**APPENDIX C**

## ANNUAL INVESTMENT STRATEGY

### 1.0 Investment policy – management of risk

1.1 The DLUHC and CIPFA have extended the meaning 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, (**APPENDIX E**).

1.2 The County 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"); and
- CIPFA Treasury Management Guidance Notes 2018.

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

1.3 The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. The County Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

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

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

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

d) The County Council has defined the list of types of investment instruments that the treasury management team are authorised to use.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through

to maturity i.e. an 18 month deposit would still be non-specified even if it has only 11 months left until maturity.

e) **Non-specified investments limit.** The County Council has determined that it will limit the maximum total exposure to non-specified investments as being 20% of the total investment portfolio, (£40m).

f) **Lending limits**, (amounts and maturity), for each counterparty will be set.

g) The County Council will set a limit for the amount of its investments which are invested for **longer than 365 days**,

h) Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**,

i) The County Council has engaged **external consultants**, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of the County Council in the context of the expected level of cash balances and need for liquidity throughout the year.

j) All investments will be denominated in **sterling**.

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

1.4 However, the County Council will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

## 2.0 Changes in risk management policy from last year

2.1 The above criteria are unchanged from last year.

## 3.0 Creditworthiness policy

3.1 The County Council applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- "watches" and "outlooks" from credit rating agencies;
- CDS spreads that may give early warning of likely changes in credit ratings; and
- sovereign ratings to select counterparties from only the most creditworthy countries.

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

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

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

3.4 All credit ratings will be monitored daily. The County Council is alerted to changes to ratings of all three agencies through its use of the Link Group creditworthiness service.

3.5 If a downgrade results in the counterparty / investment scheme no longer meeting the County Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

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

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

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

3.9 Although bank CDS prices, (these are market indicators of credit risk), spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

## 4.0 Country limits

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

4.2 **Non-specified investment limit.** The County Council has determined that it will limit the maximum total exposure to non-specified investments as being 20% of the total investment portfolio.

4.3 **Country limit.** The County Council has determined that it will only use approved counterparties from the UK and from non-UK countries with a minimum sovereign credit rating of *AA-* from

Fitch. The list of countries that qualify using these credit criteria as at the date of this report is shown in **Schedule 5**. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy

## 5.0 Investment strategy

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

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

5.2 **Investment returns expectations.** The current interest rate forecast includes a forecast for a first increase in Bank Rate in May 2022.

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

| Year | Budget % |
|---|---|
| 2022/23 | 0.30 |
| 2023/24 | 0.65 |
| 2024/25 | 0.90 |

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

## 6.0 Investment performance / risk benchmarking

6.1 The County Council will use an investment benchmark to assess the investment performance of its investment portfolio of Bank of England Base Rate.

## 7.0 End of year investment report

7.1 At the end of the financial year, the County Council will report on its investment activity as part of its Annual Treasury Report.

SCHEDULES

1. Treasury Management Policy Statement
2. Prudential Indicators Update for 2022/23 to 2024/25
3. Economic background
4. Specified and Non Specified Investments
5 Approved Lending List
6. Approved countries for investments

**SCHEDULE 1**

# NORTH YORKSHIRE COUNTY COUNCIL

## TREASURY MANAGEMENT POLICY STATEMENT

### 1.0 INTRODUCTION AND CONTEXT

1.1 2022/23 is the final year for establishing a Treasury Management Policy Statement for the County Council given that the new unitary council for North Yorkshire will come into effect from 1 April 2023. The production of an emerging "shadow" policy for the new unitary council, an aggregation of the future projections of all 8 councils, will become the start position for the new unitary North Yorkshire Council.

1.2 The County Council has adopted the **CIPFA Code of Practice on Treasury Management in the Public Services** as updated in 2017. This Code sets out a framework of operating procedures to reduce treasury risk and improve understanding and accountability regarding the Treasury position of the County Council.

1.3 The CIPFA Code of Practice on Treasury Management requires the County Council to adopt the following four clauses of intent:

a) the County Council will create and maintain as the cornerstone for effective Treasury Management

   i. a strategic **Treasury Management Policy Statement** (TMPS) stating the policies, objectives and approach to risk management of the County Council to its treasury management activities;

   ii. a framework of suitable **Treasury Management Practices** (TMPs) setting out the manner in which the County Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities. The Code recommends 12 TMPs;

b) the County Council delegates responsibility for the implementation and regular monitoring of its Treasury Management policies and practices to the Executive and for the execution and administration of Treasury Management decisions to the Corporate Director – Strategic Resources who will act in accordance with the Council's TMPS, TMPs, as well as CIPFA's Standard of Professional Practice on Treasury Management;

c) the County Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategies and Policies; and

d) the County Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategies and Policies.

1.4 The **CIPFA Prudential Code for Capital Finance in Local Authorities** (updated in 2017) and the terms of the **Local Government Act 2003**, together with 'statutory' Government Guidance, establish further requirements in relation to treasury management matters, namely

a) the approval, on an annual basis, of a set of **Prudential Indicators**; and

b) approval, on an annual basis, of an **Annual Treasury Management Strategy**, an **Annual Investment Strategy**, an annual **Minimum Revenue Provision (MRP)** policy statement and a **Capital Strategy** with an associated requirement that each is monitored on a regular basis with a provision to report as necessary both in-year and at the financial year end.

1.5 This current Treasury Management Policy Statement (TMPS) was approved by County Council on 16 February 2022.

## 2.0 TREASURY MANAGEMENT POLICY STATEMENT (TMPS)

2.1 Based on the requirements detailed above a TMPS stating the policies and objectives of the treasury management activities of the County Council is set out below.

2.2 The County Council defines the policies and objectives of the treasury management activities of the County Council as follows: -

a) the management of the County Council'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;

b) the identification, monitoring and control of risk will be the prime criteria by which the effectiveness of the treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the County Council and any financial instrument entered into to manage these risks; and

c) effective treasury management will provide support towards the achievement of the business and service objectives of the County Council as expressed in the Council Plan. The County Council is committed to the principles of achieving value for many in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

2.3 As emphasised in the Treasury Management Code of Practice, responsibility for risk management and control of Treasury Management activities lies wholly with the County Council and all officers involved in Treasury Management activities are explicitly required to follow Treasury Management policies and procedures.

## 3.0 TREASURY MANAGEMENT PRACTICES (TMPs)

3.1 The CIPFA Code of Practice on Treasury Management requires a framework of Treasury Management Practices (TMPs) which:

a) set out the manner in which the County Council will seek to achieve the policies and objectives; and

b) prescribe how the County Council will manage and control those activities;

3.2 The CIPFA Code of Practice recommends 12 TMPs. A list of the 12 TMPs is as follows: -

| | |
|---|---|
| TMP 1 | Risk management |
| TMP 2 | Performance measurement |
| TMP 3 | Decision-making and analysis |
| TMP 4 | Approved instruments, methods and techniques |
| TMP 5 | Organisation, clarity and segregation of responsibilities, and dealing arrangements |
| TMP 6 | Reporting requirements and management information arrangements |
| TMP 7 | Budgeting, accounting and audit arrangements |
| TMP 8 | Cash and cash flow management |
| TMP 9 | Money Laundering |
| TMP 10 | Training and qualifications |
| TMP 11 | Use of external service providers |
| TMP 12 | Corporate governance |

## 4.0 PRUDENTIAL INDICATORS

4.1 The Local Government Act 2003 underpins the Capital Finance system introduced on 1 April 2004 and requires the County Council to "have regard to" the **CIPFA Prudential Code for Capital Finance in Local Authorities**. This Code which was last updated in December 2017, requires the County Council to set a range of Prudential Indicators for the next three years

a) as part of the annual Budget process, and;

b) before the start of the financial year;

to ensure that capital spending plans are affordable, prudent and sustainable.

4.2 The Prudential Code also requires appropriate arrangements to be in place for the monitoring, reporting and revision of Prudential Indicators previously set.

The required Prudential Indicators are as follows:-

- Capital Expenditure - Actual and Forecasts
- estimated ratio of capital financing costs to the Net Revenue Budget
- Capital Financing Requirement
- Gross Debt and the Capital Financing Requirement
- authorised Limit for External Debt
- operational Boundary for External Debt
- Actual External Debt
- Maturity Structure of Borrowing
- Total Principal Sums Invested for periods longer than 365 days

4.3 The County Council will approve the Prudential Indicators for a three year period alongside the annual Revenue Budget/Medium Term Financial Strategy at its February meeting each year. The Indicators will be monitored during the year and necessary revisions submitted as necessary via the Quarterly Performance and Budget Monitoring reports.

4.4 In addition to the above formally required Prudential Indicators, the County Council has also set two local ones as follows:

a) to cap Capital Financing costs to 10% of the net annual revenue budget; and

b) a 30% limit on money market borrowing as opposed to borrowing from the Public Works Loan Board.

## 5.0 ANNUAL TREASURY MANAGEMENT AND INVESTMENT STRATEGY

5.1 A further implication of the Local Government Act 2003 is the requirement for the County Council to set out its Treasury Management Strategy for borrowing and to approve an Annual Investment Strategy (which sets out the County Council's policies for managing its investments and for giving priority to the security and liquidity of those investments).

5.2 The Government's guidance on the Annual Investment Strategy, updated in February 2018, states that authorities can combine the Treasury Management Strategy Statement and Annual Investment Strategy into one report. The County Council has adopted this combined approach.

5.3 Further statutory Government guidance, last updated with effect from February 2018, is in relation to an authority's charge to its Revenue Budget each year for debt repayment. A Minimum Revenue Provision (MRP) policy statement must be prepared each year and submitted to the full Council for approval before the start of the financial year.

5.4 The County Council will approve this combined Annual Strategy alongside the annual Revenue Budget/Medium Term Financial Strategy at its February meeting each year.

## 6.0 **REVIEW OF THIS POLICY STATEMENT**

6.1 Under Financial Procedure Rule 14, the Corporate Director – Strategic Resources is required to periodically review this Policy Statement and all associated documentation. A review of this Statement, together with the associated annual strategies, will therefore be undertaken annually as part of the Revenue Budget process, together with a mid year review as part of the Quarterly Treasury Management reporting process and at such other times during the financial year as considered necessary by the Corporate Director – Strategic Resources.

Approved by County Council
16 February 2022

**SCHEDULE 2**

# PRUDENTIAL INDICATORS UPDATE – FOR 2022/23 TO 2024/25

| CAPITAL EXPENDITURE & EXTERNAL DEBT INDICATORS | Comment |
|---|---|

**1 Estimated Ratio of capital financing costs to the net Revenue Budget**

**(a) *Formally required Indicator***

This reflects capital financing costs (principal plus interest) on external debt plus PFI and finance leasing charges less interest earned on the temporary investment of cash balances.

The estimated ratios of financing costs to the net Revenue Budget for the current and future years, and the actual figure for 2020/21 are as follows:

| Year | Executive August 2021 | | Update January 2022 | |
|---|---|---|---|---|
| | **Basis** | **%** | **Basis** | **%** |
| 2020/21 | Actual | 10.4 | Actual | 10.4 |
| 2021/22 | Estimate | 10.7 | Estimate | 10.5 |
| 2022/23 | Estimate | 10.6 | Estimate | 9.8 |
| 2023/24 | Estimate | 9.9 | Estimate | 9.0 |
| 2024/25 | Estimate | - | Estimate | 8.5 |

***(b) Local Indicator***

This local Indicator reflects a policy decision to cap Capital Financing costs at 10% of the net annual Revenue Budget. The Indicator is different to the formally required Indicator at (a) above in that it only reflects the cost components of interest on external debt plus lost interest on internally financed capital expenditure, together with a revenue provision for debt repayment. Unlike the formally required PI it does not reflect interest earned on surplus cash balances or PFI / finance leasing charges.

| Year | Executive August 2021 | | Update January 2022 | |
|---|---|---|---|---|
| | **Basis** | **%** | **Basis** | **%** |
| 2020/21 | Actual | 5.7 | Actual | 5.7 |
| 2021/22 | Estimate | 5.5 | Estimate | 5.2 |
| 2022/23 | Estimate | 5.1 | Estimate | 4.8 |
| 2023/24 | Estimate | 4.7 | Estimate | 4.5 |
| 2024/25 | Estimate | - | Estimate | 4.3 |

**Comment**

The estimates of financing costs include current Capital Plan commitments based on the latest 2021/22 Q3 Capital Plan.

The updated estimates for 2021/22 to 2024/25 reflect the net effect of a range of factors, principally

(a) savings being achieved through the ongoing policy of financing capital borrowing requirements internally from cash balances

(b) variations in the level of annual borrowing requirements resulting from a range of factors, but principally capital expenditure slippage between years

(c) variations in borrowing costs (interest plus a revenue provision for debt repayment) reflecting latest interest rate forecasts to 2024/25

(d) variations in interest earned on cash balances resulting from continuing current historically low interest rates but offset by continuing higher levels of cash balances (formal Indicator only).

| Prudential Indicator | Comment |
|---|---|
| **2 Capital Expenditure - Actual and Forecasts**<br><br>The actual capital expenditure that was incurred in 2020/21 and the latest estimates of capital expenditure to be incurred for the current and future years are: | This Indicator now reflects the Capital Outturn in 2020/21 and the Capital Plan update for Q3 2021/22.<br><br>The variations are principally a result of:-<br><br>(a) additional provisions and variations to existing provisions which are self-funded from Capital Grants and Contributions, revenue contribution and earmarked capital receipts<br><br>(b) Capital expenditure re-phasing between years including slippage from 2020/21 outturn and Q3 2021/22 to later years<br><br>(c) various other Capital approvals and refinements reflected in the latest Capital Plan update |

| Year | Executive August 2021 | | Update January 2022 | |
|---|---|---|---|---|
| | Basis | £m | Basis | £m |
| 2020/21 | Actual | 119.6 | Actual | 119.6 |
| 2021/22 | Estimate | 171.2 | Estimate | 142.8 |
| 2022/23 | Estimate | 38.3 | Estimate | 83.2 |
| 2023/24 | Estimate | 6.2 | Estimate | 34.0 |
| 2024/25 | Estimate | - | Estimate | 26.4 |

The above figures reflect the updated Capital Plan (Q3 2021/22) together with:-

(i) expenditure on fixed assets funded directly from the Revenue Budget and not included in the Capital Plan.

(ii) an estimated allowance for future expenditure re-phasing between years.

| Prudential Indicator | Comment |
|---|---|
| **3 Capital Financing Requirement (CFR)** | |

Actuals and estimates of the Capital Financing Requirement (CFR) at the defined year ends are as follows:

| Date | Executive August 2021 | | | | Update January 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | Basis | Borrowing £m | Other Long Term Liabilities (PFi etc) £m | Total £m | Basis £m | Borrowing £m | Other Long Term Liabilities (PFi etc) £m | Total £m |
| 31 Mar 2021 | Actual | 288.7 | 151.6 | 440.3 | Actual | 288.7 | 151.6 | 440.3 |
| 31 Mar 2022 | Estimate | 293.1 | 176.2 | 469.2 | Estimate | 291.6 | 176.2 | 467.8 |
| 31 Mar 2023 | Estimate | 269.9 | 170.6 | 440.5 | Estimate | 288.2 | 170.6 | 458.8 |
| 31 Mar 2024 | Estimate | 256.3 | 165.4 | 421.6 | Estimate | 273.8 | 165.4 | 439.2 |
| 31 Mar 2025 | Estimate | - | - | - | Estimate | 252.4 | 159.9 | 412.3 |

The CFR measures the underlying need for the County Council to borrow for capital purposes. In accordance with best professional practice, the County Council does not earmark borrowing to specific items or types of expenditure. The County Council has an integrated treasury management approach and has adopted the CIPFA Code of Practice for Treasury Management. The County Council has, at any point in time, a number of cashflows, both positive and negative, and manages its treasury position in terms of its overall borrowings and investments in accordance with its approved Annual Treasury Management Strategy. In day to day cash management, no distinction is made between revenue and capital cash. External borrowing arises as a consequence of all the financial transactions of the County Council as a whole and not simply those arising from capital spending. In contrast, the CFR Indicator reflects the County Council's underlying need to borrow for capital purposes only.

**Comment:**

The January 2021 figures were based on a Capital Plan approved as at 31 December 2021.

The updated figures reflect the following variations

(a) re-phasing between years of expenditure that is funded from borrowing including slippage between years identified at 2020/21 outturn and Q3 2021/22

(b) capital receipts (including company loans) slippage between years that affect year on year borrowing requirements

(c) variations in the level of the Corporate Capital Pot which is used in lieu of new borrowing until the Pot is required

(d) additions and variations to schemes / provisions approved that are funded from Prudential Borrowing

(e) variations in the annual Minimum Revenue Provision for debt Repayment which arise from the above

(f) Other Long Term Liabilities now include the Allerton Waste Recovery Park PFI Scheme

| Prudential Indicator | Comment |
| --- | --- |
| **4 Gross Debt and the Capital Financing Requirement**<br><br>The Prudential Code emphasises that in order to ensure that over the medium term debt will only be for a capital purpose, the County Council should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the previous year (2020/21), plus the estimate of any additional capital financing requirement for the current (2021/22) and next two financial years (2022/23 and 2023/24). If, in any of these years, there is a reduction in the capital financing requirement, this reduction should be ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with gross external debt.<br><br>This Prudential Indicator is referred to as gross debt and the comparison with the capital financing requirement (**Indicator 3**) and is a key indicator of prudence.<br><br>The Corporate Director – Strategic Resources reports that the County Council had no difficulty in meeting this requirement up to 2020/21 nor are any difficulties envisaged for the current or future years of the Medium Term Financial Strategy up to 2023/24. For subsequent years, however, there is potential that the County Council may not be able to comply with the new requirement as a result of the potential for the annual Minimum Revenue Provision (MRP) reducing the Capital Financing Requirement below gross debt. This potential situation will be monitored closely. This opinion takes into account spending commitments, existing and proposed Capital Plans and the proposals in the Revenue Budget 2021/22 and Medium Term Financial Strategy report. | This Prudential Indicator was changed in 2013/14 to reflect the comparison of gross debt (external debt plus other long term liabilities) with the Capital Financing Requirement (CFR). The comparator debt figure had previously been net debt which was gross debt less investments.<br><br>The Prudential Code requires that where there is a significant difference between the gross debt and the gross borrowing requirement, as demonstrated by the CFR, then the risks and benefits associated with this strategy should be clearly stated in the annual Treasury Management Strategy.<br><br>The County Council's gross debt figure is currently significantly below the CFR figures shown in **Indicator 3** because of annual capital borrowing requirements being funded internally from cash balances (i.e. running down investments) rather than taking out new external debt.<br><br>This situation, however, could be reversed in future as a result of two key factors:<br><br>(i) externalising some or all of the internally financed CFR together with<br><br>(ii) the potential for the annual Minimum Revenue Provision (MRP) for debt repayment reducing the CFR below gross debt because the debt cannot readily be prematurely repaid without incurring significant penalties (premiums).<br><br>This potential situation will be monitored carefully by the Corporate Director – Strategic Resources. |

| Prudential Indicator | Comment |
|---|---|
| **5 Authorised Limit for External Debt**<br><br>In respect of its external debt, it is recommended that the County Council approves the following Authorised Limits for its total external debt for the next three financial years.<br><br>The Prudential Code requires external borrowing and other long term liabilities (PFI and Finance leases) to be identified separately.<br><br>The authorised limit for 2021/22 will be the statutory limit determined under section 3(1) of the Local Government Act 2003. | The Corporate Director – Strategic Resources confirms that these authorised limits are consistent with the County Council's current commitments, updated Capital Plan and the financing of that Plan, the 2021/22 Revenue Budget and Medium Term Financial Strategy and with its approved Treasury Management Policy Statement.<br><br>The Corporate Director – Strategic Resources also confirms that the limits are based on the estimate of most likely prudent, but not worst case, scenario with sufficient headroom over and above this to allow for operational issues (e.g. unusual cash movements). To derive these limits a risk analysis has been applied to the Capital Plan, estimates of the capital financing requirement and estimates of cashflow requirements for all purposes.<br><br>The updated figures reflect a number of refinements which are also common to the Capital Financing Requirement (see **Indicator 3**) and Operational Boundary for external debt (see **Indicator 6**). Explanations for these changes are provided under **Indicators 3 and 6** respectively. |

| | Executive August 2021 | | | Update January 2022 | | |
|---|---|---|---|---|---|---|
| Date | Borrowing £m | Other Long Term Liabilities (PFi etc) £m | Total £m | Borrowing £m | Other Long Term Liabilities (PFi etc) £m | Total £m |
| 2021/22 | 303.3 | 176.2 | 479.5 | 390.3 | 176.2 | 566.2 |
| 2022/23 | 340.7 | 170.6 | 511.3 | 395.7 | 170.6 | 566.3 |
| 2023/24 | 300.2 | 165.4 | 465.5 | 423.4 | 165.4 | 588.8 |
| 2024/25 | - | - | - | 320.7 | 159.9 | 480.6 |

| Prudential Indicator | Comment |
|---|---|
| **6 Operational Boundary for External Debt**<br><br>It is recommended that the County Council approves the following Operational Boundary for external debt for the same period.<br><br>The proposed operational boundary for external debt is based on the same estimates as the Authorised Limit (ie **Indicator 5** above) but also reflects an estimate of the most likely prudent, but not worst case, scenario without the additional headroom included within the Authorised Limit to allow for eg unusual cash flows. | The Operational Boundary represents a key management tool for the in year monitoring of external debt by the Corporate Director – Strategic Resources.<br><br>The updated figures reflect refinements which are common to the Capital Financing Requirement (see **Indicator 3** above), together with<br><br>(a) relative levels of capital expenditure funded internally from cash balances rather than taking external debt<br><br>(b) loan repayment cover arrangements and the timing of such arrangements<br><br>These two financing transactions affect external debt levels at any one point of time during the financial year but do not impact on the Capital Financing Requirement. |

| | Executive August 2021 | | | Update January 2022 | | |
|---|---|---|---|---|---|---|
| **Date** | **Borrowing £m** | **Other Long Term Liabilities (PFi etc) £m** | **Total £m** | **Borrowing £m** | **Other Long Term Liabilities (PFi etc) £m** | **Total £m** |
| 2021/22 | 283.3 | 176.2 | 459.5 | 370.0 | 176.2 | 546.2 |
| 2022/23 | 320.7 | 170.6 | 491.3 | 375.5 | 170.6 | 546.3 |
| 2023/24 | 280.2 | 165.4 | 445.5 | 403.4 | 165.4 | 568.8 |
| 2024/25 | - | - | - | 300.7 | 159.9 | 460.6 |

| Prudential Indicator | Comment |
|---|---|
| **7 Actual External Debt**<br>The County Council's external debt is set out below and consists of external borrowing from the PWLB and money markets plus other long term liabilities such as PFI and finance leases which are classified as external debt for this purpose. | The updated estimates reflect refinements which are common to the Capital Financing Requirement (see **Indicator 3** above) together with the relative levels of capital expenditure internally funded from cash balances rather than taking external debt. |

| Date | Executive August 2021 | | | | Update January 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | | Borrowing £m | Other Long Term Liabilities (PFI etc) £m | Total £m | Basis | Borrowing £m | Other Long Term Liabilities (PFI etc) £m | Total £m |
| 31 Mar 21 | Actual | 236.0 | 151.6 | 387.6 | Actual | 236.0 | 151.6 | 387.6 |
| 31 Mar 22 | Estimate | 221.8 | 176.2 | 398.0 | Estimate | 221.8 | 176.2 | 398.0 |
| 31 Mar 23 | Estimate | 208.5 | 170.6 | 379.1 | Estimate | 208.5 | 170.6 | 379.1 |
| 31 Mar 24 | Estimate | 208.5 | 165.4 | 373.9 | Estimate | 208.5 | 165.4 | 373.9 |
| 31 Mar 25 | - | - | - | - | Estimate | 208.5 | 159.9 | 368.4 |

It should be noted that actual external debt is not directly comparable to the Authorised Limit (**Indicator 5 above**) and Operational Boundary (**Indicator 6 above**) since the actual external debt reflects a position at one point in time.

| Prudential Indicator | Comment |
|---|---|
| **8 Limit of Money Market Loans (Local Indicator)**<br>Borrowing from the money market for capital purposes (as opposed to borrowing from the PWLB) is to be limited to 30% of the County Council's total external debt outstanding at any one point in time.<br><br>The actual position at 31 March 2021 was 8% (£20m out of a total of £236.0m) against an upper limit of 30% | This limit was introduced as a new Local Prudential Indicator in 2009/10, although the 30% limit has featured as part of the Borrowing Policy section of the County Council's Annual Treasury Management and Investment Strategy for many years. |

| Prudential Indicator | Comment |
| --- | --- |

**9 Maturity Structure of Borrowing**

The upper and lower limits for the maturity structure of County Council borrowings are as follows:-

The amount of projected borrowing maturing in each period as a percentage of total projected borrowing that is fixed rate:

| Period | Lower Limit % | Upper Limit % | Memo item - actual at 1 April 21 % | 1 April 22 % |
| --- | --- | --- | --- | --- |
| under 12 months | 0 | 50 | 6 | 6 |
| 12 months & within 24 months | 0 | 25 | 6 | 6 |
| 24 months & within 5 years | 0 | 50 | 4 | 7 |
| 5 years & within 10 years | 0 | 75 | 3 | 3 |
| 10 years and within 25 years | 0 | 100 | 7 | 8 |
| 25 years and within 50 years | 0 | 100 | 74 | 70 |
| | | | 100 | 100 |

**Comment:** These limits are reviewed annually and have been updated to reflect the current maturity structure of the County Council's debt portfolio.

| Prudential Indicator | Comment |
|---|---|
| **10 Total Principal Sums Invested for periods longer than 365 days**<br><br>The 2022/23 aggregate limit of £40m for ‘non specified’ investments longer than 365 days is based on a maximum of 20% of estimated ‘core cash funds’ up to 2024/25 being made available for such investments.<br><br>The purpose of this prudential limit for principal sums invested for longer than 365 days is for the County Council to contain its exposure to the possibility of loss that might arise as a result of it having to seek early repayment or redemption of principal sums invested. | **No change to this limit is proposed.**<br><br>The County Council currently has no such investments that fall into this category.<br><br>Prior to 1 April 2004, Regulations generally prevented local authorities from investing for longer than 365 days. As a result of the Prudential Regime however, these prescriptive regulations were abolished and replaced with Government Guidance from April 2004.<br><br>This Guidance gives authorities more freedom in their choice of investments (including investing for periods longer than 365 days) and recognises that a potentially higher return can be achieved by taking a higher (ie longer term) risk.<br><br>This flexibility requires authorities to produce an Annual Investment Strategy that classifies investments as either **Specified** (liquid, secure, high credit rating & less than 365 days) or **Non Specified** (other investments of a higher risk). Non Specified investments are perfectly allowable but the criteria and risks involved must be vigorously assessed, including professional advice, where appropriate. Therefore investments for 365 days+ are allowable as a Non Specified investment under the Government Guidance. The use of such investments is therefore now incorporated into the County Council's Annual Treasury Management and Investment Strategy. |

## ECONOMIC BACKGROUND

1.0 **The UK.**

1.1 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.

1.2 The MPC had previously not raised Bank Rate, as markets had expected, at its November meeting. As the MPC 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 to wait until statistics were available to show how the economy had fared at this time

1.3 In December, the low 0.1% m/m rise in GDP in October suggested that economic growth had already slowed prior to the discovery of the Omicron variant in late November. In addition, CPI inflation for November increased further from 4.2% to 5.1%, confirming again how inflationary pressures had 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).

1.4 Based on the economic data from November, the MPC raised Bank Rate in December. The hawkish tone of comments from the meeting indicated that the MPC is now concerned that inflationary pressures are 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. 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”.

1.5 In contrast, the MPC also commented that “the Omicron variant is likely to weigh on near-term activity”. But it stressed that at the November meeting it had said it would raise rates if the economy evolved as it expected and that now “these conditions had been met”. It also appeared more worried about the possible boost to inflation from 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”.

1.6 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 has retained its guidance that only a “modest tightening” in policy will be required.

1.7 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; and
- once Bank Rate had risen to at least 1%, it would start selling its holdings.

**The Global Ecomony**

2.0 **USA.**

2.1 Shortages of goods 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 possibly the peak.

2.2 Shortages of labour have also been driving up wage rates sharply; this 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.

2.3 Fed officials expect 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.

3.0 **EUROZONE**

3.1 The slow role out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate then picked up sharply. 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.

3.2 November's inflation figures 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.

3.3 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.

## 4.0 CHINA

4.1 After a concerted effort following 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.

4.2 However, the pace of economic growth has now fallen back in 2021 after this initial surge of recovery from the pandemic and looks likely to be particularly weak in 2022. China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. Chinese consumers are also being very wary about leaving home and so spending money on services. However, with Omicron having now spread to China, and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove so successful in future.

4.3 The People's Bank of China made a start in December 2021 on cutting its key interest rate marginally as an attempt to stimulate economic growth.

4.4 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.

## 5.0 JAPAN

5.1 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.

5.2 The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was actually negative in July. 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.

## 6.0 WORLD GROWTH

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

6.2 **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 with further disruption expected. It is expected that these issues will gradually be resolved, but will continue to contribute to a spike upwards in inflation and shortages of materials and goods available to purchase in the short term.

## 7.0 INTEREST RATE FORECASTS

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

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

- the economic recovery runs out of steam, resulting in stagflation;
- continuation of supply shortages;
- the spend in which consumers spend savings retained over the pandemic;
- new Covid variants resulting in the possibility of further lockdowns; and
- the UK evokes article 16 of the Brexit deal over dislocation in trading arrangements with Northern Ireland.

7.3 In summary, with the high level of uncertainty prevailing on several fronts, interest rate forecasts are expected to be revised again.

## 8.0 The balance of risks to the UK

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

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

- **UK** – Labour and supply shortages prove more disruptive and depress economic activity;

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

- **UK - Bank of England** takes action 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;

- a resurgence of the **Eurozone sovereign debt crisis;**

- **UK / EU trade arrangements** – if there is a major impact on trasde flows and financial sercies due to complications or lack of co-operation;

- weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic;

- **German general election in September 2021 –** Germany faces months of uncertainly while a new coalition government is formed;

- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile;

- **Geopolitical risks,** for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows; and

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

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

SCHEDULE 4

**NORTH YORKSHIRE COUNTY COUNCIL ANNUAL INVESTMENT STRATEGY 2022/2023 – SPECIFIED INVESTMENTS**

| Investment | Security / Minimum Credit Rating | Circumstances of Use |
|---|---|---|
| **Term Deposits** with the UK Government or with UK Local Authorities (as per Local Government Act 2003) with maturities up to 1 year | High security as backed by UK Government | In-house |
| **Term Deposits** with credit rated deposit takers (Banks and Building Societies), including callable deposits with maturities less than 1 year | Organisations assessed as having "high credit quality"within the UK or from Countries with a minimum Sovereign rating of AA- for the country in which the organisation is domiciled | In-house |
| **Certificate of Deposits** issued by credit rated deposit takers (Banks and Building Societies) up to 1 year | | Fund Manager or In-house "buy and hold" after consultation with Treasury Management Advisor |
| **Forward deals** with credit rated Banks and Building Societies less than 1 year (i.e. negotiated deal plus period of deposit) | | In-house |
| **Term Deposits** with Housing Associations less than 1 year | | In-house |
| **Money Market Funds** i.e. collective investment scheme as defined in SI2004 No 534<br>(*These funds have no maturity date*) | Funds must be AAA rated | In-house<br>After consultation with Treasury Management Advisor<br>Limited to £20m |
| **Gilts** (with maturities of up to 1 year) | Government Backed | Fund Manager or In-house buy and hold after consultation with Treasury Management Advisor |
| **Bonds** issued by a financial institution that is guaranteed by the UK Government (as defined in SI 2004 No 534) with maturities under 12 months<br>(*Custodial arrangements required prior to purchase*) | Government Backed | After consultation with Treasury Management Advisor |

## NORTH YORKSHIRE COUNTY COUNCIL ANNUAL INVESTMENT STRATEGY 2022/23 – NON-SPECIFIED INVESTMENTS

| Investment | Security / Minimum Credit Rating | Circumstances of Use | Max % of total investments | Maximum investment with any one counterparty | Max. maturity period |
|---|---|---|---|---|---|
| **Term Deposit** with credit rated deposit takers (Banks & Building Societies), UK Government and other Local Authorities with maturities greater than 1 year | Organisations assessed as having "high credit quality" under the Credit Worthiness Policy | In-house | 100% of agreed maximum proportion of Core Cash funds (£40m) | £5m | 5 years |
| **Certificate of Deposit** with credit rated deposit takers (Banks & Building Societies) with maturities greater than 1 year<br>Custodial arrangements prior to purchase | Organisations assessed as having "high credit quality" under the Credit Worthiness Policy | Fund Manager<br>or<br>In-house "buy & hold" after consultation with Treasury Management Advisor | 100% of agreed maximum proportion of Core Cash funds (£40m) | £5m | 5 years |
| **Callable Deposits** with credit rated deposit takers (Banks & Building Societies) with maturities greater than 1 year | Organisations assessed as having "high credit quality" under the Credit Worthiness Policy | In-house | 50% of agreed maximum proportion of Core Cash funds (£20m) | £5m | 5 years |
| **Term Deposits** with Housing Associations with maturities greater than 1 year | Organisations assessed as having "high credit quality" under the Credit Worthiness Policy | In-house | 25% of agreed maximum proportion of Core Cash funds (£10m) | £5m | 5 years |
| **Forward Deposits** with a credit rated Bank or Building Society > 1 year (i.e. negotiated deal period plus period of deposit) | Organisations assessed as having "high credit quality" under the Credit Worthiness Policy | In-house | 25% of agreed maximum proportion of | £5m | 5 years |

| **Investment** | **Security / Minimum Credit Rating** | **Circumstances of Use** | **Max % of total investments** | **Maximum investment with any one counterparty** | **Max. maturity period** |
|---|---|---|---|---|---|
| | | | Core Cash funds (£10m) | | |
| **Bonds issued by a financial institution that is guaranteed by the UK Government** (as defined in SI2004 No534) with maturities in excess of 1 year<br>Custodial arrangements required prior to purchase | AA or Government backed | Fund Manager or In-house "buy & hold" after consultation with Treasury Management Advisor | 25% of agreed maximum proportion of Core Cash funds (£10m) | n/a | 5 years |
| **Bonds issued by Multilateral development banks** (as defined in SI2004 No534) with maturities in excess of 1 year<br>Custodial arrangements required prior to purchase | AA or Government backed | Fund Manager or In-house "buy & hold" after consultation with Treasury Management Advisor | 25% of agreed maximum proportion of Core Cash funds (£10m) | £5m | 5 years |
| **UK Government Gilts with maturities in excess of 1 year**<br>Custodial arrangements required prior to purchase | Government backed | Fund Manager | 25% of agreed maximum proportion of Core Cash funds (£10m) | n/a | 5 years |
| **Collateralised Deposit** | UK Sovereign Rating | In-house | 25% of agreed maximum proportion of Core Cash funds (£10m) | n/a | 5 years |
| **Property Funds** | Organisations assessed as having "high credit quality" | In-house after consultation with Treasury Management Advisor | 100% of agreed maximum proportion of Core Cash funds (£40m) | £5m | 10 years |

Schedule 5

**APPROVED LENDING LIST 2022/23**

Maximum sum invested at any time (The overall total exposure figure covers both Specified and Non-Specified investments)

| | Country | Specified Investments (up to 1 year) | | Non-Specified Investments (> 1 year £40m limit) | |
|---|---|---|---|---|---|
| | | Total Exposure £m | Time Limit * | Total Exposure £m | Time Limit * |
| **UK "Nationalised" banks / UK banks with UK Central Government involvement** | | | | | |
| Royal Bank of Scotland PLC (RFB) | GBR | 75.0 | 365 days | - | - |
| National Westminster Bank PLC (RFB) | GBR | | | | |
| **UK "Clearing Banks", other UK based banks and Building Societies** | | | | | |
| Santander UK PLC (includes Cater Allen) | GBR | 60.0 | 6 months | - | - |
| Barclays Bank PLC (NRFB) | GBR | 75.0 | 6 months | - | - |
| Barclays Bank UK PLC (RFB) | GBR | | | | |
| Bank of Scotland PLC (RFB) | GBR | 60.0 | 6 months | - | - |
| Lloyds Bank PLC (RFB) | GBR | | | | |
| Lloyds Bank Corporate Markets PLC (NRFB) | GBR | | | | |
| HSBC Bank PLC (NRFB) | GBR | 30.0 | 365 days | - | - |
| HSBC UK Bank PLC (RFB | GBR | | | | |
| Goldman Sachs International Bank | GBR | 60.0 | 6 months | - | - |
| Sumitomo Mitsui | GBR | 30.0 | 6 months | - | - |
| Standard Chartered Bank | GBR | 60.0 | 6 months | - | - |
| Handlesbanken | GBR | 40.0 | 365 days | - | - |
| Nationwide Building Society | GBR | 40.0 | 6 months | - | - |
| Leeds Building Society | GBR | 20.0 | 3 months | - | - |
| **High Quality Foreign Banks** | | | | | |
| National Australia Bank | AUS | 30.0 | 365 days | - | - |
| Commonwealth Bank of Australia | AUS | 30.0 | 365 days | - | - |
| Australia and New Zealand Banking Group | AUS | 30.0 | 365 days | - | - |
| Toronto-Dominion Bank | CAN | 30.0 | 365 days | - | - |
| Credit Industriel et Commercial | FRA | 30.0 | 365 days | - | - |
| Landesbank Hessen-Thueringen Girozentrale (Helaba) | GER | 30.0 | 6 months | - | - |
| DBS (Singapore) | SING | 30.0 | 365 days | - | - |
| **Local Authorities** | | | | | |
| County / Unitary / Metropolitan / District Councils | | 20.0 | 365 days | 5.0 | 5 years |
| Police / Fire Authorities | | 20.0 | 365 days | 5.0 | 5 years |
| National Park Authorities | | 20.0 | 365 days | 5.0 | 5 years |
| **Other Deposit Takers** | | | | | |
| Money Market Funds | | 20.0 | 365 days | 5.0 | 5 years |
| Property Funds | | 5.0 | 365 days | 5.0 | 10 years |
| UK Debt Management Account | | 100.0 | 365 days | 5.0 | 5 years |

Based on data as 31 December 2021

Schedule 6

## APPROVED COUNTRIES FOR INVESTMENTS

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

| Sovereign Rating | Country |
|---|---|
| AAA | Australia<br>Denmark<br>Germany<br>Luxemburg<br>Netherlands<br>Norway<br>Singapore<br>Sweden<br>Switzerland |
| AA+ | Canada<br>Finland<br>USA |
| AA | Abu Dhabi (UAE)<br>France |
| AA- | Belgium<br>Hong Kong<br>Qatar<br>UK |