, prudent and sustainable.

8. The council's treasury management strategy 2022/23 is attached in appendix A. Whilst every attempt has been made to minimise the technical content of this report, it is, by its very nature and the need for compliance with associated guidance, technical in parts. A glossary of terms in appendix G should aid members understanding of some technical terms used in the report.

Recommended changes to the treasury management strategy

9. Council approved the 2021/22 treasury management strategy on 11 February 2021. The proposed strategy for 2022/23 includes the changes detailed below, which cabinet is asked to recommend to council.

Counterparty limits

10. On 31 March 2020 the then Interim Head of Finance waived financial procedure rule 53 and allowed the councils to over-ride their counter party limits for money market funds. This was to allow the councils to deal with the receipt of unprecedented levels of government grant funding to fund the business grant schemes administered by the councils on behalf of the government.

11. Delegation 2.7 of the council constitutions allows the Head of Finance, in consultation with the cabinet member for finance, to raise counterparty limits by £3,000,000 within a financial year.

12. Due to the increase in peak levels of daily cash flow, the increased limits have been required throughout 2020/21 and 2021/22. Since it is anticipated that they will continue to be required during 2022/23, the increased limits have been incorporated into the counterparty limits table and regarded as permanent.

13. The changes to the permanent limits include:

    - an increase to the counterparty limits for AAA rated CNAV Money market Funds to £30 million,
    - a £3 million increase to the counterparty limits for unrated building societies

14. The counterparty limits table has been reformatted and updated and includes the following additional changes:

    - Increased limit for Short Dated/Ultra Short Dated Bond Funds from £10 million to £20 million,
    - Removal of a reference to a specific counterparty in the Pooled Property Funds and Diversified Income Fund categories.
    - Inclusion of Sovereign Bonds, Covered Bonds and Multilateral Development Bank Bonds with the existing limits for Corporate Bonds
    - An increase to the maximum portfolio percentage to 100 per cent for local authority and UK Government deposits.
    - An increase from 50 per cent to 100 per cent to the portfolio limit for deposits under one year with banks and building societies meeting the minimum credit rating criteria F1/A-.
    - A reduction in the maturity limit for local authority deposits from 25 to five years.
    - Removal of non-Treasury Management Property related Investment category.

15. The minimum Fitch Sovereign rating for counterparties outside the UK has been amended to AA-, in line with the current Fitch Sovereign rating for the UK. This is to enable deposits to be placed with foreign financial institutions with higher, or equivalent credit ratings to UK banks on the approved counterparty list.

16. The Variable Interest Rate Exposure Prudential Indicator Limit has been increased to £100 million to reflect the increased level of cash balances and to allow greater use of funds with variable rate returns.

Financial implications and risk assessment

17. This report and all associated policies and strategies set out clearly the parameters the council must work within. It is important that the council follows the approved treasury management strategy which is designed to help protect the council's finances by managing its risk exposure.

18. Link Treasury Services has provided a counterparty methodology, but given the council's balances, we have expanded on this methodology to include additional building societies to ensure a diversified portfolio.

19. Base rate is currently 0.25 per cent. The Bank of England increased the rate from 0.10 per cent to 0.25 per cent on 16 December 2021 to help control the rise in inflation, which had risen above five per cent and reached its highest level in a decade.

20. Link Asset Services latest base rate forecast anticipates that the next bank base rate rise will be during the first quarter of the 2022/23 financial year. Table 1 below gives an estimate of the investment income achievable for the council next five years.

Table 1: Medium term investment income forecast					
	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Forecast as at December 2021	1,777	1,899	1,999	1,883	1,761

21. The 2022/23 budget setting report and medium-term financial plan will take into account the latest projections of anticipated investment income.

Climate and ecological impact implications

22. There are no climate or ecological implications arising from this report. As a responsible investor, the Council is committed to considering environmental, social, and governance (ESG) issues, and has a particular interest in taking action against climate change and pursuing activities that have a positive social impact.

23. As opportunities to support the climate ambitions of the Council arise, they will be considered. However, the treasury management function is controlled by statute and by professional guidelines and the first priorities of treasury must remain security, liquidity, and yield.

Legal implications

24. There are no significant legal implications as a result of the recommendations in this report. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services, the DLUHC Local Government Investment Guidance provides assurance that the council's investments are, and will continue to be, within its legal powers.

25. The council must approve any amendment to the treasury management strategy and annual investment strategy in accordance with the Local Government Act 2003 (the Act), the CIPFA Code of Practice for Treasury Management in the Public Services and the DLUHC Local Government Investment Guidance under Section 15(1) (a) Local Government Act 2003 and CIPFA Prudential Code for Capital Finance.

Conclusion

26. This report introduces the treasury management strategy and the annual investment strategy for 2022/23 which are appended to this report, together with the prudential indicators for approval to council. These documents provide the parameters within which the council's treasury management function will operate.

Background papers

- CIPFA Code of Practice on Treasury Management 2017
- CIPFA Prudential Code 2017
- CIPFA Treasury Management in the Public Services Guidance Notes 2018
- CIPFA statement 17.10.18 on borrowing in advance of need and investments in commercial properties
- CIPFA Bulletin 02 Treasury and Capital Management Update October 2018
- Statutory Guidance on Local Government Investments (3rd Edition)
  Statutory Guidance on Minimum Revenue Provision

Appendices

Appendix A Treasury Management Strategy 2022/23
Appendix B Economic Background
Appendix C Risk and performance benchmarking
Appendix D Explanation of Prudential and Treasury Indicators
Appendix E TMP1 extract
Appendix F Extension to the responsibilities of the S151 officer
Appendix G Glossary of terms

Appendix A

Treasury Management Strategy 2022/23

Introduction

1. The primary function of the treasury management service is to ensure the council's cash flow is adequately managed, 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. The second main function of the treasury management service is the funding of the council's capital plans.

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

3. CIPFA defines treasury management as:

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

4. Revised reporting was required for the 2019/20 reporting cycle due to revisions of the Department of Levelling Up, Housing and Communities (DLUHC) (formerly the Ministry of Housing, Communities & Local Government (MHCLG)) Investment Guidance, and Minimum Revenue Provision (MRP) Guidance, the Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes included the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is reported separately.
5. CIPFA released new editions of the Treasury Management Code and Prudential Code on 20 December 2021. Due to the timing of the code revisions and committee reporting timeframes, changes to reporting requirements, which may be deferred until 2023/24, have not been included in this report.

Treasury Management Reporting

6. The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.
   a) Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report is forward looking and covers:
      - the capital plans, (including prudential indicators);
      - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
      - the treasury management strategy, (how the investments and borrowings are managed), including treasury indicators; and

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

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

c) An annual treasury report – This report reviews performance for the previous financial year and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

7. The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Joint Audit and Governance Committee.

Treasury Management Strategy for 2022/23

8. The strategy for 2022/23 covers the areas below:
   - the capital expenditure plans and the associated prudential indicators;
   - the minimum revenue provision (MRP) policy.
   - the current treasury position;
   - treasury indicators which limit the treasury risk and activities of the Council;
   - prospects for interest rates;
   - the borrowing strategy;
   - policy on borrowing in advance of need;
   - debt rescheduling;
   - the investment strategy;
   - creditworthiness policy; and
   - the policy on use of external service providers.

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

Councillor and Officer Training

10. The CIPFA Code requires the Head of Finance to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. The training needs of treasury management officers are periodically reviewed.

Capital Prudential Indicators

11. The Council's capital expenditure plans (as detailed in the council's capital programme) are a 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.

Treasury Management Consultants

12. The Council uses Link Asset Services, Treasury solutions as its external treasury management advisors.

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

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

Minimum Revenue Provision (MRP) Policy Statement 2022/23

15. The council's current capital programme will primarily be financed from internal resources with a £5 million debt financing requirement anticipated in 2022/23 and a further need to borrow £10 million to finance capital expenditure in 2022/24. If borrowing is undertaken, then the council will be required by statute to set aside funds in the annual revenue budget to amortise the principal element of any borrowing – this is the MRP. There will also be a requirement to set aside revenue budget for the interest payments on any borrowing raised. Loans will generally be taken over the life of the assets being financed and amortised accordingly.

16. The council is required by regulation to approve an annual MRP policy before the start of the year to which it relates. Any in-year changes must also be submitted to the council for approval.

17. A variety of options are provided to councils for the calculation of MRP. The council has chosen the "asset life method" as being most appropriate. Using this method MRP will be based on the estimated life of the asset, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction). Repayments included in annual PFI or finance leases are applied as MRP.

18. Currently, the council's MRP liability is nil. This will remain the case until planned capital projects have been delivered and funded with long term loans.

19. The Capital Financing Requirement (CFR) estimate for the council is £15million from 2024/25 onwards. The CFR measures the authority's underlying need to borrow for a capital purpose. In day-to-day cash management, no distinction can be made between revenue and capital cash, external borrowing needs arise as a consequence of all revenue and capital cashflows. When a funding need arises The Head of Finance will determine the most appropriate repayment method, duration, and terms of borrowing.

20. The average forecast interest rate in 2022/23 for a 50 year PWLB loan is 1.86 per cent. Table 1 shows a forecast of the annual revenue costs associated with borrowing an amount of £15 million over a 50-year period, based on the current district tax base

of 60,344 Band D equivalents. It is estimated that the impact on Band D Council tax, of the debt financing in the proposed capital programme is £9.60.

Table 1: Example MRP and interest calculation		
Loan Amount	£15,000,000	
Loan Duration	50 Years	
PWLB Interest	1.86%	
2022/23 Tax Base	60,344	
	£	£ per Band D
MRP Element	£300,000	4.97
Annual Interest Cost	£279,450	4.63
Total	**£579,450**	**9.60**

Prospects for Interest Rates

21. The following table gives Link Asset Services central view on expected interest rate movements out to March 2025. LIBOR and LIBID rates will cease from the end of 2021. Work is progressing to replace LIBOR with a rate based on SONIA (Sterling Overnight Index Average). In the meantime, forecasts provided by Link are based on expected average earnings by local authorities for 3 to 12 months.

Table 2: Interest Rate Forecasts ***- Quoted by link Asset Services December 2021***

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

Economic Background – Provided by Link

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

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

Significant risks to the forecasts

- **Mutations** of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed, or cannot be administered fast enough to prevent further lockdowns. 25 per cent of the population not being vaccinated is also a significant risk to the NHS being overwhelmed and lockdowns being the only remaining option.

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity.

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

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

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

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

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

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

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

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

Forecasts for Bank Rate

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

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

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

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

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

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

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

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

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

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

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

Treasury Limits for 2022/23 to 2024/25

28. It is a statutory duty, under Section 3 of the Act and supporting regulations for the council to determine and keep under review how much it can afford to borrow. The amount so determined is called the "Affordable Borrowing Limit". The Authorised Limit is the legislative limit specified in the Act.

29. The council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital expenditure remains within sustainable limits and that the impact upon its future council tax is 'acceptable'. The Authorised Limit is set on a rolling basis, for the forthcoming financial year and two successive financial years.

30. The following indicators set the parameters within which we manage the overall capital investment and treasury management functions. There are specific treasury activity limits, which aim to contain the activity of the treasury function in order to manage risk and reduce the impact of an adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs/improve performance.

31. The limits are set out in table 3 below. **Cabinet is asked to recommend council to approve the limits:**

Table 3: Prudential indicators	**2021/22 Approved £m**	**2022/23 Estimate £m**	**2023/24 Estimate £m**	**2024/25 Estimate £m**
Debt				
Authorised limit for external debt				
Borrowing	30	30	30	30
Other long-term liabilities	0	0	0	0
	35	**35**	**35**	**35**
Operational boundary for external debt				
Borrowing	25	25	25	25
Other long-term liabilities	0	0	0	0
	30	**30**	**30**	**30**
Interest rate exposures				
Maximum fixed rate borrowing	100%	100%	100%	100%
Maximum variable rate borrowing	100%	100%	100%	100%
Investments				
Interest rate exposures				
Limits on fixed interest rates	100%	100%	100%	100%
Limits on variable interest rates	50	100	100	100
Principal sums invested > 364 days				
Upper limit for principal sums invested >364 days	70	65	55	45

Current position

32. The maturity structure of the council's investments at 30 November 2021 was as follows:

Table 4: maturity structure of investments:	Total £000's	% holding
Call	506	0%
Money market fund	14,140	8%
Less than 6 months	58,000	31%
6 months to 1 year	71,500	39%
1 year +	20,000	11%
CCLA - Property Fund	6,468	4%
Unit Trusts	13,627	7%
Total investments	**184,241**	**100%**

** The figure for total investments shown above excludes the £15 million 20-year loan to SOHA made in 2013/14 and the balance outstanding with Kaupthing Singer & Friedlander (KSF).*

Note: £184 million does not represent uncommitted resource the council has at its disposal. This amount includes council tax receipts held prior to forwarding to Oxfordshire County Council and the Police and Crime Commissioner for the Thames Valley, business rate receipts prior to payment to the government and committed capital and revenue balances. Details of the council's uncommitted balances are provided in the annual budget and council tax setting report.

33. The council holds as above, 89 per cent of its investments in the form of cash deposits, 81 per cent is invested for fixed terms with a fixed investment return and 8 per cent in liquid accounts, with the remainder held in non-cash deposits. Typically, the council restricts lending activity to UK institutions and the highest rated counterparties.

34. The council's considerations for investment will remain security, liquidity, and yield – in that order. Officers undertaking Treasury Management will work towards the optimum profile distribution.

Investment performance for the year to 30 November 2021.

35. The council's budgeted investment return for 2021/22 is £1.847 million, and the actual interest received to date is shown as follows:

Table 5: Investment interest earned by investment type				
			Interest Earned	
Investment type	**Annual Budget £000's**	**Actual to date £000's**	**Annual Forecast £000's**	**Forecast Variation £000's**
Fixed term and call cash	548	185	625	**77**
CCLA	288	138	217	**(71)**
Unit Trusts	388	352	352	**(36)**
Treasury Management Interest	**1,224**	**675**	**1,194**	**(30)**
SOHA	623	312	623	**0**
Total Interest	**1,847**	**987**	**1,817**	**(30)**

Borrowing Strategy 2022/23

36. The annual treasury management strategy has to set out details of the council's borrowing requirement, any maturing debt which will need to be re-financed, and the effect this will have on the treasury position over the next three years. This council currently has no external debt and in general, the council will borrow for one of two purposes;

- to support cash flow in the short-term;
- to fund capital investment over the medium to long term.

37. Any borrowing undertaken will be within the scope of the boundaries given in the prudential indicators shown in Table 2, which allow for the council to borrow up to a maximum of £30 million, if such a need arose. This also allows short-term borrowing for the cash flow management activities of the authority.

38. The council's current capital programme will primarily be financed from internal resources with a £5 million debt financing requirement anticipated in 2022/23 and a further need to borrow £10 million to finance capital expenditure in 2022/24. If borrowing is undertaken, then the council will be required by statute to set aside funds in the annual revenue budget to amortise the principal element of any borrowing – this is the MRP. There will also be a requirement to set aside revenue budget for the interest payments on any borrowing raised. Loans will generally be taken over the life of the assets being financed and amortised accordingly.

39. Any borrowing for capital financing purposes will be assessed by the Head of Finance to be prudent, sustainable and affordable

40. This strategy allows the Head of Finance to determine the most suitable repayment terms of any borrowing to demonstrate affordability and sustainability in the medium-term financial plan if required. As a general rule, the term of any borrowing will not be longer than the expected life of the capital asset being created.

Policy on borrowing in advance of need

41. The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and

will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

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

Annual investment strategy 2022/23

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

44. The Council's investment policy has regard to the following: -

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

45. The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

46. The primary aim of the council's investment strategy is to maintain the security and liquidity of its investments; yield or return on the investment will be a secondary consideration, subject to prudent security and liquidity. The council will ensure:

- It has sufficient liquidity in its investments to cover cash flow. For this purpose, it has set out parameters for determining the maximum periods for which funds may prudently be committed.

- It maintains a policy covering the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.

47. The strategy aims to provide a high degree of flexibility to take appropriate lending decisions, with a view to producing a portfolio with an even spread of maturity periods. This aim is to provide a more even and predictable investment return in the medium term.

48. The council's Head of Finance will ensure a counterparty list (a list of named institutions) is maintained in compliance with the recommended credit rating criteria (table 6) and will revise the criteria and submit any changes to the credit rating criteria to council for approval as necessary.

Investment types

49. The types of investment that the council can use are summarised below. These are split under the headings of ‘specified’ and ‘non-specified’ in accordance with the statutory guidance.

Specified investment instruments

50. These are high credit quality, sterling investments of not more than one-year maturity, or those where the council has the right to be repaid within 12 months if it wishes. These would include sterling investments with:

- UK government Debt Management Agency Deposit Facility (DMADF)
- UK government – treasury bills and Gilts with less than one year to maturity
- Deposits with UK local authorities
- Pooled investment vehicles (AAA rated)
- Deposits with banks and building societies (minimum F1/A- rated)

Non-specified investment instruments

51. These are any other type of investment (i.e. investments not defined as specified, above). Examples of non-specified investments include any sterling investments with:

- Supranational bonds of 1 to 10 years to maturity
- UK treasury stock (Gilts) with a maturity of 1 to 10 years
- Unrated building societies (minimum asset value £1 billion)
- Bank and building society cash deposits up to 5 years (minimum F1/A- rated)
- Deposits with UK local authorities up to 5 years to maturity
- Corporate bonds, Sovereign bonds, and covered bonds
- Pooled property, pooled bond funds and UK pooled equity funds
- Diversified Income Funds
- Multi-Asset Funds
- Ultra-Dated/Short dated bond Funds
- Non-UCITS Retail Schemes (NURS)

Approach to investing

52. The council holds approximately £70 million core cash balances which are available to invest for more than one year. This is expected to reduce over the medium term as the approved capital expenditure is incurred and to fund the revenue budget shortfall.

53. In addition, the council has funds that are available to deposit on a temporary basis. These sums are held pending payment over to another body, for example precept payments and council tax. As the balances fluctuate on a daily basis, instant access and notice accounts, money market funds and short-dated deposits are normally utilised for these funds, to ensure funds are available to meet cash flow commitments.

54. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates. Greater returns are usually obtainable by investing for longer periods. While most cash balances are required to

manage cash flow, where funds can be invested for longer periods, options will be carefully assessed.

55. If it is anticipated that Bank Rate is likely to rise significantly consideration will be given to keeping new deposits short term or variable. Conversely, if it is thought that Bank Rate is likely to fall within an investment time horizon, consideration will be given to locking in higher rates currently obtainable, for longer periods.

56. Officers will continue to provide tight controls on the investments placed. Where possible, opportunities to spread the investment risk over different types of instruments will be considered.

57. Should market conditions deteriorate suddenly to the extent that the council is unable to place money with institutions with the necessary credit rating, it may make use of the UK Government deposit account (DMADF).

58. The council has the authority to lend to other local authorities at market rates. Whilst investments with other local authorities are considered to be supported by central government, officers will consider the financial viability and sustainability of the individual local authority before including it on the councils list of approved counterparties.

59. In 2013/14 the council invested £5 million in the Churches Charities and Local Authorities pooled property investment fund (CCLA). Further investment in property funds will be considered during 2022/23.

60. During 2021 the council commissioned a review and health check of its treasury management activities. The assessment, which was undertaken by Link Treasury Services, considered the market conditions in which the council was operating, compared activity with other local authorities and considered the council's financial position and forecasts.

61. Following an evaluation of investment options available to the council, the council's advisors presented and discussed with officers their recommendations for continued effective and efficient management of the investment portfolio.

62. The independent assessment concluded that 'council officers had successfully invested on an active basis through the storm of the pandemic that swept through markets during 2020…The council's return steadily declined through the period under review, but it did manage to outperform other Local Authorities. This was driven by the councils' approach to laddering investments through a longer-term time horizon. However, as seen across the Local Authority investment landscape, a combination of maturing higher-yielding positions, increasingly low reinvestment rates and dwindling counterparty opportunities saw a sustainable decline in yields.'

63. Link Treasury Services advised that 'the balance sheet position of the Council would suggest that it may have further flexibility to invest in longer-focussed investment options to underpin performance over the medium term'. Following a review of the recommendations, it was considered that the use of Ultra Short Dated Bond Funds and longer dated bond funds could offer benefits for the council's cash investment portfolio.

64. Ultra Short Dated / Short Dated Bond Funds (USDBF / SDBFs) are fixed income funds with varying minimum suggested time horizons, ranging from a few weeks to over 12 months. They use a range of different asset classes for underlying investments and offer opportunities for diversification that the council would not be able to achieve itself.

65. USDBF/SDBF have a variable net asset value (VNAV). This means the assets are 'marked to market' (re-valued to current market value) on a daily basis and the fund unit price adjusted accordingly. Under this calculation basis the unit price fluctuates and could, therefore, be higher or lower than the original investment when it is redeemed.

66. The nature of USDBF/SDBFs vary, fund sizes range from around £50 million to several billion pounds. They are provided by a wide range of managers and utilise a range of different investment asset classes. Consequently, the nature and volatility of potential returns vary widely. In order to ensure that funds selected are appropriate for the council's investment portfolio and the nature and risks of funds are fully understood, the council will engage Link Treasury Services to support a fund selection exercise.

Counterparty selection

67. Treasury management risk is the risk of loss of capital to the council. To minimise this risk, the council uses credit rating information when considering who to lend to. Link Asset Services provide the council with credit rating updates from all three ratings agencies – Standard & Poors, Fitch and Moodys.

68. The council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies in evaluating investment opportunity. This is because adopting this approach could leave the council with too few counterparties for the strategy to be workable. Instead, whilst the council will have regard to the ratings provided by all three rating agencies, Fitch ratings will be used as the basis for setting minimum credit criteria and deriving counterparty investment limits.

69. Where counterparties fail to meet the minimum required criteria (Table 6 below) they will be omitted from the counterparty list. Any rating changes and rating watches (notification of a rating change under consideration) are provided to officers almost immediately after they occur, and this information is considered before any deal is entered into. Extreme market movements may result in a downgrade of an institution or removal from the council's lending list.

70. Additional requirements under the CIPFA Treasury Management Code require the council to supplement the credit rating data with operational market information such as credit default swaps (CDS), negative watches and outlooks, which are considered when assessing the security of counterparties. This additional information is used so that the council does not rely solely on the current credit ratings of counterparties.

71. Where it is felt the council would benefit from utilising government guarantees provided by countries with an AAA rating, the council may lend to institutions covered by such guarantees. Any decision to lend in this way will be subject to consultation with the agreement of the cabinet member responsible for finance.

Country and sector considerations

72. The council has determined that it will only use approved counterparties outside the UK from countries with a minimum sovereign credit rating of AA- from Fitch Ratings. This change from the previous AAA rating is in line with the current Fitch Sovereign rating for the UK. This is to enable deposits to be placed with foreign financial institutions with higher, or equivalent credit ratings to UK banks on the approved counterparty list.

Counterparty limits

73. In the normal course of the council's cash flow operations, it is expected that both specified and non-specified investments will be used for the control of liquidity. Guidance states that specified investments are those requiring "minimal procedural formalities". The placing of cash on deposit with banks and building societies 'awarded high credit ratings by a credit rating agency', the use of Money Market Funds (MMFs) and investments with the UK Government and local authorities qualify as falling under this category and form a normal part of day-to-day treasury management activity.

74. All specified investments will be sterling denominated, with maturities up to a maximum of one year, meeting the 'high' credit rating criteria where applicable.

75. Non-specified investment products are those which take on greater risk. They are subject to greater scrutiny and include all longer term instruments (greater than one year from inception to repayment). The council will lend to institutions that meet the criteria outlined in table 6 below:

76. The counterparty limits apply at the time investments are arranged. Where the council has deposits on instant access, this limit may temporarily be exceeded by the accrual and application of interest or dividends into accounts such as call accounts, money market funds, or notice accounts. Where the application of interest causes the balance with a counterparty to exceed the agreed limits, the balance will be reduced when appropriate, dependent upon the terms and conditions of the account and the cashflow position.

77. The counterparty limits apply to the net cash value of units purchased and sold at the time of investment, or disinvestment, in pooled and managed funds. The limits will not apply to the value of accumulated or reinvested investment returns.

Table 6: Counterparty Limits

	Minimum Fitch Short term Rating (or equivalent)	Minimum Fitch Long term Rating (or equivalent)	Individual Counterparty Limit	Maximum maturity period	Maximum % of total investments
Specified Instruments					
Term Deposits - UK Government	N/A			1 year	100%
UK Debt Management Agency Deposit Facility					
UK Government Treasury Bills					
UK Government Gilts					
Term Deposits - Other UK Local Authorities	N/A	N/A	£20m		
Term Deposits - Banks and Building Societies	F1	A-	£15m		
Covered Bonds	N/A	A+	£5m		
Money Market Funds (CNAV)	Fund Rating AAA		£30m	Liquid	
Ultra Short Dated Bond Funds			£20m	Liquid	
Non-Specified Instruments					
Term Deposits 1yr + - UK Government	N/A	N/A	N/A	5 years	100%
Term Deposits 1yr + - Other UK Local Authorities	N/A	N/A	£20m	5 years	100%
Banks - part nationalised UK	N/A	N/A	£20m	4 years	100%
Institutions with a minimum rating:	F1+	AA-	£15m	4 years	70%
Institutions with a minimum rating:	F1+	A+	£15m	3 years	70%
Institutions with a minimum rating:	F1	A	£15m	2 years	70%
Institutions with a minimum rating:	F1	A-	£15m	1 year	70%
Building Societies	F2	BBB+	£15m	1 year	70%
Building societies assets >£5bn	N/A	N/A	£13m	1 year	70%
Building societies assets >£3bn	N/A	N/A	£11m	1 year	60%
Building societies assets >£1bn	N/A	N/A	£9m	1 year	50%
Banks - house bank	N/A	N/A	£5m	3 months	20%
Managed Funds					
Money Market funds (LVNAV & VNAV)	Fund Rating AAA		£20m	Liquid	70%
Unit Trusts	Use of these instruments can be deemed capital expenditure. The council will seek guidance on the status of any fund it may consider using. Appropriate due diligence will also be undertaken before investment of this type is undertaken.		£20m	Variable	20%
Pooled Bond Funds			£15m	Variable	15%
Pooled property funds			£10m	Variable	15%
Non-UCITS Retail Scheme (NURS)			£5m	Variable	50%
Diversified Income Funds			£10m	Variable	15%
Multi - Asset Funds			£10m	Variable	15%
Equity Funds			£10m	Variable	20%
Tradable Instruments					
UK Government Gilts with maturities over 1yr		UK sovereign	£15m	15 years	10%
Supranationals		AAA	£10m	15 years	20%
Corporate Bonds		AA-	£5m	5 years	10%
Covered Bonds maturities over 1yr		AA-	£5m	5 years	10%
Bonds issued by Multilateral Development banks		AA-	£5m	5 years	10%
Sovereign Bond Issues		AA-	£5m	5 years	10%

78. The criteria for choosing counterparties provides a sound approach to investment. Whilst councillors are asked to approve the criteria in table 6, under exceptional market conditions the Head of Finance may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval.

79. On 31 March 2020 the Head of Finance waived financial procedure rule 53 and allowed the councils to over-ride their counter party limits for money market funds. This was to allow the councils to deal with the receipt of unprecedented levels of government grant funding to fund the business grant schemes administered by the councils on behalf of the government.

80. Delegation 2.7 of the council constitutions allows the Head of Finance, in consultation with the cabinet member for finance, to raise counterparty limits by £3,000,000 within a financial year.

81. Due to the increase in cash flow peak levels the increased limits have been required throughout 2020/21 and 2021/22 and as it is anticipated that they will continue to be required during 2022/23, the increases have been incorporated in to the counterparty table and are regarded as permanent.

Fund managers

82. The council does not currently employ any discretionary external fund managers. However, in the event of such an appointment, appointees will comply with this and subsequent treasury strategies. This strategy empowers the Section 151 officer to appoint such an external manager to manage a proportion of the council's investment portfolio if this is advantageous.

Risk and Performance Benchmarks

83. A requirement of the Code is that security and liquidity benchmarks are considered and approved. This is in addition to yield benchmarks which are used to assess performance. The benchmarks are guidelines (not limits) so may be breached depending on the movement in interest rates and counterparty criteria. Their purpose is to allow officers to monitor the current trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported, with an explanation in the mid-year or annual report to audit and governance committee. Detailed information for the assessment of risk is shown in appendix C.

84. Performance indicators are set to assess the adequacy of the treasury function over the year. These are distinct historic performance indicators, as opposed to the predominantly forward-looking prudential indicators. The indicators used to assess the performance of the treasury function are:

- Cash investments – 3-month compounded SONIA rate.
- Property related investments – IPD Balance Property Unit Trust Index.

85. The results of these indicators will be reported in both the annual mid-year and year-end treasury reports.

Policy on the use of treasury management advisors

86. The council has a joint contract with Vale of White Horse District Council for treasury management advice, which is currently supplied by Link Asset Services. A range of services are provided and include:

- technical support on treasury matters, capital finance issues, statutory reports;
- economic forecasts and interest rate analysis;
- credit ratings / market information service involving the three-main credit rating agencies;
- strategic advice including a review of the investment and borrowing strategies and policy documents;
- treasury management training.

87. The council recognises that responsibility for treasury management decisions always remains with the organisation and will ensure that undue reliance is not placed upon external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills, resources and up to date market information.

Treasury management scheme of delegation and the role of the Section 151 officer

88. **Council**

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

89. **Joint Audit and Governance Committee/ Cabinet**

- approval of/amendments to the organisation’s adopted clauses, treasury management policy statement and treasury management practices;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- Ensuring effective scrutiny of the treasury management function

90. **Section 151 Officer/Head of Finance**

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- Approving the selection of external service providers and agreeing terms of appointment.

91. The above list of specific responsibilities of the S151 officer in the 2017 Treasury Management Code has not changed. However, implicit in the changes in both codes, is a major extension of the functions of this role, especially in respect of non-financial investments, (which CIPFA has defined as being part of treasury management), (See Appendix G).

Summary

92. Prior to the beginning of each financial year the council must approve the treasury management strategy. The strategy sets the parameters within which officers can manage the council's cash flows and invest any surplus fund.

93. This strategy provides a commentary on the current financial climate and sets out the council's lending strategy in response to this.

Appendix B

ECONOMIC BACKGROUND – Provided by Link Treasury Services

COVID-19 vaccines.

These were the game changer during 2021 which raised high hopes that life in the UK would be able to largely return to normal in the second half of the year. However, the bursting onto the scene of the Omicron mutation at the end of November, rendered the initial two doses of all vaccines largely ineffective in preventing infection. This has dashed such hopes and raises the spectre again that a fourth wave of the virus could overwhelm hospitals in early 2022. What we now know is that this mutation is very fast spreading with the potential for total case numbers to double every two to three days, although it possibly may not cause so much severe illness as previous mutations.

Rather than go for full lockdowns which heavily damage the economy, the government strategy this time is focusing on getting as many people as possible to have a third (booster) vaccination after three months from the previous last injection, as a booster has been shown to restore a high percentage of immunity to Omicron to those who have had two vaccinations. There is now a race on between how quickly boosters can be given to limit the spread of Omicron, and how quickly will hospitals fill up and potentially be unable to cope. In the meantime, workers have been requested to work from home and restrictions have been placed on large indoor gatherings and hospitality venues.

With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in sectors like restaurants, travel, tourism and hotels which had been hit hard during 2021, but could now be hit hard again by either, or both, of government restrictions and/or consumer reluctance to leave home.

Growth will also be lower due to people being ill and not working, similar to the pingdemic in July. The economy, therefore, faces significant headwinds although some sectors have learned how to cope well with Covid. However, the biggest impact on growth would come from another lockdown if that happened.

The big question still remains as to whether any further mutations of this virus could develop which render all current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread until tweaked vaccines become widely available.

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- In December, the Bank of England became the first major western central bank to put interest rates up in this upswing in the current business cycle in western economies as recovery progresses from the Covid recession of 2020.
- The next increase in Bank Rate could be in February or May, dependent on how severe an impact there is from Omicron.
- If there are lockdowns in January, this could pose a barrier for the MPC to putting Bank Rate up again as early as 3rd February.
- With inflation expected to peak at around 6% in April, the MPC may want to be seen to be active in taking action to counter inflation on 5th May, the release date for its Quarterly Monetary Policy Report.
- The December 2021 MPC meeting was more concerned with combating inflation over the medium term than supporting economic growth in the short term.
- Bank Rate increases beyond May are difficult to forecast as inflation is likely to drop sharply in the second half of 2022.

- However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next down-turn; all rates under 2% are providing stimulus to economic growth.
- We have put year end 0.25% increases into Q1 of each financial year from 2023 to recognise this upward bias in Bank Rate - but the actual timing in each year is difficult to predict.
- Covid remains a major potential downside threat in all three years as we ARE likely to get further mutations.
- How quickly can science come up with a mutation proof vaccine, or other treatment, – and for them to be widely administered around the world?
- Purchases of gilts under QE ended in December. Note that when Bank Rate reaches 0.50%, the MPC has said it will start running down its stock of QE.

MPC MEETING 16H DECEMBER 2021

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

- The MPC disappointed financial markets by not raising Bank Rate at its November meeting. Until Omicron burst on the scene, most forecasters, therefore, viewed a Bank Rate increase as being near certain at this December meeting due to the way that inflationary pressures have been comprehensively building in both producer and consumer prices, and in wage rates. However, at the November meeting, the MPC decided it wanted to have assurance that the labour market would get over the end of the furlough scheme on 30th September without unemployment increasing sharply; their decision was, therefore, to wait until statistics were available to show how the economy had fared at this time.

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

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

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

- **On 15th December we had the CPI inflation** figure for November which spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, Omicron also caused a sharp fall in world oil and other commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies).

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

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

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

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

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

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

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

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

- **The MPC's forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -
  - Raising Bank Rate as "the active instrument in most circumstances".
  - Raising Bank Rate to 0.50% before starting on reducing its holdings.
  - Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
  - Once Bank Rate had risen to at least 1%, it would start selling its holdings.

- **US.** Shortages of goods and intermediate goods like semi-conductors, have been fuelling increases in prices and reducing economic growth potential. In November, **CPI inflation hit a near 40-year record level of 6.8%** but with energy prices then falling sharply, this is probably the peak. The biggest problem for the Fed is the mounting evidence of a strong pick-up in cyclical price pressures e.g., in rent which has hit a decades high.

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

- Inflation hitting 6.8% and the feed through into second round effects, meant that it was near certain that the **Fed's meeting of 15th December** would take aggressive action against inflation. Accordingly, the rate of tapering of monthly $120bn QE purchases announced at its November 3rd meeting. was doubled so that all purchases would now finish in February 2022. In addition, Fed officials had started discussions on running down the stock of QE held by the Fed. Fed officials also expected three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy.

- The first increase could come as soon as March 2022 as the chairman of the Fed stated his view that the economy had made rapid progress to achieving the other goal of the Fed – “maximum employment”. The Fed forecast that inflation would fall from an average of 5.3% in 2021 to 2.6% in 2023, still above its target of 2% and both figures significantly up from previous forecasts. What was also significant was that this month the Fed dropped its description of the current level of inflation as being “transitory” and instead referred to “elevated levels” of inflation: the statement also dropped most of the language around the flexible average inflation target, with inflation now described as having exceeded 2 percent “for some time”. It did not see Omicron as being a major impediment to the need to take action now to curtail the level of inflationary pressures that have built up, although Fed officials did note that it has the potential to exacerbate supply chain problems and add to price pressures.

  See also comments in paragraph 3.3 under PWLB rates and gilt yields.

- **EU.** The slow role out of vaccines initially delayed **economic recovery** in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Q1, Q2 came in with strong growth of 2%. With Q3 at 2.2%, the EU recovery was then within 0.5% of its pre Covid size. However, the arrival of Omicron is now a major headwind to growth in quarter 4 and the expected downturn into weak growth could well turn negative, with the outlook for the first two months of 2022 expected to continue to be very weak.

- **November’s inflation figures** breakdown shows that the increase in price pressures is not just due to high energy costs and global demand-supply imbalances for durable goods as services inflation also rose. Headline inflation reached 4.9% in November, with over half of that due to energy. However, oil and gas prices are expected to fall after the winter and so energy inflation is expected to plummet in 2022.

- Core goods inflation rose to 2.4% in November, its second highest ever level, and is likely to remain high for some time as it will take a long time for the inflationary impact of global imbalances in the demand and supply of durable goods to disappear. Price pressures also increased in the services sector, but wage growth remains subdued and there are no signs of a trend of faster wage growth which might lead to *persistently* higher services inflation - which would get the ECB concerned. The upshot is that the euro-zone is set for a prolonged period of inflation being above the ECB’s target of 2% and it is likely to average 3% in 2022, in line with the ECB’s latest projection.

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

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

- The EU has entered into a **period of political uncertainty** where a new German government formed of a coalition of three parties with Olaf Scholz replacing Angela Merkel as Chancellor in December 2021, will need to find its feet both within the EU and in the three parties successfully working together.

- In France there is a presidential election coming up in April 2022 followed by the legislative election in June. In addition, Italy needs to elect a new president in January with Prime Minister Draghi being a favourite due to having suitable gravitas for this post. However, if he switched office, there is a significant risk that the current government coalition could collapse. That could then cause differentials between Italian and German bonds to widen when 2022 will also see a gradual running down of ECB support for the bonds of weaker countries within the EU. These political uncertainties could have repercussions on economies and on Brexit issues.

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

- However, the pace of economic growth has now fallen back in **2021** after this initial surge of recovery from the pandemic and looks likely to be particularly weak in 2022. China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. Chinese consumers are also being very wary about leaving home and so spending money on services. However, with Omicron having now spread to China, and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove so successful in future. In addition, the current pace of providing boosters at 100 billion per month will leave much of the 1.4 billion population exposed to Omicron, and any further mutations, for a considerable time.

- The **People's Bank of China** made a start in December 2021 on cutting its key interest rate marginally so as to stimulate economic growth. However, after credit has already expanded by around 25% in just the last two years, it will probably leave the heavy lifting in supporting growth to fiscal stimulus by central and local government.

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

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

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

- **WORLD GROWTH.** World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum in the second half of the year, though overall growth for the year is expected to be about 6% and to be around 4-5% in 2022. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022.

- While headline inflation will fall sharply, core inflation will probably not fall as quickly as central bankers would hope. It is likely that we are heading into a period where there will be a **reversal of world globalisation** and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

- **SUPPLY SHORTAGES**. The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains. Major queues of ships unable to unload their goods at ports in New York, California and China built up rapidly during quarters 2 and 3 of 2021 but then halved during quarter 4. Such issues have led to a misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries.

- The latest additional disruption has been a shortage of coal in China leading to power cuts focused primarily on producers (rather than consumers), i.e., this will further aggravate shortages in meeting demand for goods. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods available to purchase.

Appendix C

Benchmarking and Monitoring Security, Liquidity and Yield in the Investment Service.

1. These benchmarks are targets and so may be exceeded from time to time. Any variation will be reported, along with supporting reasons, in the Annual Treasury Report.

2. **Yield**.

This council will use an investment benchmark to assess the performance of cash investments of three month SONIA. Property related investments are benchmarked against the IPD Balanced Property Unit Trust Index.

3. **Liquidity**.

Liquidity is defined as the council "having adequate, though not excessive, cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives" (CIPFA Treasury Management Code of Practice).

4. In respect of this area, the council shall seek to:

- maintain a minimal balance held in the council's main bank account at the close of each working day. Transfers to the councils call accounts, MMF and investments will be arranged in order to achieve this, while maintaining access to adequate working capital at short notice.

- use the authorised bank overdraft facility or short term borrowing where there is clear business case for doing so, to cover working capital requirements at short notice

5. **Security of the investments**.

In the context of benchmarking, assessing security is very much more a subjective area to assess. Security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody's and Standard and Poor's). Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic.

One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. The table beneath shows average defaults for differing periods of investment grade products for each Fitch long term rating category over the last 20-30 years.

Average defaults for differing periods of investment

Long term rating	1 year	2 years	3 years	4 years	5 years
AA	0.02%	0.04%	0.09%	0.16%	0.23%
A	0.05%	0.14%	0.26%	0.38%	0.54%
BBB	0.14%	0.38%	0.66%	1.01%	1.36%

6. The council’s minimum long term (i.e. plus 365 day duration) rating criteria is currently “A-”. For comparison, the average expectation of default for a two year investment in a counterparty with an “A” long term rating would be 0.14 per cent of the total investment (e.g. for a £1m investment the average loss would be £1,400). **This is an average** - any specific counterparty loss is likely to be higher. These figures act as a proxy benchmark for risk across the portfolio.

Appendix D

Explanation of Prudential and Treasury Indicators

Prudential borrowing permits local government organisations to borrow to fund capital spending plans provided they could demonstrate their affordability. Prudential indicators are the means to demonstrate affordability.

Authorised limit for external debt – this is the maximum limit for external borrowing. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. This limit is set to allow sufficient headroom for day-to-day operational management of cash flows.

Operational boundary for external debt – this is set as the more likely amount that may be required for day-to-day cash flow.

Upper limit for fixed and variable interest rate exposure – these limits allow the council flexibility in its investment and borrowing options.

Upper limit for total principal sums invested for over 365 days – the amount it is considered can be prudently invested for periods in excess of a year

Appendix E

Treasury Management Practice (TMP) 1 – credit and counterparty risk management

The CLG issued Investment Guidance in 2010, and this forms the structure of the council's policy below.

The key aim of the guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective, the guidance requires this council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. In accordance with the code, the Interim Head of Finance has produced its treasury management practices (TMPs). This part, TMP1(1), covering investment counterparty policy requires approval each year

The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- the strategy guidelines for decision making on investments, particularly non-specified investments.
- the principles to be used to determine the maximum periods for which funds can be committed.
- specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

- UK government Debt Management Agency Deposit Facility (DMADF)
- UK government – treasury stock (Gilts) with less than one year to maturity
- Supranational bonds of less than one year's duration
- Deposits with UK local authorities
- Pooled investment vehicles such as Money Market Funds (MMF) (AAA rated)
- Deposits with banks and building societies (minimum F1/A-)
- Certificates of deposits issued by banks and building societies (minimum rating as above) covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's and / or Fitch rating agencies.

Within these bodies, and in accordance with the Code, the council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are as stated in table 6 to this report.

Non-specified investments
These are any other type of investment (i.e. not defined or specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are as set out in Table 6.

Implementation in 2018/19
In December 2017, CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code. These revisions have particularly focused on non-treasury investments and especially on the purchase of property with a view to generating income. Such purchases could involve undertaking external borrowing to raise the cash to finance these purchases, or the use of existing cash balances.

The 2017 CIPFA Code of Practice on Treasury Management abolished the treasury indicators on limits for fixed and variable rate exposure. However, this was on the basis that authorities would explain in words how they control interest rate risk.

IFRS 9
Risk management will need to take account of the 2018/19 Accounting Code of Practice proposals for the valuation of investments. Key considerations are:

- Expected credit loss model. Whilst this should not be material for ordinary treasury investments such as bank deposits, this is likely to be challenging for some funds e.g. property funds, (and also for non-treasury management investments dealt with in the capital strategy e.g. longer dated service investments, loans to third parties or loans to subsidiaries).
- The valuation of investments previously valued under the available for sale category e.g. equity related to the “commercialism” agenda, property funds, equity funds and similar, will be changed to Fair Value through the Profit and Loss (FVPL).

Following the consultation undertaken by the then Ministry of Housing, Communities and Local Government, [MHCLG], on IFRS9 the Government has introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This will be effective from 1 April 2018. The statutory override applies for five years from this date. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

Appendix F

Extension to the specific responsibilities of the S151 officer as per the Treasury Management code

The below list of specific responsibilities of the S151 officer in the 2017 Treasury Management Code has not changed. However, implicit in the changes in both codes, is a major extension of the functions of this role, especially in respect of non-financial investments, (which CIPFA has defined as being part of treasury management);

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe.
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following
    - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*

    - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*

    - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*

    - *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*

- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

Appendix G

GLOSSARY OF TERMS

Authorised Limit	The maximum amount of external debt at any one time in the financial year.
Basis Point (BP)	1/100th of 1%, i.e. 0.01%
Base Rate	Minimum lending rate of a bank or financial institution in the UK.
Benchmark	A measure against which the investment policy or performance of a fund manager can be compared.
Bill of Exchange	A financial instrument financing trade.
Callable Deposit	A deposit placed with a bank or building society at a set rate for a set amount of time. However, the borrower has the right to repay the funds on pre-agreed dates, before maturity. This decision is based on how market rates have moved since the deal was agreed. If rates have fallen the likelihood of the deposit being repaid rises, as cheaper money can be found by the borrower.
Cash Fund Management	Fund management is the management of an investment portfolio of cash on behalf of a private client or an institution, the receipts and distribution of dividends and interest, and all other administrative work in connection with the portfolio.
Certificate of Deposit (CD)	Evidence of a deposit with a specified bank or building society repayable on a fixed date. They are negotiable instruments and have a secondary market; therefore, the holder of a CD is able to sell it to a third party before the maturity of the CD.
Commercial Paper	Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations and other borrowers. Such instruments are unsecured and usually discounted, although some may be interest bearing.
Corporate Bond	Strictly speaking, corporate bonds are those issued by companies. However, the term is used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
Counterparty	Another (or the other) party to an agreement or other market contract (e.g. lender/borrower/writer of a swap/etc.)
CDS	Credit Default Swap – a swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap.
CFR	Capital Financing Requirement.
CIPFA	Chartered Institute of Public Finance and Accountancy.
Derivative	A contract whose value is based on the performance of an underlying financial asset, index or other investment, e.g. an option is a derivative because its value changes in relation to the performance of an underlying stock.
DMADF	Deposit Account offered by the Debt Management Office, guaranteed by the UK government.

ECB	European Central Bank – sets the central interest rates in the EMU area. The ECB determines the targets itself for its interest rate setting policy; this is the keep inflation within a band of 0 to 2 per cent. It does not accept that monetary policy is to be used to manage fluctuations in unemployment and growth caused by the business cycle.
Enhanced Cash Funds	A pooled investment fund. Longer dated investment than a MMF and, unlike a MMF, enhanced cash funds have variable asset value. Assets are marked to market on a daily basis and the unit prices vary accordingly. Investments can be withdrawn on a notice basis (the length of which depends on the fund) although such funds would typically be used for investments of 3 to 6 month duration.
Equity	A share in a company with limited liability. It generally enables the holder to share in the profitability of the company through dividend payments and capital gain.
Forward Deal	The act of agreeing today to deposit funds with an institution for an agreed time limit, on an agreed future date, at an agreed rate.
Forward Deposits	Same as forward dealing (above).
Fiscal Policy	The government policy on taxation and welfare payments.
GDP	Gross Domestic Product.
Gilt	Registered British government securities giving the investor an absolute commitment from the government to honour the debt that those securities represent.
Mark to Market Accounting	Accounting on the basis of the “fair value” of an asset or liability, based on the current market price. As a result, values will change with market conditions.
Minimum Revenue Provision	This is a prudent sum set aside each year to offset the principal repayment of any loan to smooth the impact on the local taxpayer.
Money Market Fund	A well rated, highly diversified pooled investment vehicle whose assets mainly comprise of short-term instruments. It is very similar to a unit trust, however a MMF relies on loans to companies rather than share holdings.
Monetary Policy Committee (MPC)	Government body that sets the bank rate (commonly referred to as being base rate). Their primary target is to keep inflation within plus or minus 1 per cent of a central target of 2.5 per cent in two years’ time from the date of the monthly meeting of the committee. Their secondary target is to support the government in maintaining high and stable levels of growth and employment.
Non-UCITS Retail Scheme (NURS) –	Undertakings for collective investments are funds authorised to be sold in the UK that are required to meet standards set by the UK services regulator. An example is property funds.
Operational Boundary	The most likely, prudent but not worst-case scenario of external debt at any one time.
Other Bonds	Pooled funds investing in a wide range of bonds.
PWLB	Public Works Loan Board.
QE	Quantitative Easing.
Retail Price Index	Measurement of the monthly change in the average level of prices at the retail level weighted by the average expenditure pattern of the average person.

Sovereign Issues (Ex UK Gilts)	Bonds issued or guaranteed by nation states, but excluding UK government bonds.
Supranational Bonds	Bonds issued by supranational bodies, e.g. European Investment Bank. The bonds – also known as Multilateral Development Bank bonds – are generally AAA rated and behave similarly to gilts, but pay a higher yield (“spread”) given their relative illiquidity when compared with gilts.
Treasury Bill	Treasury bills are short-term debt instruments issued by the UK or other governments. They provide a return to the investor by virtue of being issued at a discount to their final redemption value.