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ASHFIELD DISTRICT COUNCIL

Council Offices,
Urban Road,
Kirkby in Ashfield
Nottingham
NG17 8DA

Agenda

Audit Committee

Date:	**Thursday, 1st February, 2024**
Time:	**7.00 pm**
Venue:	**Committee Room, Council Offices, Urban Road, Kirkby-in-Ashfield**

For any further information please contact:

Lynn Cain

lynn.cain@ashfield.gov.uk

01623 457317

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Audit Committee

Membership

Chairman: Councillor Will Bostock

Councillors:

Ian Briggs
Sarah Lewsey
Nicholas Parvin
Dawn Justice
Sarah Madigan
John Smallridge

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SUMMONS

You are hereby requested to attend a meeting of the Audit Committee to be held at the time/place and on the date mentioned above for the purpose of transacting the business set out below.

Theresa Hodgkinson
Chief Executive

AGENDA		Page
1.	**To receive apologies for absence, if any.**	
2.	**Declarations of Disclosable Pecuniary or Personal Interests and/or Non-Registrable Interests.**	
3.	**To receive and approve as a correct record the minutes of the meeting of the Committee held on 23 November 2023.**	5 - 8
4.	**Capital Strategy 2024-2025.**	9 - 48
5.	**Treasury Management Strategy 2024-2025.**	49 - 92

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AUDIT COMMITTEE

Meeting held in the Committee Room, Council Offices, Urban Road, Kirkby-in-Ashfield,

on Thursday, 23rd November, 2023 at 7.00 pm

Present:	Councillor Sarah Madigan in the Chair; Councillors Ian Briggs, Paul Grafton, Dawn Justice, Sarah Lewsey and John Smallridge.
Apologies for Absence:	Councillors Will Bostock and Nicholas Parvin.
Officers Present:	Lynn Cain, Ruth Dennis, Joanne Froggatt and Peter Hudson.
In Attendance:	Hannah McDonald and Mandy Marples (CMAP). Mark Surridge (MAZARS). Councillors Dave Shaw and John Wilmott.

AC.9 Appointment of Chairman

RESOLVED
that Councillor Sarah Madigan be appointed as Chairman for the duration of the meeting.

AC.10 Declarations of Disclosable Pecuniary or Personal Interests and/or Non-Registrable Interests

No declarations of interest were made.

AC.11 Minutes

RESOLVED
that the minutes of the meeting of the Committee held on 27 July 2023, be received and approved as a correct record.

AC.12 MAZARS: Audit Strategy Memorandum

Mark Surridge presented the Audit Strategy Memorandum for the year ending 31 March 2023 to Committee which gave an overview of the audit's scope and responsibilities, timelines and methodology for the coming financial year.

In respect of the auditor's responsibilities for delivering the audit, these covered:

Audit opinion
Value for Money
Fraud
Wider reporting and Electors' Rights.

Three significant audit risks in relation to Management override of controls, Valuation of the pensions net defined benefit liability and Valuation of property, plant and equipment had been identified and outlined in the report. Members were asked to note that these were fairly standard risks across the board nationally and were not isolated risks, specific to the Council.

Committee acknowledged that the level of audit fees for the work carried out would materialise as the work and any additional requests from the Council became apparent throughout the year.

To conclude Members noted Mazars commitment to independence as required by the Financial Reporting Council's ethical standards.

RESOLVED
that the Audit Strategy Memorandum for the year ending 31 March 2023, as presented to Committee, be received and noted.

AC.13 Corporate Risk - Quarter 2 Position 2023/24

The Assistant Director for Policy and Performance presented the report and advised that seven risks have been removed from the Corporate Risk Register during the past twelve months with the remaining corporate risks being effectively managed without an increase in risk assessment rating. In addition, 54% of the Council's corporate risks had also been effectively managed and mitigated with a reduction in risk assessment rating over the last year.

There had been two increases in risk on the Register in respect of loss or delays in receiving income into the Authority and the ability to comply with the regulatory regime set out by the Regulator of Social Housing Compliance.

However, the following three risks had now dropped off the Register:

- HR Shared Service – new Service Level Agreement to be approved shortly with Mansfield District Council.

- Procurement Support - new Service Level Agreement now in place with Nottinghamshire County Council.

- Changes arising from the Elections Act.

RESOLVED
that the current significant items on the Corporate Risk Register, as presented, be received and duly noted.

AC.14 Treasury Management Mid Year Report 2023/24

The Council's Corporate Resources Director and Section 151 Officer presented the Treasury Management mid year report and advised that there had been some changes to the prudential indicators following in year changes to the 2023/24 Capital Programme. The details of the one-day counterparty breach were also explained to the Committee, which had briefly arisen due to the late arrival of funds repaid to the Council from another counterparty.

RESOLVED that

a) changes to the 2023/24 Prudential Indicators following in year changes to the 2023/24 Capital Programme, be approved;

b) the counterparty breach, as outlined in 5.2.2 of the report, be noted;

c) the contents of the report, as presented, be also noted.

AC.15 Financial Management Code Self Assessment Update

The Corporate Resources Director and Section 151 Officer updated Members in respect of the Council's performance against the CIPFA Financial Management Code (the FM Code) Self-Assessment and action plan.
RESOLVED
that the Council's position against the CIPFA Financial Management Code Self-Assessment and action plan, as presented, be received and noted.

AC.16 Audit Progress Report

Mandy Marples, CMAP's Audit Manager, presented the report and summarised audit progress as at 23 November 2023.

Three pieces of work had been finalised during that time and a synopsis of each of the completed reviews was presented regarding the following:

Health & Safety Lifts
Information Governance 2023/24
Outdoor Recreation – Equipment Safety.

With regard to Recommendation Tracking, Members were advised that a revised implementation date had been set to 31 March 2024 for the outstanding Fire Safety recommendation. The Council were due to enter into a new contract with a company whose works would include completing the residual replacement of fire doors. In addition, a revised implementation date had also been set to 31 January 2024 for recommendations 1, 2 and 5 of the Housing Data Quality 2022-23 audit.

RESOLVED
that audit assignment progress as at 23 November 2023, as presented to Committee, be received and noted.

AC.17 Review of Local Code of Corporate Governance

The Executive Director for Governance and Monitoring Officer presented the report and asked the Audit Committee to review and approve the amended Local Code of Corporate Governance as appended to the report.

RESOLVED
that the minor amendments to the Local Code of Corporate Governance, as highlighted in Appendix 1 and detailed in the report, be approved.

AC.18 Section 100A Local Government Act 1972: Exclusion of the Press and Public

RESOLVED
that in accordance with the provisions of Section 100A of the Local Government Act 1972, the press and public be now excluded from the meeting during the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act and in respect of which the Proper Officer considers the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

AC.19 Investment Property Performance as at 30th September 2023

The Council's Corporate Resources Director and Section 151 Officer gave Members an update regarding performance and monitoring of the Council's Investment Property portfolio as at 30 September 2023.

RESOLVED
that performance in relation to the Council's Investment Property portfolio as at 30 September 2023, as presented, be received and noted.

The meeting closed at 8.10 pm

Chairman.

Ashfield
DISTRICT COUNCIL

Report To:	**AUDIT COMMITTEE**
Date:	**1ST FEBRUARY 2024**
Heading:	**CAPITAL STRATEGY 2024/25**
Executive Lead Member:	**EXECUTIVE LEAD FOR FINANCE, REVENUES AND BENEFITS – CLLR RACHEL MADDEN**
Ward/s:	**ALL**
Key Decision:	**Yes**
Subject to Call-In:	**Yes**

Purpose of Report

Purpose of Report

The Council's proposed Capital Strategy for 2024/25 has been prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities. The framework established by the Prudential Code supports local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code in respect to the Capital Strategy are:

1. To ensure that the capital expenditure plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.
2. A requirement to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are made with sufficient regard to the long term financing implications and potential risks to the authority.
3. To ensure that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability.
4. The Capital Strategy should set out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

In accordance with the DLUHC Statutory Guidance on Local Government Investments (2018), each financial year, a local authority should prepare an Investment Strategy, which should be approved by full Council. The Investment Strategy must include non-treasury management investments.

The Commercial Property Investment Strategy, included at Annex 1 to the Capital Strategy is this Council's Non-treasury Management Investment Strategy.

The DLUHC Guidance and CIPFA's Prudential Property Investment guidance requires the Commercial Property Investment Strategy to include quantitative indicators to allow risk exposure as a result of its non-treasury management investments to be assessed. The indicators are included as Annex 2.

Recommendation(s)

1) for Audit Committee to review and note the contents of the Capital Strategy (CS) for 2024/25 including the Annexes 1-3;

2) for Audit Committee to recommend that Cabinet approves the:
   - Capital Strategy
   - Commercial Property Investment Strategy;
   - Commercial Property Indicators.

Reasons for Recommendation(s)

It is a requirement of the CIPFA Prudential Code for all Local Authorities to have a Capital Strategy approved by full Council.

DLUHC Statutory Guidance on Local Government Investments require that the Council has an Investment Strategy that covers non-treasury management investments and includes quantitative indicators approved by full Council.

Alternative Options Considered

None. It is a requirement of the CIPFA Prudential Code for all Local Authorities to have a Capital Strategy and a requirement of DLUHC Statutory Guidance on Local Government Investments to have an Investment Strategy covering non-treasury management investments.

Detailed Information

The proposed Capital Strategy is contained in Appendix 1. There are three Annexes to Appendix 1 of the report which are:

1. Annex 1 describes the Commercial Property Investment Strategy.
2. Annex 2 details the Commercial Investment Property indicators which are required by DLUHC guidance and CIPFA .
3. Annex 3 shows the process historically used when we acquired Commercial Investment Properties.

The Strategy has been refreshed and updated for 2024/25. The main changes are to reflect that the current capital programme (to be approved February 2024) does not include any plans for further Commercial Property Investment, the last acquisition was made on 2nd April 2020. This is to ensure the Council maintains access to PWLB as a borrowing source for its capital plans. Annex 3 -

the acquisition process for Commercial Investment Properties remains included to demonstrate the process the Council used for acquiring its current Investment Property portfolio.

Implications

Corporate Plan:

This Capital Strategy will allow delivery of the priorities in the Capital Programme, which is aligned to the Corporate Plan.

Legal:

It is a statutory requirement to produce a Capital Strategy. Relevant statutory powers and requirements are described in the Appendix to this report. [RLD 23/01/2024]

Finance: [PH 24/01/2024].

Budget Area	Implication
General Fund – Revenue Budget	No implications
General Fund – Capital Programme	No implications
Housing Revenue Account – Revenue Budget	No implications
Housing Revenue Account – Capital Programme	No implications

Risk:

Risk	Mitigation
The detailed Capital Strategy is not fit for purpose	The Capital Strategy is reviewed and updated annually for changes in direction and changes to guidance and legislation.

Human Resources:

None

Environmental/Sustainability

None

Equalities:

None

Background Papers

- CIPFA Prudential Code 2021 Edition
- CIPFA Treasury Management Code 2021 Edition
- CIPFA Prudent Property Investment
- Statutory Guidance on Local Government Investments (3rd Edition) Issued under Section 15(1)(a) of the Local Government Act 2003.
- Statutory Guidance on Minimum Revenue Provision Issued under Section 21(1A) of the Local Government Act 2003.

Report Author and Contact Officer

Clive Howey
Interim Chief Accountant
Tel: 01623 457548
Email: clive.howey@ashfield.gov.uk

Sponsoring Director

Craig Bonar
Executive Director - Transformation
Tel: 01623 457203
Email: craig.bonar@ashfield.gov.uk

Appendix 1

ASHFIELD DISTRICT COUNCIL
CAPITAL STRATEGY 2023/24 – 2026/27

1 Introduction

1.1 Ashfield District Council’s Corporate Capital Strategy is the policy framework document that sets out the principles to be used to guide the allocation of capital investment across all the Council’s services and informs decisions on capital spending priorities contained within the Council’s 5-year Capital Programme.

1.2 Capital investment is technically described as “Expenditure on the acquisition, creation, or enhancement of ‘long term assets’”. Capital investment seeks to provide long-term solutions to the Council’s priorities and operational requirements. Expenditure for capital purposes therefore gives rise to new assets, increases the value and/or useful life of existing assets or, generates an income stream to the Council via non-treasury investments. Expenditure outside this definition will be, by definition, ‘revenue’ expenditure.

1.3 Most of the Council’s long-term assets are properties that are used in service delivery. The Council’s land, buildings and infrastructure asset base of some 7,600 properties has a current use Balance Sheet value of £415m as at 31 March 2023 (£385m as at 31 March 2022.)

1.4 The Capital Strategy is presented to Council as a Policy Framework document, and links with the Treasury Management Strategy, Medium Term Financial Strategy (MTFS) and the approved Capital Programme. Although this Strategy focuses on the Council’s management of its own investment in assets, a wider view of capital investment throughout the area by both the public and private sectors will have a major influence on meeting Council aims and objectives.

1.5 The Capital Strategy (and specifically the historic Commercial Investment Strategy element of the Capital Strategy) are/have been key drivers to secure the future financial sustainability of the Council.

1.6 The legal background to funding Capital Expenditure is contained in the Local Government Act 2003, particularly the following sections:

- S1 – power to borrow
- S3 – affordable borrowing limit
- S15 – regard to Guidance issued

1.7 Guidance is also issued by Government, the latest guidance issued by the Department of Levelling Up, Housing and Communities (DLUHC), being Investment Guidance (2018) and Minimum Revenue Provision (MRP) Guidance (2018).

1.8 Council's should also comply with professional codes that are issued, the key ones being:

- CIPFA Prudential Property Investment (November 2019).
- CIPFA Prudential Code (December 2021)
- CIPFA Treasury Management Code of Practice (December 2021).

1.9 The Capital Strategy sets out a number of guiding principles. In considering the principles, the Council needs a balance between guidance and prescription to allow a flexible approach to be taken but reflective of times of uncertainty. This Strategy focuses on the key policies for the allocation of capital resources to schemes in line with Council priorities and statutory responsibilities. The management of the Council's operational Capital Programme which 'sits' under this Capital Strategy is also supported by the Council's approved Financial Regulations.

1.10 CIPFA Treasury Management Code 2021 states:

- 'Where a Capital Strategy is produced by a local authority this may include the setting of detailed treasury management policies, while being clear that overall responsibility remains with full Council.'
- 'This organisation will ensure that all the organisation's investments are covered in the Capital Strategy, Investment Strategy or equivalent, *(that is this strategy for Ashfield District Council and contains both)* and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.'

2 Identifying Need

2.1 There are a number of internal and external influences that will affect the Council's Capital Strategy in the short, medium and long term.

2.2 External influences will include, but are not limited to potential partners such as central government, priorities of the Local Enterprise Partnership (LEP), County Council, Discover Ashfield Board, the East Midlands Combined Authority and the private sector.

2.3 Internal influences will be driven by the Council's Corporate Plan which sets out the Council's vision and priorities for the District and is available on the Council's website:
https://www.ashfield.gov.uk/media/i3cl3jgr/corporate-plan-2023-2027.pdf

A new Corporate Plan is developed every four years, the current corporate plan was approved by Council on the 25th September 2023.

2.4 The Council's Corporate Plan 2023-2027 sets out the following six priorities;

- Health & Happiness
- Homes & Housing

- Economic Growth & Place
- Cleaner & Greener
- Safer & Stronger
- Innovate & Improve

2.5 Aligned to the Corporate Plan are a number of subsidiary and complementary plans and strategies. Examples include;

- Medium Term Financial Strategy
- Treasury Management Strategy
- 30 Year HRA Business Plan
- Housing Strategy
- Digital Transformation Strategy
- Commercial Investment Strategy
- Service Plans

Capital investment will therefore be made in a range of areas to support the Council's core activities and priorities including asset investment to support its existing asset base and service plans, ICT and business improvement investment to support its Transformation programme. Investment in other delivery vehicles such as a Housing Company continue to be considered to deliver priorities regarding housing units.

3 Capital Scheme Prioritisation

3.1 Due to competing demands for limited resources, the Council prioritises capital investment based on a number of different factors such as:

- Its contribution to corporate priorities
- Whether it facilitates delivery of statutory or non-statutory and essential/non-essential services.
- The ability of the project to leverage additional funding, or secure a future income stream – therefore preference will be given to those projects with:
  - A payback of 10 years or less
  - A positive net present value over the life of the asset based on a discount rate reflecting use of capital resources (Treasury Green book figure 3.5 %)
- The affordability of the revenue implications of the project
- The risk of not undertaking the capital expenditure, eg Health and Safety implications or legislative requirements.

3.2 Non financial indicators can also be used, for example, there are many benefits to including sustainability or environmental and social value criteria in the decision-making process when it comes to allocating capital resources. Outcomes (for example jobs created or safeguarded) and outputs (for example, number of new homes built) should also be considered.

4 Prudential Approach

4.1 The Prudential Code requires Councils to consider six things when it agrees its Capital Programme:

- Service objectives – are spending plans consistent with our aims and plans?
- Stewardship of assets – is capital investment being made on new assets at the cost of maintaining existing assets?
- Value for money – do benefits outweigh the cost?
- Prudence and sustainability – can the Council afford the borrowing now and in the future?
- Affordability – what are the implications for council tax? (revenue implications)
- Practicality – can the Council deliver the programme?

4.2 Prudence is a difficult concept to define. In deciding whether an investment decision is prudent there should, as a minimum, be an initial consideration of the relationship between:

- the capital cost and
- the business cost (being the revenue costs associated with the use of the asset).

4.3 The authority needs to consider whether this choice represents the best use of resources having looked at all available options. Above all, the authority should be confident that the preferred option is the best value for money, and the quality is sufficient to meet the Council's needs.

4.4 Investments in property are seen as medium to long term investments. Therefore the value for money is assessed on this basis to ensure that over a longer period of time the investment is value for money and provides a return to the Council which, as a minimum exceeds what could be earned through investing in Money Markets.

4.5 The question of affordability in relation to capital projects is easier to address as the list of cost components is easier to define. Whilst the list is not exhaustive, it will typically include:

- Capital Costs
    - Feasibility costs
    - Initial build/purchase
    - Disposal/demolitions/decommissioning costs
    - Project management costs - internal and external
    - Fees: Surveyors, Clerk of works

- Revenue costs
    - Ongoing rental charges
    - Ongoing facilities management charges
    - Utilities costs
    - Maintenance (planned and reactive)

- Financing costs (where appropriate, Minimum Revenue Provision (MRP) and Interest costs)
- staffing implications
- Business Rates

4.6 Feasibility costs may be capitalised provided the scheme leads to the eventual construction of an asset, if not, any such costs incurred must be charged to revenue.

4.7 In assessing whether an investment is sustainable, the authority should consider:

- how it fits into any future policy or environmental framework
- the future availability of resources to implement and continue to maintain any capital asset arising
- the potential for changes in the need for the asset, e.g. demographic developments
- the potential for changes in the nature of the driver, problem, or policy the capital expenditure is seeking to address.
- The security on loans made
- The liquidity of investments

4.8 In terms of practicality, the Council must ensure it has the right skills and resources available at the right time to be able to fully resource and deliver its Capital Programme ambitions. Some of the projects may be specialist in nature and, as such, will require external expertise and support in order to deliver the schemes, including good project management skills.

5 Capital Funding

5.1 Capital Funding Sources:

5.1.1 The Council's Capital Programme is currently funded from the following sources;

- Capital Receipts
- Prudential Borrowing
- Developers Contributions e.g. s106 receipts
- Partner contributions
- Revenue Contributions/Reserves
- Capital Grants e.g. Disabled Facilities Grant, Future High Streets Fund, etc
- Proportion of Housing Right to Buy receipts
- Major Repairs Reserve (for Council Housing investments)

5.1.2 The Council can recycle capital receipts generated from the disposal of assets back to fund both General Fund and HRA capital projects.

5.1.3 However with limited property available for sale, capital receipts are gradually being eroded. And with continuing budgetary pressures being placed on the

Council's General Fund the ability to use Direct Revenue Financing (use of reserves) is reducing and consequently the Council need to either find alternative sources through grants and contributions, pursue schemes that are self-financing (i.e. generate an income scheme to cover prudential borrowing and other on-going revenue costs) or curtail its ambitions for capital spend in future years.

5.1.4 The Council owns a number of assets including investment properties and through ongoing monitoring of assets and stock condition information, the continuation of holding such assets is reviewed in the light of suitability and sufficiency and decisions are taken on whether to:

- Hold and continue to maintain and refurbish them, or
- Dispose of and generate a capital receipt for funding the Capital Programme.

5.1.5 Following national changes during 2021, the Council has entered into a new agreement with the DLUHC in relation to how retained Right to Buy (RTB) receipts can be applied. The authority will recycle within a rolling 5-year period (changed from a 3-year period) Right to Buy (RTB) receipts arising from retaining "additional" receipts from RTB disposals into new social housing dwellings within the District. The RTB receipts retained, must be applied to fund up to 40% (previously 30%) of the capital costs of new build and acquisitions of affordable housing. A cap was introduced on the use of RTB receipts for acquisitions with effect from 1 April 2022 and phased in over 2022-23 to 2024-25. The first 20 units of delivery in each year will be excluded from the cap and therefore, the cap is not expected to impact on our acquisition programme. If the retained receipts are not spent within 5 years, they must be returned to Government with interest. If future actual expenditure matches the budgeted expenditure in the capital programme, the spend requirement will be exceeded up to 31st March 2029. This position will continue to be monitored.

5.2 Prudential Borrowing

5.2.1 Under the Prudential Framework local authorities are free to make their own judgements as to whether new borrowing is affordable and prudent, subject to a duty to follow agreed professional principles, which are contained within the Prudential Code.

5.2.2 Prudential borrowing to fund capital projects may, depending on the nature of the capital investment, bring with it the need to make a charge to revenue to reflect the cost of borrowing. This includes Minimum Revenue Provision (MRP) and interest. The MRP policy that applies to capital decisions funded by prudential borrowing is set out within the Council's Treasury Management Strategy.

5.3 S106 Developer Contributions

5.3.1 Developer contributions are sought, as part of the planning application process to mitigate the impact of development and overcome what would otherwise be a potential reason to potentially refuse a planning application. These S106 Developer Contributions are a means of supporting infrastructure costs such as play areas, transport networks, schools, etc.

5.4 Housing Revenue Account

5.4.1 Capital commitments are funded via surpluses from within the Council's Housing Revenue Account (HRA). The production of a 30 year HRA Business Plan, which is regularly reviewed, enables the funding needs of the Council's housing stock to be planned for and accommodated.

5.4.2 The HRA originally had a debt cap which was set at £80.081m in 2012. However, the Government has removed the cap allowing Councils to once again borrow against the value of its housing stock for improving the existing stock as well as delivering new stock.

5.4.3 The HRA Capital Programme is to a large extent driven by the amount of surplus generated which in turn is influenced by:

- The amount of income raised from rents, which for four years from 1/4/2016 was limited by Government policy, to a year on year decrease of 1%. Maximum increases of CPI plus 1% are permissible from 2020/21.
- The number of Right to Buy sales that take place and impact on the HRA stock and therefore the amount of future rent income receivable.

5.4.4 The resulting HRA Capital Programme provides for renovation and improvement of existing housing stock, refurbishment and limited estate regeneration.

6 New Delivery Models

6.1 In response to reducing capital resources the Council has looked to new delivery models to continue its capital investment in the District, which levers in other partners and innovative financing. These include consideration of developing a Housing Company, which the Council may establish to deliver new rented properties in the District.

6.2 In the context of the Capital Strategy, the Council has invested in property to produce an on-going revenue stream to contribute to the funding of the Council's revenue budget to sustain the delivery of key services to the District's residents. This capital expenditure has been funded through prudential borrowing. The prudential borrowing costs result in revenue costs of MRP and potentially interest. Prudential borrowing can be internal borrowing, against cash-backed reserves and working capital or external borrowing, loans from a third party. Interest costs are incurred where external borrowing is undertaken. The MRP and interest costs are funded from the on-going revenue stream from the property.

6.3 At the time of writing the Council currently has a portfolio of 'investment properties' of £45.448m (this is based on the Balance Sheet valuation in the draft, unaudited 2022/23 Statement of Accounts) and comprises of 15 properties. The portfolio is forecast to generate gross investment income of £4.277m in 2023/24. The prudential borrowing costs are estimated to be £1.524m in 2023/24, which includes interest on £22.3m, which is the additional external debt taken as a consequent of the investments made, with the remainder being funded with internal borrowing.

6.4 The Council's strategy in respect of 'investment properties' is detailed in the Commercial Investment Strategy (Non-Treasury Management Investment Strategy) included at Annex 1. Following the Public Works Loan Board (PWLB) Consultation outcome which was announced in November 2020 the Council has taken the decision to not acquire any further Investment Properties in order that it has continued access to the PWLB as a funding source for its Capital Programme.

6.5 The revised CIPFA Prudential Code issued in December 2021 states that authorities "must not borrow to invest primarily for financial return". It also says that it is not prudent for them to make any investment or spending decision that could increase the need for borrowing, unless related to the functions of the authority and where financial returns are "either related to the financial viability of the project in question or otherwise incidental to the primary purpose". Therefore, the changes in the code are aligned to the decision to remove any further investment property purchases from our Capital Programme and Capital Strategy.

6.6 Following a bidding process, the Council was awarded funding of £6.27m from the Future High Street Fund, for four schemes in Sutton-in-Ashfield. All four schemes are included on the approved capital programme. Two of these schemes have been delivered and the other two are in delivery. Funding has been received based on the annual spending profiles submitted as part of the business cases.

6.7 The Council was successful in securing a Town Deal for both Kirkby-in-Ashfield and Sutton-in-Ashfield from the Towns Fund, securing £62.7m for 17 schemes. The Council has developed full business cases for each scheme, in accordance with the timeframes set by Central Government. These projects and Towns Fund funding, including match funding amounts have been included on the approved capital programme.

7 The Current Capital Programme 2023/24 – 2026/27

7.1 A copy of the current 5 year Capital Programme can be found on the Council's website and the latest update to the Capital Programme is to be reported to Cabinet in February 2024. The current programme covers the following key areas and major schemes:

- Area schemes & General Fund Schemes
    - Towns Fund Programme
    - Future High Street Fund Programme

    - Kirkby Leisure Centre New Build
    - Other Leisure Transformation schemes
    - Purchase of Vehicles
- Housing Revenue Schemes
    - Decent Homes schemes
    - New Build and acquisitions of affordable housing
    - Affordable Housing developments

7.2 In assessing what schemes are included in the Capital Programme, the Council will ensure all schemes are properly appraised and prioritised through a scoring matrix as agreed by Council. This appraisal process will take account of the key criteria set out in this Strategy.

8 Service Enhancements & Building Asset Maintenance

8.1 The Council has a property land and buildings portfolio utilised for service delivery (eg leisure centres) and for operational delivery (offices and depots). It is important that these are maintained on a regular basis and receive upgrades and replacement if required when resources allow. This programme will be informed by the stock condition surveys alongside any service developments that may be proposed. It may also be required that some surplus assets are either disposed of (including demolition) if no longer fit for purpose or required.

8.2 As part of the agile working initiative which has significantly expanded due to the Coronavirus pandemic, opportunities for rationalisation of operational land and buildings may be identified. Equally, the retained operational land and buildings may require enhancement.

8.3 Included in the land and buildings portfolio are a number of Commercial Properties, which are providing an income stream to the Council. They are not deemed to be investment properties as they are held to support the economic development of Ashfield and are not held solely for returns or capital appreciation. The Council's risk exposure to be managed, in relation to these Commercial Properties include loss of income stream due to void periods and maintenance costs.

9. Grants & Contributions

9.1 The Council will make contributions to 3rd party schemes (including Disabled Facility Grants) as partner funding contributions to schemes not being directly delivered by the Council, to meet statutory grant requirements or to support particular initiatives.

9.2 The Council will also, where appropriate, seek grant funding and contributions to support the delivery of capital schemes.

10 Vehicles and Fleet

10.1 The Council has a significant fleet in order to deliver its operational services. The Council has traditionally purchased outright all of its fleet including refuse collection vehicles, which require a significant up-front investment. Whilst the current capital programme continues with this approach, other funding methods will be evaluated and may also be utilised (e.g. lease, Contract Hire with Maintenance, etc) in order to achieve the most cost effective approach to vehicle provision.

11 Service Transformation & Invest to Save

11.1 The Council still faces significant shortfalls in its revenue budget in the Medium term. Therefore, it will continue to invest in technologies and programmes which deliver ongoing savings to the Councils finances. These schemes will require initial Capital investment but must demonstrate a payback and ongoing savings as part of the evaluation process. A business case will need to be made for all proposals, which must include a financial appraisal.

11.2 These schemes can range from enhancements to buildings to make them more energy efficient, to ICT investment, to service transformation programmes. Where available, capital receipts will be used to fund one-off revenue costs associated with the Transformation Programme.

12 Economic and Regeneration Projects

12.1 The Council is seeking to secure additional external funding to support economic and regeneration schemes to maximise Ashfield's assets to support business growth and investment and to make Ashfield a destination of choice to work and to live.

12.2 In some cases the funding of the schemes may also have a commercial aspect where it generates income which may be used to fund on-going revenue costs including borrowing costs.

12.3 A detailed business case will need to be made for all proposals, which must include a financial appraisal.

13 Loans to third parties

13.1 A local authority may choose to make loans to local enterprises, local charities, wholly owned companies and joint ventures as part of a wider strategy for local economic growth. The Council's current capital plans do not include making any loans to third parties. A consultation on the DLUHC Statutory Minimum Revenue Provision Guidance ended on the 8th February 2022, which may result in changes that would impact on the viability of local authorities giving loans funded by borrowing to third parties. The response and outcome of this is still outstanding. When known, it will be included in the Council's policies.

14 Capital Project Delivery and Investment Risk Management

14.1 The Council, like all Councils is exposed to a broad range of risks:

- **Financial risks** related to the investment of the Council's assets and cash flow, market volatility, currency etc.
- **Macroeconomic risks** related to the growth or decline of the local economy, interest rates, inflation and to a lesser degree, the wider national and global economy amongst others.
- **Credit and counterparty risks** related to investments, loans to institutions and individuals and counterparties in business transactions.
- **Operational risks** related to operational exposures within its organisation, its counterparties, partners and commercial interests.
- **Strategic risks** related to key initiatives undertaken by the Council such as significant purchases, new ventures, commercial interests and other areas of organisational change deemed necessary to help the Council meet its goals.
- **Reputational risks** related to the Council's dealings and interests, and the impact of adverse outcomes on the Council's reputation and public perception.
- **Environmental and social risks** related to the environmental and social impact of the Council's strategy and interests.
- **Governance risks** related to ensuring that prudence and careful consideration sit at the heart of the Council's decision-making, augmented by quality independent advice and appropriate checks and balances that balance oversight and efficiency.

14.2 The Council must manage and mitigate these risks where possible but there is inherent risk in undertaking major Capital Projects and this needs to be recognised. Therefore, for each scheme, risk assessments and risk registers need to be prepared and monitored to ensure, as far as possible, risks are managed.

15 Governance & Monitoring

15.1 The Prudential Code sets out a clear governance procedure for the setting and revising of a Capital Strategy and Prudential Indicators i.e. this should be done by the same body that takes the decisions for the local authority's budget – i.e. Full Council.

15.2 The Prudential Code also states that decisions around capital expenditure, investment and borrowing should align with the processes established for the setting and revising of the budget. The Financial Procedure Rules (FPR) set out clear procedures for the approval of capital expenditure, including:

- approval of the capital programme – Full Council (FPRs para B.1)
- additions/changes to the capital programme – Cabinet/Council (FPRs para B.8)

15.3 The Audit Committee has delegated powers responsible for Governance and Treasury Management within the Council. They scrutinise and recommend an annual Treasury Management Strategy (incorporating an Investment Strategy and Borrowing Strategy) to Council for approval as part of the annual approval of budget. They also receive monitoring reports on Treasury activity and a year-end Annual Report.

15.4 The S151 Officer is responsible for ensuring that all matters required to be taken into account are reported to the decision-making body for consideration. They also have to declare that they consider the strategy to be prudent and affordable, are integrated into the Treasury Management Strategy and other Strategic Plans, and that all the revenue implications are included in the MTFS.

16 Knowledge and Skills

16.1 In order to deliver this Capital Strategy it is important that the Council employs and /or has access to competently skilled people in order to manage the delivery of the Capital Programme. The Council's S151 Officer has the overall responsibility for the Capital and Treasury Management activities so needs to be professionally qualified and undertake ongoing CPD in these areas. This should be underpinned by experienced staff who can support the S151 Officer in meeting these requirements. Additionally, professional advice can be bought in from external providers. The Council's current Treasury Management Advisors are Link Asset Services.

16.2 Training should also be provided to those Members and Officers involved in the monitoring and delivery of the Capital Strategy and Programme and this should be regularly updated. Appropriate project management training should also be provided to project leads, Officers and Members responsible for each of the Capital schemes.

Annex 1

ASHFIELD DISTRICT COUNCIL
COMMERCIAL PROPERTY INVESTMENT STRATEGY

This Commercial Property Investment Strategy document outlines the rationale, process and risk management in relation to previous Commercial Property Investment acquisitions and the on-going management of the Commercial Property Investment portfolio.

The current capital programme (to be approved February 2024) does not include any plans for further Commercial Property Investment. The last acquisition was made on 2nd April 2020.

1. Key Principles

1.1 The core function of the Council is to deliver statutory and other services to local residents. Reductions in government funding has required local authorities to look at the options for balancing the budget. Investing in property helps the Council to generate an additional on-going revenue income stream that it can then use to reduce its net costs of providing services.

1.2 This is achieved by buying property that has a tenant who pays rent to the owner of the property – the landlord. The tenant needs to be of good financial standing and the property and lease must meet certain standards such as being in a commercially popular location and have a number of years left on the lease providing a certain and contractually secure rental income stream into the future.

1.3 The Council funds the purchase of the property by prudential borrowing and/or use of Capital Receipts where these are available. The rental income paid by the tenant must exceed the cost of capital (MRP and interest). The annual surplus then supports the Council's budget position and enables the Council to continue to provide services for local people.

1.4 Historically, property has proved to be one of, if not the best, investment in terms of capital growth over the last 50 years. If the Council owns the property for 20 years plus, and the property is managed and maintained appropriately, the Council can expect to see an increase in the value of the property as well as a net annual surplus of revenue.

1.5 The increase in value is realised when the property is sold. The sales proceeds from the sale of property result in a capital receipt for the Council. The capital receipt will be used to extinguish the debt outstanding in the Capital Financing Requirement in relation to the property sold, and the remaining capital receipt can be used to fund further capital investments or applied to revenue transformation costs under the Flexible Use of Capital Receipts Policy, although this flexibility is currently due to expire at the end of

March 2025. In both cases, the additional capital receipt will support the delivery of services for local people.

Purpose

2.1 The Commercial Property Investment Strategy:

- Clarifies the legal powers used to operate the Strategy and ensure continued compliance.
- Sets out what the Council wants to achieve when acquiring property assets for investment purposes – primarily to provide an income stream with a margin over the cost of capital.
- Identifies criteria for acquiring and owning property assets for investment purposes to ensure risks are minimised.
- Includes an outline of the process involved in acquiring property assets for investment purposes.
- Is part of a wider policy framework supporting what the Council does and why.

2.2 Each acquisition is evaluated on its merits to consider the relevant purpose(s), legal powers, financial powers and any other implications. The evaluation addresses the potential within the market place for future uplift or loss in value of the asset being considered for acquisition, as well as the security of income from the tenant in occupation.

3. Legal Powers

3.1 Local authorities have very wide powers to acquire, sell, appropriate and develop land, such that it is rare to need to use the powers in the Localism Act 2011. Specific property related powers are very wide and include the following:

- Sections 120 to 123 of the Local Government Act 1972
- Section 227, Town and Country Planning Act 1990
- Section 233, Town and Country Planning Act 1990
- Local Authorities (Land) Act 1963 (development)
- Housing Act 1985
- Sections 24-26 Local Government Act 1988

3.2 There are various powers that would usually be sufficient for the Council to undertake any property acquisition, sale or related project in its area where at least part of the motivation is connected with the broad benefit or improvement of its area, as it is in the case of this strategy.

3.3 Section 120 of the Local Government Act 1972 to acquire land (inside or outside of their area) for the purposes of any of their functions, and then this gives us the power to borrow as contained in Section 1 of the Local

Government Act 2003 - A local authority is empowered to borrow money for any purpose relevant to its functions under any enactment.

4. **Objectives of the investment activity**

4.1 Acquisition to generate an income stream is a natural progression from acquisition for regeneration purposes. The two can also be combined – an example of this is if an acquisition is made which offers a secure income stream and the option for future regeneration of a site. Therefore, the reasons for buying and owning property investments are primarily in this order:

1. Financial gain to fund our services to local people
2. Market and economic opportunity – the time is right
3. Economic development and regeneration activity in Ashfield

4.2 The UK commercial property investment market is very well established, attracts global investors and is defined as a 'mature asset class'. It has a wide range of new and established investors including institutions, pension funds, specialist property companies, charities, family trusts and individuals.

4.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines investment property as "…used solely to earn rentals or for capital appreciation or both…".

4.4 Returns from property ownership can be both income driven (through the receipt of rent) and by way of appreciation of the underlying asset value (capital growth). The combination of these is a consideration in assessing the attractiveness of a property for acquisition.

4.5 Property prices and returns are a function of the property type, condition, use and location, together with the lease structure and covenant strength of the tenant (in the case of a let property). Lease contracts will reflect all liability and outgoings being the responsibility of the tenant.

4.6 The Council has pursued property investments which produce the best returns possible, whilst carrying an acceptable level of risk. The main mitigation measure in managing risk is to target investments which are let to 'blue chip' tenants, on relatively long leases with little or no landlord management involvement – typically the tenant is responsible for all property costs such as repair, maintenance and outgoings. In this way, the Council will be primarily buying a secure income stream and the buildings themselves become almost secondary considerations.

4.7 Any property asset coming onto the market could be for a number of reasons. Investors seek to buy and sell in many different circumstances - rebalancing their portfolio, seeking cash to influence balance sheet or share price, requirement for a more "liquid" asset, short-term investment taking advantage of small capital growth, moving into different property classes, etc.

5. Priorities & Risk in Property Investment

5.1 The priorities the Council had considered when acquiring property interests for investment purposes are (in order of importance):

- **Covenant Strength** - in the case of a let property, the quality of the tenant and, more importantly, their ability to pay the rent on time and in full. The Council's primary reason and objective for this strategy is financial gain to sustain delivery of key services to residents. The underlying principles of a Property Investment Strategy imply, assume and default to nothing taking higher priority than financial gain. It is however worth noting that the Council, as a public body, may not wish to invest in properties where the occupiers are generally seen to be undertaking a business which is contrary to its corporate values.

- **Lease length** - in the case of a let property, the unexpired length of the term of the lease or a tenant's break clause is of key importance in ensuring that the landlord's revenue stream is uninterrupted. The Council will take into consideration the risks associated with a tenant vacating and the potential to attract good quality replacement tenants at acceptable rental levels. Generally, occupiers are moving away from 25 year leases which were more common back in the late twentieth century with 10 to 15 years now becoming more acceptable unless some form of lease break provisions are included in favour of the tenant.

- **Rate of return** - the rate of return from the property (for example through annual rental incomes) will need to be equivalent or better than the returns that could be earned from alternate investments, such as placing monies on deposit, following adjustment for risks and potential growth. The property will also need to produce an annual return in excess of the cost of capital (Interest and MRP).

- **Risk** – rate of return is one side of the coin; risk is the other. In general, the higher the sought level of return from an investment, the higher level of risk that it carries. For example, if a property is let at an attractive rent which would create a good return, it could still be risky if the tenant does not possess good covenant strength and could default at any time.

- **Lease Terms** – The terms of leases vary and even those held on an "Institutionally acceptable basis" can be very different in nature particularly as such leases have developed over time. The Council has sought to invest in modern leases with full repairing and insuring obligations on the Tenant and a full Service Charge recovery to include any management fees where applicable. This ensures a certain income/return to the Council.

- **Growth** - property has the potential for both revenue and capital growth. The Council has taken into account that potential when assessing the strength of the investment opportunity. Property values can fall as well as rise and mechanisms to minimise revenue reductions should be identified. Generally, the nature of standard, institutional leases is that rent review clauses are upward only which protects landlords from any downward pressure on rental income giving some security as to the level of income.

- **Location** - should a tenant default or vacate, the location of the property is the key factor in influencing the ability to re-let and find another tenant. Location is also important when considering future redevelopment or regeneration opportunities. Ideally the Council will be able to undertake inspections and to deal with any management issues without the need to employ specialists or agents. When appropriate opportunities surface in Ashfield, they will be evaluated against the same criteria as those opportunities located outside of the District. In this way, this investment activity does not discriminate against location. Any investment decision is subject to the appropriate justification, business case and governance. As from the end of November 2020 the Council will no longer acquire out of District Investment Properties.

- **Sector** - information as to the sector of use of the property (e.g. office, retail, industrial, leisure) has assisted in deciding on the risks associated with specific properties and the mix of sectors within the portfolio.

- **Building Age and Specification** - in the case of a let property, whilst the Council, as an investor, may be principally concerned with the characteristics of the tenant and lease, the age and specification of the property will also affect the ability of the Council to let or sell the property in the future. It must also be taken into consideration in respect of the cost of protecting the investment. An example of this would be the undertaking of repairs and refurbishment if the cost cannot be fully recovered from the tenant.

5.2 In summary, the strategy for previously acquiring investment property assets was therefore to:

- Seek property let to tenants who are of strong covenant strength and sound financial standing with at least more than five years remaining on an FRI lease.

- Minimise risk.

- Maximise rental income and minimise management costs to ensure the best return is generated.

- Identify opportunities for future growth, redevelopment or regeneration via property in commercially popular or development areas.

- Prioritise the Ashfield area.

- Pursue opportunities to increase returns and improve the investment value of commercial assets

6. <u>Reporting Requirements and Governance</u>

6.1 Commercial Property Investment Strategy

6.1.1 In accordance with the DLUHC revised Statutory Guidance on Local Government Investments (2018), each financial year, a local authority should prepare an Investment Strategy, which should be approved by full Council. The investment strategy must include non-treasury management investments.

6.1.2 This Commercial Property Investment Strategy, which is incorporated into the Capital Strategy is this Council’s non-treasury management investment strategy.

6.1.3 The DLUHC Statutory Guidance on Local Government Investments (2018) requires the Commercial Property Investment Strategy to include quantitative indicators to allow risk exposure as a result of its non-treasury management investments to be assessed. The indicators are included as Annex 2.

6.2 Acquisition, Re-assignment and Regear Decision Making and Reporting

6.2.1 The acquisition process was defined, and implemented to ensure roles and responsibilities are clearly defined, outcomes are understood, and unnecessary risk has been avoided. This process is included in Annex 3 of this Strategy.

6.2.2 Where time constraints allowed, which is more often not the case, a collective Cabinet decision has been sought; however a faster, robust decision-making process must be available to ensure Ashfield's competitiveness is maintained. In most, if not all, circumstances where the Council has negotiated an acquisition by Private Treaty, the Vendor has wanted to proceed swiftly with the transaction for financial reasons. Furthermore, where the Council may purchase at auction, the contract is signed at the end of the auction; therefore, authorisations/delegations must be in place in advance. As such, the Officers have used existing provisions within the Scheme of Delegation and Access to Information Procedure Rules to ensure a decision can be taken expediently. In all cases, a full written report and decision record has been prepared and required notices published in accordance with Governance requirements. Specifically:

1. Where timeframes have not allowed a collective Cabinet decision, the Leader of the Council has taken a delegated Executive Decision.
2. Previously, where a potential purchase is a key decision and/or will contain exempt information but the full 28 days' notice cannot be given due to the urgency of the matter, a General Exception has been applied (Rule 15). This gives five clear days' notice of the decision being made. The Monitoring Officer informs the Chairman of the Overview and Scrutiny Committee and has published the required notices.
3. Where there is a greater urgency and 5 clear days' notice could not be given, the Special Urgency provisions has been used (Rule 16). In this case, the permission of the Chairman of the Overview and Scrutiny Committee (or if they are unable to act, the Chairman of the Council or, in their absence, the Vice Chairman of the Council) has been obtained before making the decision. The Rule 16 notice has then been published.
4. In such cases it is expected that the decision has been implemented without delay and therefore not been subject to call in.
5. The report has explained the reasons in each case as to why a decision is not to be called in.
6. The Leader has reported to the next available Council meeting any decisions, which are made pursuant to Rule 16.

6.2.3 This process is also followed where decisions are needed to be made urgently in relation to re-assigning and regears.

6.3 Post Acquisition Monitoring Arrangements

6.3.1 A Commercial Investment Working Group operates within the Council and is attended by:

- Chief Executive/Deputy Chief Executive
- Executive Director - Transformation
- Monitoring Officer/Deputy Monitoring Officer
- Section 151 Officer/Deputy Section 151 Officer
- Commercial Development Service Manager

6.3.2 The Group meets quarterly and discusses:

- Progress of commercial investments being pursued (will not be applicable in line with current capital plans)
- New opportunities for commercial investments (will not be applicable in line with current capital plans)
- Factors impacting or influencing opportunities for commercial investments (will not be applicable in line with current capital plans)
- Performance of and factors impacting or influencing existing commercial investments

6.3.3 A quarterly Commercial Property Performance Report is presented to the group which details:

- the rentals payment performance of the Commercial Property Investment tenants;
- financial performance of Commercial Property (as defined in 8.3 of the Capital Strategy) and Commercial Property Investments;
- the state of the market which covers how each sector e.g. industrial, office, retail, leisure is performing;
- Tenant Covenant, which covers default risk (payments not being made), failure risk (business failure) and delinquency risk (payments being late).

6.3.4 A mid-year report and outturn report on Commercial Property Investment Performance detailing the information in 6.3.3 is reported to Audit Committee.

6.3.5 A Council representative, primarily the Council’s Property Agent and/or the Commercial Development Service Manager will periodically visit and inspect Commercial Property Investments. Regular contact is also maintained between the Council’s Property Agent and the tenants, this informs the quarterly report to the Council.

7. Risk Management

7.1 Risk Mitigation on acquisition

7.1.1 In order to mitigate the risks of investing in commercial property, the considerations outlined 5.1 have always been evaluated and the processes in 6.2. undertaken. The acquisition process has been defined, and implemented to ensure roles and responsibilities are clearly defined, outcomes are understood, and unnecessary risk has been avoided. This process is included in Annex 3 of this Strategy.

7.1.2 A fair value assessment has been conducted on purchase and provides sufficient security for the underlying capital invested.

External Advice

7.1.3 The Council's Commercial Property team has the relevant investment and management knowledge/experience to manage the investment property portfolios. Nevertheless, officers have taken external advice on a number of occasions such as:

- Appointing a representing agent in line with Contract Procedure Rules to represent and advise Ashfield on potential acquisitions.
- Seeking external legal advice, via the Legal Shared Service, on various matters during conveyancing and indeed, to represent Ashfield directly, in complex transactions or in jurisdictions where English Law does not apply.
- Commissioning external Chartered Surveyors to carry out surveys on properties prior to purchase, with their reports forming a key part of the decision-making process and to carry out valuations of investment properties.

7.2 Risk Mitigation post acquisition

Annual Review of Fair Value

7.2.1 An annual review will be undertaken of the Commercial Property Investment portfolio fair value as per the Council's revaluation programme as outlined in the accounting policies and agreed with the external auditors. The fair value will be compared to the debt outstanding and appropriate provision will be made if there is a fall in the value of the assets.

Commercial Property Investment Earmarked Reserve

7.2.2 The Council has established a Commercial Property Investment Earmarked Reserve, which is to mitigate against the risk of business failure and lease events.

7.2.3 The reserve will be used to cover:

- Loss of investment return
- Capital financing costs (MRP and interest costs are still incurred, if the income stream is lost)
- Business Rates (the Council will be liable to pay the Business Rates, if the property is vacant)

- Capital Expenditure (may be necessary to fund dilapidation works to get the property to a standard to enable re-let.

7.2.4 It will also be used to fund any debt outstanding following the sale of a Commercial Property Investment where the capital receipt does not extinguish the debt outstanding for the property.

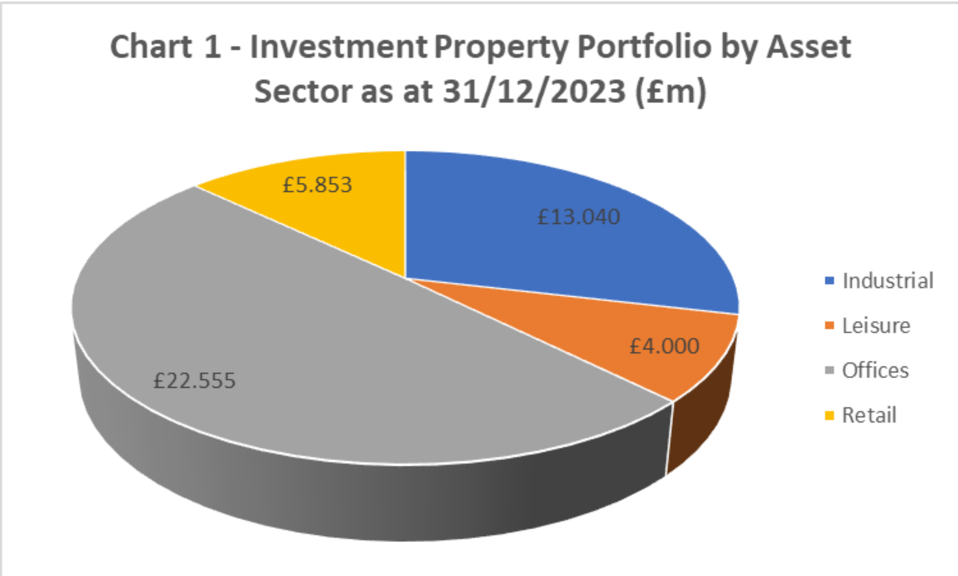
7.2.5 An annual review of the Commercial Property Investment Earmarked Reserve will be carried out as part of the Medium Term Financial Strategy to assess whether there are sufficient resources held in the Reserve. Where it is deemed there are insufficient resources, provision will be made to top up the reserve over a period of time as part of the budget setting process (through the Medium Term Financial Strategy).

Annex 2

Commercial Property Investment Portfolio and Indicators

Commercial Property Investments Portfolio

The total investment property portfolio of £45.448m (this is based on Balance Sheet value) and comprises of 15 properties. Chart 1 shows the investment portfolio by asset sectors.



The current capital programme (to be considered by Cabinet February 2024 and approved by Council March 2024 does not include any plans for further Commercial Property Investments.

The DLUHC recommend the following indicators for non-treasury investments e.g. Commercial Property Investments.

a) Debt to Net Service Expenditure

Table 1 shows the gross external debt on Commercial Property Investments at the end of each financial year divided by the Net Service Expenditure for each financial year. It assumes all future planned Commercial Property Investments are funded from external borrowing and therefore increases the debt in the indicator.

Table 1 demonstrates how many times greater the Commercial Property Investments debt is to the estimated Net Service Expenditure.

Table 1 Debt to Net Service Expenditure

	2022/23 (Actual)	2023/24 (Forecast)	2024/25	2025/26	2026/27
Debt to Net Service Expenditure	4.06	3.79	3.70	3.53	3.88

The Debt to Net Service Expenditure is decreasing as there are no plans to purchase further investment properties, therefore the level of debt outstanding reduces as MRP is charged to the General Fund.

b) Commercial Income to Net Service Expenditure

Table 2 shows the expected income from Investment Properties divided by the Net Service Expenditure. As there are no plans to purchase further investment properties this ratio is forecast to maintain reasonably constant, with changes due to annual rent increases and changes to the Net Service Expenditure.

Table 2 Commercial Income to Net Service Expenditure

	2022/23 (Actual)	2023/24 (Forecast)	2024/25	2025/26	2026/27
Commercial Income to Net Service Expenditure	31.8%	26.4%	27.7%	28.4%	31.9%

This highlights the reliance on Commercial Property Investment income in delivering Council services. The strategy for risk mitigation to manage and maintain the income stream is set out in Section 7 of the Commercial Property Investment Strategy.

c) Investment Cover Ratio

Table 3 shows the expected net income from Commercial Property Investments divided by the Interest Expense. It has been calculated on the basis that all the Commercial Property Investments have been funded by external borrowing, and interest is being incurred

The increases in the ratio year on year in the table is due to forecast increases in the net income based on the lease agreements in place for the existing portfolio. The significant increase in 2022/23 is due to the forecast increase in income from the hotel in line with the terms of the new lease.

The Council uses the annuity method to calculate its MRP for Investment Properties. The annuity method charges less MRP in the early years following purchase and more MRP in the later years. The total amount of MRP charged over the life of the asset will equal the amount of prudential borrowing. Therefore the increasing MRP will reduce the investment income cover, if the ratio is maintained or increases it demonstrates the income increases are matching or exceeding the increasing MRP charges.

Table 3 Investment Cover Ratio

	2022/23 (Actual)	**2023/24 (Forecast)**	**2024/25**	**2025/26**	**2026/27**
Investment Cover	1.38	1.04	1.16	1.30	1.30

d) Loan to Value Ratio

Table 4 shows the Capital Financing Requirement (debt to be funded) for the Investment Properties divided by their estimated valuations.

Table 4 Loan to Value Ratio

	2022/23 (Actual)	**2023/24 (Forecast)**	**2024/25**	**2025/26**	**2026/27**
Loan to Value Ratio	129.22%	127.06%	124.85%	122.58%	120.26%

In the early years, the loan value is expected to exceed the asset value. The main reason for this is due to acquisition costs e.g. stamp duty, agent fees etc. being included in the cost of the Commercial Property Investments that have been funded by borrowing, these costs are not included in the property valuation.

The loan to value is expected to continue to reduce as the capital financing requirement (unfunded debt) reduces as MRP payments are made. The investment properties will be valued regularly. Any increase in Investment Property values will reduce the loan to value ratio and consequently any decrease in value is likely to increase the loan to value ratio.

e) Target Net Income Returns

Table 5 compares the Target Net Income Return with the Actual Net Income Return. The Actual Net Income Return is calculated by dividing the Estimated Investment Property Income less MRP and Interest Costs by the Investment Property Purchases. Similar to c) above the estimated net income return is increasing due forecast increases in income based on the existing lease agreements, being in excess of the increasing MRP charges.

Table 5 Target Net Income Returns

	2022/23 (Actual)	2023/24 (Forecast)	2024/25	2025/26	2026/27
Target Net Income Return	2.50%	2.50%	2.50%	2.50%	2.50%
Estimated Net Income Return	3.35%	2.51%	2.81%	3.16%	3.14%

f) Gross and Net Income

Table 6 compares the estimated gross income with the estimated net income. The net income is the estimated gross income net of interest and MRP charges. As per e) above the net income assumes that interest on external borrowing will be paid for all investments.

Table 6 Gross and Net Income

	2022/23 (Actual)	2023/24 (Forecast)	2024/25	2025/26	2026/27
	£000s	**£000s**	**£000s**	**£000s**	**£000s**
Gross Income	4,590	4,031	4,242	4,479	4,497
Net Income	2,073	1,551	1,738	1,951	1,944

Note: In all of the above indicators where net income returns are included, the estimate assumes that interest on external borrowing will be incurred. The Council, depending on its cash reserve position, may choose to use internal borrowing to finance part or all of its investment property purchases. If internal borrowing is used the net income will increase as interest payable costs are saved.

To date actual external debt of £22.3m has been taken as a consequence of the property investments made, with the remainder being funded with internal borrowing. Table 7 below shows the net income after the actual external interest costs on the additional debt and the MRP charges. This is the actual impact on the MTFS.

Table 7 Gross and Net Income – impact on MTFS

	2022/23 (Actual)	2023/24 (Forecast)	2024/25	2025/26	2026/27
	£000s	**£000s**	**£000s**	**£000s**	**£000s**
Gross Income	4,590	4,031	4,242	4,479	4,497
Net Income	3,028	2,506	2,693	2,905	3,306

g) Break Clauses or Lease Expiries

All of the investment property leases have either i) a break clause which gives the lessee the option to either continue leasing the property or to end the property lease or ii) an expiry date where the tenant vacates the property unless a new lease contract is signed.

There is a risk for the Council with both break clauses and lease expiries, if the existing tenant chooses to leave the property. The risks this exposes the Council to and risk mitigation are, detailed in the Commercial Investment Property Strategy. Risk mitigation includes spreading the dates when break clauses and lease expiries occur across the Council's Commercial Property Investment portfolio.

Table 8 below shows the years when the Council has a break clause or expiry on its current Commercial Property Investment portfolio.

Table 8 Break Clauses or Expiries

Financial Year	Number of Breaks or Expiries
2024/25	3
2025/26	0
2026/27	0
2027/28	0
2028/29	4
2029/30	2
2030/31	0
2031/32	2
2032/33	3
2033/34	0
2034/35	2
2035/36	1
2036/37	0
2037/38	0
2038/39	0
2039/40	2

This information is used when negotiating with tenants to re-gear leases at the appropriate time, the negotiations can include changing the options for break clauses and lease expiry.

Investment Property Acquisition Process

This Annex is retained for information purposes only to demonstrate the process the Council used for acquiring its current Investment Property portfolio.

Reviewed: January 2024

Process and Responsibilities for Commercial Property Investment

As a process, the investment portfolio will require work from various services within Ashfield District Council due to the complex nature of property selection, evaluation and acquisition. Adhering to this process will minimise risk and ensure adherence to Statute and the Prudential Code.

This document should be read alongside the Investment Property Acquisition process map found at the end of this document.

Stage 1 – Identification Stage

Stage 1 may be repeated several times in identifying suitable properties for purchase. The steps required help to ensure that only suitable properties are brought forward as potential investments. The due diligence undertaken here includes, and is not limited to, the tenant covenant, location, the overall market, assessment of risks and the details within the lease.

Step	Element	Document(s) Involved	Responsibility
1	**Opportunity identified** - This can be either by way of direct research by ADC employees or by outside approach from agents. Once a property is identified, an initial financial investment model is produced to determine if the minimum income target can be met.	• Property Brochure	Service Manager – Commercial Development
2	**Min NIY possible?** - The initial financial appraisal outlines the yield that would be obtained with the target of achieving at least 2.5% net initial yield (NIY). All evaluation is done on the basis of external borrowing from the PWLB at the rates current on the given day.	• Financial appraisal	Service Manager – Commercial Development
3	**Collate available documents and send to finance and legal –** Title(s) and Lease(s) may not be available in the first instance for every opportunity.	• Brochure • Financial appraisal • Dunn and Bradstreet reports • Titles and Leases	Service Manager – Commercial Development
4a	**Preliminary Finance due diligence –** Finance will examine the appraisal and credit reports to determine if there is any reason not to proceed; these reasons will be documented and circulated.	• Record of issues (email or otherwise)	Corporate Resources Director
4b	**Preliminary Legal due diligence –** Legal will examine the available documents (and undertake their own research) to determine if there is any reason not to proceed; these reasons will be documented and circulated.	• Record of issues (email or otherwise)	Executive Director - Governance
5	**Inspect Property** – Officers will undertake a visual inspection of the property and surrounding area. This inspection informs the	N/A	Service Manager –

	creation of the Briefing note and the Evaluation Matrix.		Commercial Development
6	**Appraise property against matrix and write briefing note –** Taking feedback received from Legal and Finance in conjunction with other sources, the Briefing note and risk assessment are completed and the Evaluation matrix is completed. These documents encapsulate the meaningful aspects of the work thus far and are prepared in order to submit the property for consideration by the Leader / Deputy Leader.	• Briefing note • Evaluation Matrix	Service Manager – Commercial Development
7	**Meet with leadership to present and obtain authority to make and offer –** a meeting will held to table the property as an option and discuss the findings of work to date. Normal attendees (at a minimum) are The Chief Executive Officer, the Service Manager – Commercial Development, the Corporate Finance Manager, and Director of Legal and Governance. After the meeting, and if agreed, the Leader will formally cascade approval to offer on the property. A maximum offer is approved after discussion; although opening offers are always placed below.	• Authority to bid	Service Manager – Commercial Development
8	**Place offer** – After receiving approval, offer letters are drafted, approved and submitted to the vendor's agent. The offer letter contains ADC's offer and terms , such as: • The proposed time for signed Executive Decision Records, surveys, completion • Conditions to be included in the Heads of Terms (HoT), such as receipt of a full legal pack before the process starts. • Exclusivity from agreed HoT. An accepted offer is notified normally by telephone and is followed by receipt of an email with Draft HoT attached.	• Offer letter	Service Manager – Commercial Development

Stage 2- Conveyancing Stage

This stage begins once a bid has been accepted for an investment property. The ongoing due diligence in the first stage would also be brought forward to mitigate risks. Further analysis of the tenant, the building, the lease etc, are evaluated to ensure risk is mitigated.

Step	Action	Document(s) Involved	Responsibility
9	**Agree the Heads of Terms** – After reviewing the received Draft Heads of Terms and making any required amendments, the revised Heads of Terms are returned to the vendor's agent. This process will repeat until both parties are satisfied that the Heads of Terms reflect the agreed position, at which point they are formally approved by both sides. These will then be sent to the Service Manager – Commercial Development and the Director of Legal and Governance.		Service Manager – Commercial Development
10	**Make contact with Vendor's solicitors; receive and verify Legal pack** – Once received by Legal, the appointed solicitor will make contact with the Vendor's solicitor via email or phone to indicate that they are representing ADC in the transaction. ADC Legal will provide the necessary details for receipt of the legal pack; upon receiving the Legal pack, the ADC's solicitor will verify its contents and raise any queries with the other side's solicitor whilst awaiting instructions from the Commercial Property team following a signed Executive Decision Record from the Leader.		Executive Director - Governance
11a	**Instruct surveys (external) –** After agreeing Heads of Terms, quotes will be sought for conducting building surveys of the property in question. Generally, the property brochure provided at the beginning of the process is provided to at least three Survey firms, with the deadline by which inspections and reports must be completed and received by ADC (this element of the process has a 10 working day time limit from the date of Agreed Heads of Terms being received). Quotes are generally received within 24 hrs and the quote that represents best value for money (taking price, quality and time into account) is selected.		Service Manager – Commercial Development
11b	**Write Urgency Notice/ Report for the Executive Decision Record–** An urgency notice is required for these transactions which must be signed by the Chair of the Scrutiny Committee. The Leader, or delegated person, is obligated to contact the Chair to explain the details of the transaction prior to gaining a		Service Manager – Commercial Development

	signature. An urgency notice is required due to the Decision being Key and the constrained timeframe for the process to be completed. The Report for the Executive Decision Record is the briefing note written earlier with the addition of Recommendations, Implications, Reasons for Urgency, and Exemptions, as per the standard ADC report format. Once a draft is produced by the Service Manager, it is circulated to Legal and Finance for review/amends until it is finally complete and approved by all parties. Then the Leader, Chief Exec and the Service Manager will meet to review the report and answer any remaining questions. Once the Leader is satisfied, the EDR is signed by the Leader and forwarded to Democratic Services, along with the report. A copy of both should also be supplied to Legal for the case file.		
12a	**Notify other side of the EDR** – Once the EDR is signed, an email should be sent to the other side's solicitor noting that the EDR has been signed, meaning that the purchase is officially approved.		Executive Director - Governance
12b	**Instruct legal** – The Estates Manager will complete the official instructions for Legal to undertake the conveyancing process.		Service Manager – Commercial Development
13	**Conveyancing process** – The conveyancing process is distinctly different for every property purchase, given the unique circumstances that each purchase presents, though each has common activities, i.e. examining titles, searches and queries, contract/Lease examination and amendment, etc.		Executive Director - Governance
14	**Determine level of borrowing and source / Option to tax (if applicable) –** Finance will determine the level of borrowing need for the purchase as well as whether this should be internal or external borrowing. Finance work closely with their Treasury Management Advisers. They will seek advice to determine whether it is preferable to externally borrow now and risk the cost of carry i.e. interest payable being greater than the interest payable or whether it is best to borrow internally of temporarily if affordable. If the property is being sold as a Transfer of a Going Concern (TOGC), finance will complete a		Corporate Resources Director

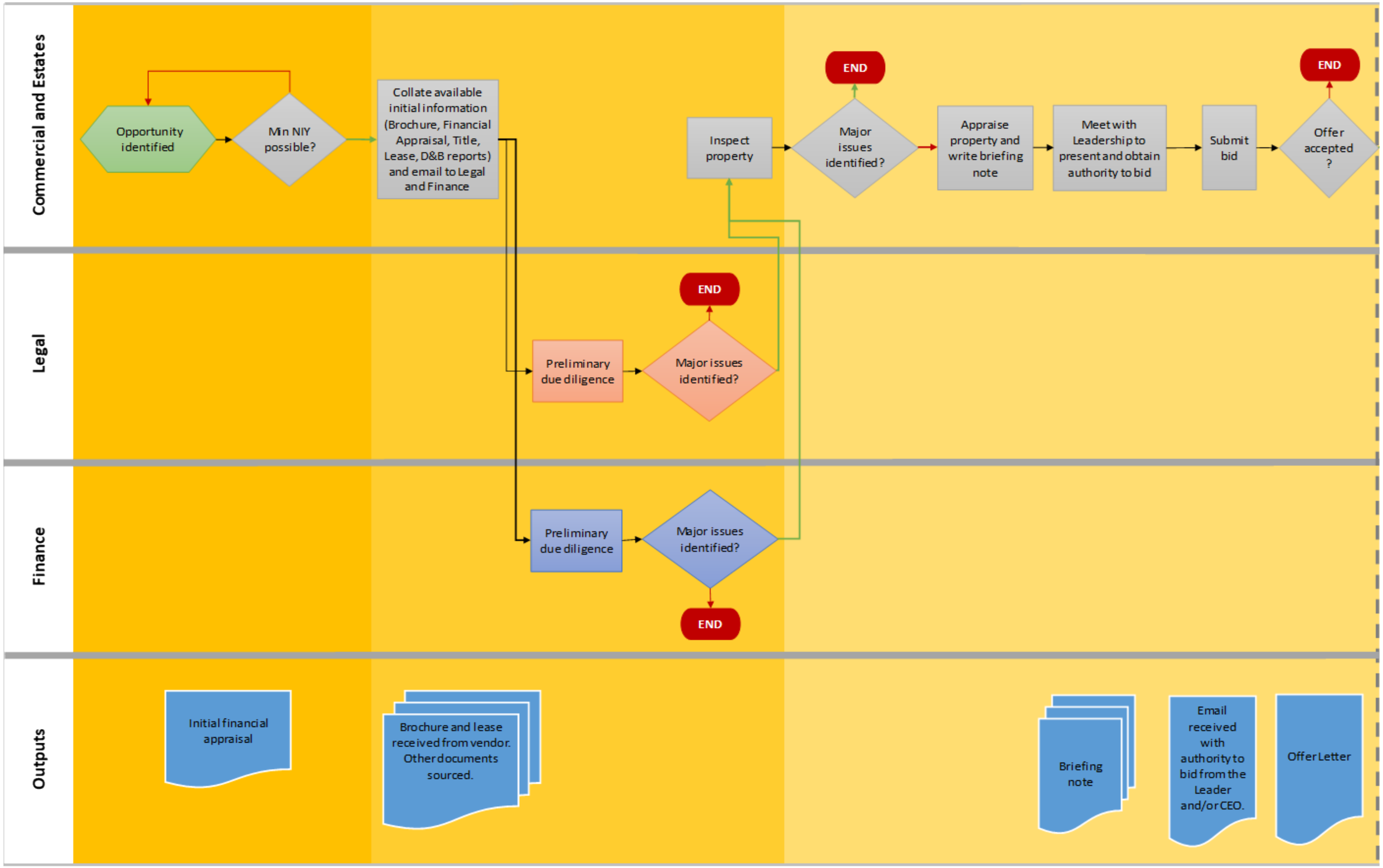
	form to Opt to Tax the property (VAT 1614A). When granted by HMRC, VAT must be paid and passed to HMRC on rents, but VAT will not apply on the purchase of the property. If for whatever reason the purchase does not complete then this can be rescinded by simply informing the HMRC.		
15	**Arrange Insurance –** Once the Surveys have been returned, the values provided therein by the Surveyor will be passed to Finance to arrange appropriate insurance cover for the property, with the date of commencement to be the completion date.		Corporate Resources Director
16	**Secure funds –** Having previously determined the source of funding, Finance will take steps to secure the funds in anticipation of making payment.		Corporate Resources Director
17	**Transfer payment** – Once Legal is satisfied that completion can occur, the solicitor will notify Finance that the money can be transferred. Funds will be transferred <u>no later than 1700hrs on the day prior to completion.</u> Failure to meet this deadline risks incurring additional costs in penalties as noted in the sale contract.		Corporate Resources Director
18	**Complete –** At the agreed date/time, ADC's solicitor and the Vendor's Solicitor will carry out the completion process.		Executive Director - Governance

Stage 3- Post-completion Stage

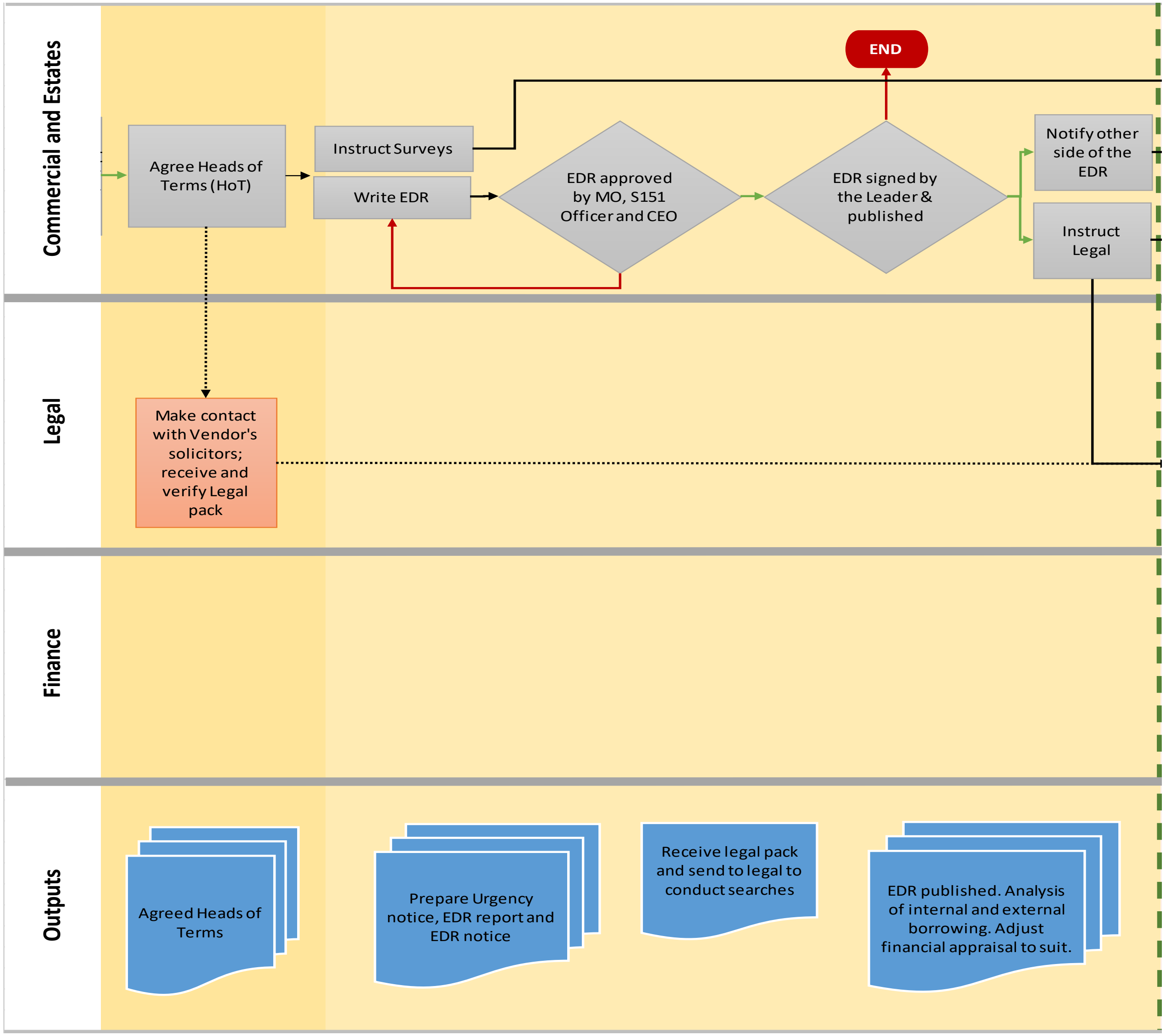
After completion, work remains to complete the entire process before day-to-day management begins.

Stage	Action	Document(s) Involved	Responsibility
19	**Post completion**		Executive Director - Governance
20	**Authorise Stamp Duty payment to HMRC**		Service Manager – Commercial Development
21	**Update Budget –** The budget will be updated at the next available opportunity to include the expected Rental Income, Minimum Revenue Provision and Interest Payable, if applicable.		Corporate Resources Director

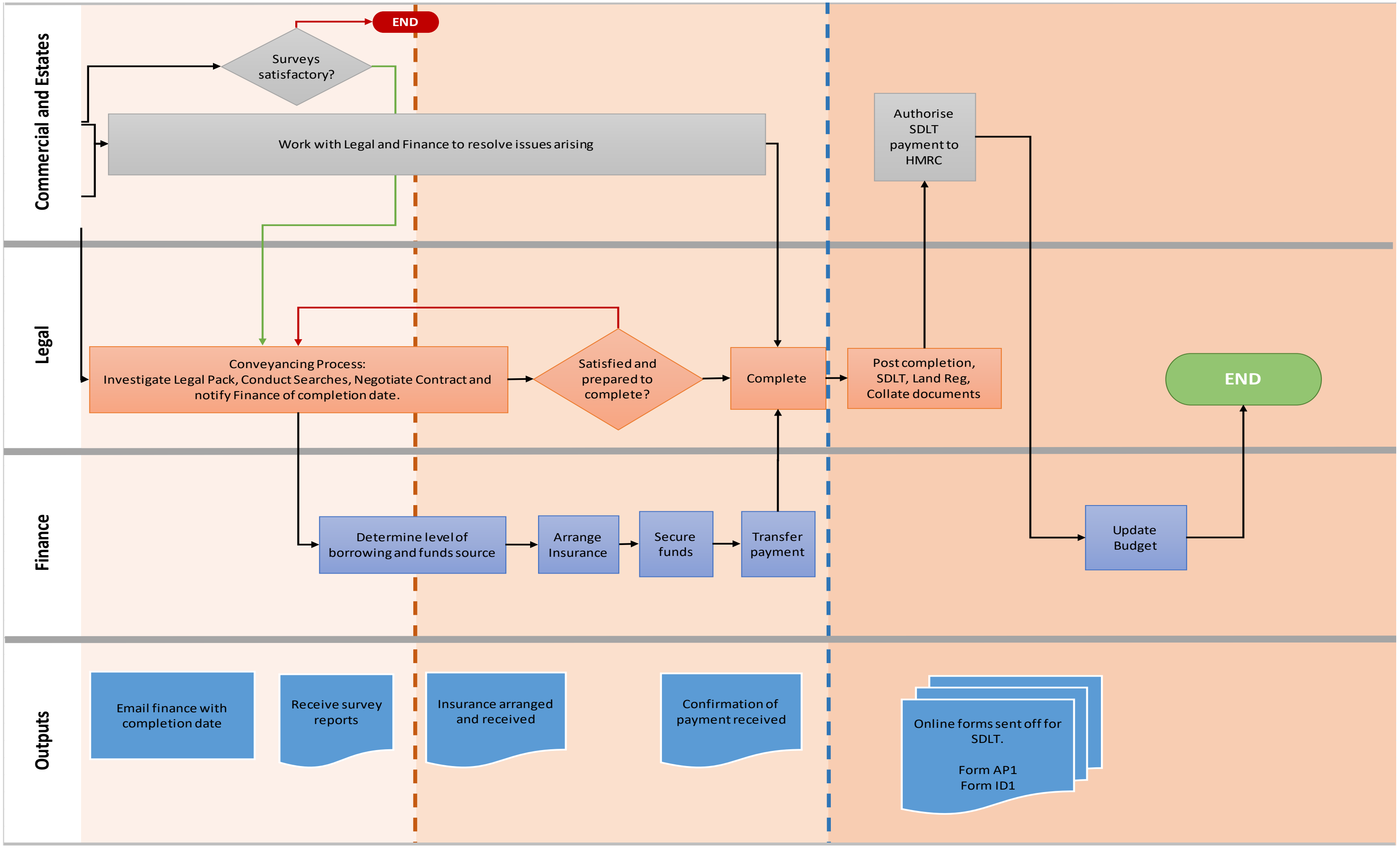
Investment Property Acquisition Process Map - Stage 1: Identification & Bid



Investment Property Acquisition Process Map - Stage 2:EDR and Instructions (Time Limited – 5 working days)



<u>Investment Property Acquisition Process Map</u> - Stage 3: Due Diligence, Completion and Post-completion (Time limited – 15 working days)



Ashfield
DISTRICT COUNCIL

Report To:	**AUDIT COMMITTEE**
Date:	**1ST FEBRUARY 2024**
Heading:	**TREASURY MANAGEMENT STRATEGY 2024/25**
Executive Lead Member:	**EXECUTIVE LEAD FOR FINANCE, REVENUES AND BENEFITS – CLLR RACHEL MADDEN**
Ward/s:	**ALL**
Key Decision:	**Yes**
Subject to Call-In:	**Yes**

Purpose of Report

This report outlines the Council's Treasury Management Strategy for the financial year 2024/25. The report includes:

- Treasury Management Policy;
- Treasury Management Strategy Statement (TMSS)
- Borrowing Strategy
- Annual Investment Strategy
- Minimum Revenue Provision Policy;
- Prudential Indicators and Treasury Management Indicators
- Treasury Management Practices: Risk Management.

It has been prepared in accordance with the Treasury Management in the Public Services Code of Practice (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), and Department for Levelling Up, Housing and Communities (DLUHC) Local Government Investment Guidance.

Recommendation(s)

1) For Audit Committee to review and note the contents of the Treasury Management Strategy (TMS) for 2024/25, including the changes to the Annual Investment Strategy.
2) For Audit Committee to recommend to Cabinet that they approve the Treasury Management Policy Statement incorporating:
   • Treasury Management Strategy Statement (TMSS)
   • Borrowing Strategy
   • Annual Investment Strategy
   • Minimum Revenue Provision (MRP) Policy
   • Prudential Indicators and Treasury Management Indicators including the Liability Benchmark indicator
   • Treasury Management Practices: Risk Management which includes the Environmental, Social and Governance (ESG) update.

Reasons for Recommendation(s)

In accordance with Financial Regulation C.31. The Audit Committee is responsible for providing effective scrutiny of the Treasury Management Strategy and Policies.

Alternative Options Considered

None. It is a requirement of the CIPFA Treasury Management Code for all Local Authorities to have a Treasury Management Strategy (TMS) and a requirement of DLUHC Statutory Guidance on Local Government Investments to have an Investment Strategy.

Detailed Information

The TMS contains:

- Treasury Management Strategy Statement (TMSS), which outlines what treasury management is and how it is managed through its borrowing and investment activities
- Annual Borrowing Strategy, which outlines sources of borrowing
- Annual Investment Strategy for Treasury Management investments, which sets the limits for the maximum amounts to be invested and the types of investments the Council may consider.
- MRP Policy which states how the Council will apply MRP charges
- Annex A of Appendix 1 contains the proposed Prudential Indicators and Treasury Management Indicators for the Authority and now includes new liability Benchmark Indicator.
- Annex B shows the borrowing and investment position of the Council as at 31st December 2023
- Annex C shows the projections for future interest rates
- Annex D shows the Treasury Management Practice (TMP) for risk management of the Authority which now includes which now includes ESG update.

1. Annual Investment Strategy

   The following changes have been made to the Annual Investment Strategy:

   - None.

2. Operational Boundary and Authorised Limits

   The CFR represents capital expenditure which is still to be financed. The Council should under normal circumstances not borrow any more than its CFR. The Operational Boundary sets a warning level for which total external debt should not exceed. The proposed Operational Boundary has been set at a level which is slightly above the CFR to allow for working capital requirements. The Authorised Limit is the absolute maximum level for external debt. The proposed Authorised Limit has been set at a level which is greater than the proposed Operational Boundary by a level which matches the financed part of the Capital Programme. The rationale for doing this is to ensure the Capital Programme can still be financed, should the expected non borrowing funding not be available.

3. Minimum Revenue Provision (MRP) Policy

   The Minimum Revenue Provision charge is the means by which capital expenditure, which is financed by borrowing or credit arrangements, is paid for by council taxpayers. Local Authorities are required each year to set aside some of their revenues as provision for this debt.

   The Minimum Revenue Provision Guidance consultation ended on the 8th February 2022. The proposals do not allow capital receipts to be used to replace MRP charges in year. This would mean the following would need to be removed from the MRP policy:

   - Where loans are made to third parties for their capital expenditure, no MRP will be charged. However, the capital receipts generated by the annual repayments on those loans will be put aside to repay debt instead.

   The results of the consultation are still to published when any new guidance is issued, the policy will be changed as required. The changes will be reported through the correct governance process. It should be noted that the removal of the above paragraph from the MRP policy will not affect the Council as we have made no loans to third parties.

4. Prudential Indicators

   Prudential Indicators are designed to show the Council's capital expenditure plans are affordable, prudent and sustainable. They include the estimated effect that future capital expenditure will have on individual council taxpayers and on individual rent payers.

   The estimate of the ratio of financing costs to net revenue stream for the Housing Revenue Account (HRA) remains relatively static over the three years. (See paragraph a) Annex A). The reason for this is that there is not expected to be any new borrowing costs; the ratios will increase slightly as HRA historic debt costs are expected to remain static in future years and HRA revenues are expected to decrease slightly as interest rates decline during the period.

   The estimate of the ratio of financing costs to net revenue stream for the General Fund is expected to increase as a result of additional borrowing for future capital spending.

   The ratio of financing cost to net revenue stream including the investment property income shows the positive effect the investment properties currently make to the Authority.

   Estimates of the incremental impact of capital investment decisions on Council Tax Band D equivalents is £25.85 in 2024/25, £33.90 in 2025/26 and £39.52 in 2026/27. This represents the estimated amount of Council Tax within the District's annual Council Tax charge from each Band D equivalent that will be used to fund future capital investment. These levels reflect the use of borrowing for future capital schemes and their associated financing costs. There is no incremental impact to Council Dwelling Rent payers as there is no borrowing proposed for the HRA.

5. Revised Treasury Management Code

   CIPFA issued a revised Treasury Management Code in December 2021. The new code was effective from 2023/24. The changes mainly related to additional reporting requirements, such as the inclusion of Environmental, Social and Governance requirements within the Counterparty Policies. The changes required were incorporated into the TMSS for 2023/24 and have been included again for 2024/25.

Implications

Corporate Plan:

The Treasury Management Strategy will support delivery of the priorities in the Corporate Plan.

Legal:

It is a requirement of the CIPFA Treasury Management Code for all Local Authorities to have a Treasury Management Strategy. It is a requirement of DLUHC Statutory Guidance on Local Government Investments to have an Investment Strategy. [RLD 24/01/2024]

Finance: [PH 24/01/2024].

Budget Area	Implication
General Fund – Revenue Budget	The financial implications of the strategy are factored into the Medium Term Financial Strategy.
General Fund – Capital Programme	No implications.
Housing Revenue Account – Revenue Budget	No implications.
Housing Revenue Account – Capital Programme	No implications.

Risk:

Risk	Mitigation
The Minimum Revenue Provision (MRP) policy is no longer suitable.	Careful monthly monitoring of Capital Expenditure should ensure an appropriate and prudent MRP provision is made annually. Revisions to the Policy in line with Code of Practice updates.
The Annual Investment Strategy is no longer suitable for the Authority.	Information received from our Treasury Management Advisors should allow the Council to take necessary action to mitigate against any risks.

Human Resources:

Not applicable.

Environmental/Sustainability

Not applicable.

Equalities:

Not applicable.

Other Implications:

None

Reason(s) for Urgency

(if applicable)

Reason(s) for Exemption

Not applicable.

Background Papers

- CIPFA Prudential Code 2021 Edition;
- CIPFA Treasury Management Code 2017 Edition;

Statutory Guidance on Local Government Investments (3rd Edition) Issued under Section 15(1)(a) of the Local Government Act 2003 and effective for financial years commencing on or after 1 April 2018;
Statutory Guidance on Minimum Revenue Provision Issued under Section 21(1A) of the Local Government Act 2003 and effective for financial years commencing on or after 1 April 2019.

Report Author and Contact Officer

Clive Howey
Interim Chief Accountant
clive.howey@ashfield.gov.uk
01623 457548

Sponsoring Director

Craig Bonar
Executive Director - Transformation
craig.bonar@ashfield.gov.uk
01623 457203

Appendix 1

Ashfield District Council

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2024/25

1 INTRODUCTION

1.1 In 2021 CIPFA revised the Treasury Management Code and Prudential Code – changes which impact on Treasury Management Strategy Statement/ Annual Investment Strategy TMSS/AIS reports and the risk management framework.

1.1.2 CIPFA published the revised Codes on 20th December 2021 and stated that revisions need to be included in the reporting framework from the 2023/24 financial year. This Council, therefore, has to have regard to these Codes of Practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.

1.1.3 The revised Treasury Management Code required all investments and investment income to be attributed to one of the following three purposes: -

Treasury management
Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery
Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial return
Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to an authority's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

1.1.4 The revised Treasury Management Code requires an authority to implement the following: -

- Adopt a liability benchmark treasury indicator to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained;

- Long-term treasury investments, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case;

- Pooled funds are to be included in the indicator for principal sums maturing in years beyond the initial budget year;

- Amendment to the knowledge and skills register for officers and Members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each authority;

- Reporting to Members is to be done quarterly. Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The CFO is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and should be reported as part of the authority's integrated revenue, capital and balance sheet monitoring;

- Environmental, Social and Governance (ESG) issues to be addressed within an authority's treasury management policies and practices (TMP1).

1.1.5 The main requirements of the Prudential Code relating to service and commercial investments are: -

- The risks associated with service and commercial investments should be proportionate to their financial capacity – i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services;

- An authority must not borrow to invest for the primary purpose of commercial return;

- It is not prudent for local authorities to make any investment or spending decision that will increase the CFR, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority, and where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose;

- An annual review should be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt;

- A prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream;

- Create new Investment Management Practices to manage risks associated with non-treasury investments, (similar to the current Treasury Management Practices).

1.1.6 An authority's Capital Strategy or Annual Investment Strategy should include: -

- The authority's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining the authority's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence;

- An assessment of affordability, prudence and proportionality in respect of the authority's overall financial capacity (i.e., whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services);

- Details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed;

- Limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments);

- Requirements for independent and expert advice and scrutiny arrangements (while business cases may provide some of this material, the information contained in them will need to be periodically re-evaluated to inform the authority's overall strategy);

- State compliance with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest primarily for financial return.

As this TMSS and AIS deals solely with treasury management investments, the categories of service delivery and commercial investments should be addressed as part of the Capital Strategy report.

However, as investments in commercial property have implications for cash balances managed by the treasury team, it will be for each authority to determine whether to add a high level summary of the impact that commercial investments have, or may have, if it is planned to liquidate such investments within the three year time horizon of this report, (or a longer time horizon if that is felt appropriate).

1.2.1 Background

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

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

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

1.2.5 CIPFA defines treasury management as:

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

1.3 External Context

1.3.1 The information relating to the overall global position of the UK financial markets is currently provided by the Council's Treasury Management Advisers, Link Asset Services. They continue to update the Council with information including on-going market activity surrounding inflation, interest rates and the banking sector.

1.3.2 The first half of 2023/24 saw:

- Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
- Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
- CPI inflation falling from 8.7% in April to 6.7% in September, its lowest rate since February 2022, but still the highest in the G7.
- Core CPI inflation declining to 6.1% in September from 7.1% in April and May, a then 31 years high.
- A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose by 7.8% for the period June to August, excluding bonuses).

1.3.3 The registering of 0% GDP for Q3 suggests that underlying growth has lost momentum since earlier in the year.

1.3.4 As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of- living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.

1.4 Key Principles

1.4.1 The Council will follow three key principles with regards to its treasury activity:

Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments *for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds.*

They should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

1.5 Reporting requirements

1.5.1 The Cabinet is required to receive and approve, as a minimum, three main treasury management reports each year, which incorporate a variety of policies, estimates and actuals. Council are required to approve the Treasury Management Strategy including the Annual Investment Strategy.

1.5.2 **Treasury Management Strategy including Annual Investment Strategy, prudential and treasury indicators (this report)** - The first, and most important report 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 to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

1.5.3 **A Mid-year Treasury Management Report** – This will update Members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision. This report is presented to the Audit Committee.

1.5.4 **An Annual Treasury Report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the annual estimates within the strategy.

1.6 Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council or/and Cabinet. This role is undertaken by the Audit Committee.

Table 1 below shows the reporting timetable for Treasury Management reports

Table 1 – Reporting timetable

Report to Council and Cabinet	Frequency
Treasury Management Strategy / Annual Investment Strategy and MRP Policy	Annually before the start of the year (1st April)
Reports to Cabinet	**Frequency**
Mid-Year Treasury Management Report	Annually mid-year (October/November/December)
Treasury Outturn Report	Annually after the year end and by the 30 September
Quarterly Outturn Reports	Quarter 1 and Quarter 3 (Quarter 2 included in mid-year report and Quarter 4 included on Outturn Report)
Reports to Audit Committee	**Frequency**
Receives each of the above reports in advance of Council/Cabinet (where applicable) and makes recommendations as appropriate	In advance of year/mid-year/after year end reports to Cabinet/Council

1.7 Capital Strategy

1.7.1 The Prudential Code 2021 confirms the requirement for all local authorities to produce a Capital Strategy report, which is intended to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.
- an overview of how the associated risk is managed; and
- the implications for future financial sustainability

1.7.2 The aim of this report is to ensure that all elected Members of the Council fully understand the overall strategy, governance procedures and risk appetite entailed in this Strategy.

1.7.3 The Capital Strategy will include capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all Members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

1.7.4 The Capital Strategy is required to be approved by Council before the start of the new financial year in accordance with the Prudential Code 2021. The Capital Strategy will be received by Audit Committee in advance of Council for scrutiny and recommendations.

1.8 Non-Treasury Management Investments

1.7.1 The Department for Levelling Up, Housing and Communities (DLUHC) issued revised Statutory Guidance on Local Government Investments (2018). The statutory guidance extended the definition of investment and states that:

"The definition of an **investment** covers all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios. This may therefore include investments that are not managed as part of normal treasury management processes or under treasury management delegations.

The Guidance requires that for each financial year, a local authority should prepare an Investment Strategy, which should be approved by full Council.

1.7.2 This Council will ensure that all the organisation's non-treasury management investments are included in a non-treasury management investment strategy, which will be incorporated into the Capital Strategy. This will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

1.7.3 The Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investment in subsidiaries, and investment property portfolios.

1.7.4 The Council will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation's risk exposure.

1.8 Treasury Management Strategy

1.8.1 The Treasury Management Strategy covers two main areas:

Capital issues

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

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy;
- Apportioning interest to the Housing Revenue Account and
- the policy on use of external service providers.

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

1.9 Cash and Cash Flow Management

1.9.1 It is important that the Council maintains regular cash flow projections to ensure that the Council has enough cash to meet its liabilities in a timely manner, minimises borrowing costs and, where practical to do so, invest surplus cash balances.

1.10 **Training**

1.10.1 The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny.

1.10.2 Those charged with governance have a personal responsibility to ensure they have the appropriate skills and training for their role.

1.10.3 A training session delivered by Link Asset Services, the Council's treasury management advisors was held for the Audit Committee and extended to all Members on the 23 November 2023.

1.11 **Treasury management consultants**

1.11.1 The Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council currently uses Link Asset Services, Treasury solutions as its external treasury management advisors. The contract for this service commenced on 1st April 2021. The Council monitors the services it receives against the terms of their appointment in the contract.

1.11.2 The Council also recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, information from our treasury advisors.

1.11.3 The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The commercial type investments require specialist advisers, that is beyond the advice received by the treasury advisors.

THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS

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

2.1.2 The Council will ensure that all of its capital and investment plans and borrowing are prudent and sustainable. In doing so it will take into account its arrangements for the repayment of debt (including through MRP) and consideration of risk and the impact, and potential impact, on the authority's overall fiscal sustainability. While indicators for sustainability are required to be set over a minimum 3 year rolling period, indicators should be set in line with a Capital Strategy and Asset Management Plan that is sustainable over the longer term. There should also be separate indicators for the Housing Revenue Account (HRA).

2.2 Capital expenditure

Table 2 below summarises the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The Capital Programme for 2023/24 to 2027/28 is to be presented to Cabinet as a separate agenda item at the 19th February 2024 Cabinet meeting, with final approval being sought by Council on 4th March 2024. Members will be asked to approve the capital expenditure forecasts at least annually.

Table 2 - Capital Expenditure

Capital expenditure £m	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
General Fund	15.358	32.509	53.027	19.819	5.860	6.110
HRA	17.350	16.492	25.030	18.342	18.474	15.968
Total	32.708	**49.001**	**78.057**	**38.161**	**24.334**	**22.078**

Table 3 below summarises how the capital expenditure plans will be financed by capital or revenue resources. Any shortfall of resources results in a borrowing need. The Direct Revenue Financing is mainly use of Housing Revenue Account reserves to support the Decent Homes work and Affordable Housing Development Schemes.

Table 3 - Financing of the Capital Expenditure

Financing of Capital expenditure £m	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Capital Receipts	2.630	3.152	1.480	1.480	1.480	1.480
Capital Grants	16.588	21.153	38.649	4.968	1.110	1.110
Capital Reserves	0.460	0.000	0.000	0.000	0.000	0.000
Direct Revenue Financing	11.039	14.336	20.432	16.862	16.994	14.488
Borrowing Requirement	1.991	10.360	17.496	14.851	4.750	5.000
Total	**32.708**	**49.001**	**78.057**	**38.161**	**24.334**	**22.078**

2.3 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources (it is the historic unfunded capital expenditure). It is essentially a measure of the Council's indebtedness and therefore its underlying borrowing need. Any capital expenditure above, which is financed by borrowing will increase the CFR. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets to revenue as they are used. The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI or lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has no PFI schemes or other long-term liabilities.

2.4 IFRS 16 Lease accounting becomes effective on 1st April 2024. This accounting standard requires that both finance leases and operating leases are included on the Balance Sheet. Previously the requirement was only for finance leases to be shown on the Balance Sheet. This in effect means that any existing operating leases and any new leases the Council enters into will need to be treated as capital expenditure and increase the CFR. The Council is currently assessing the impact of the introduction of this new standard, although it is not expected to be material. The capital prudential indicators reflect lease asset costs from year 2024/25 which is the year the standard becomes effective from.

2.5 Core funds and expected investment balances

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

2.6 Table 4 below outlines the Balance Sheet Summary and Forecast excluding the Planned Commercial Investment Property. It shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (CFR), highlighting the Council's level of under/over borrowing. It also includes a forecast for the year-end balances for usable reserves and working capital (the resources available to internally borrow against) and shows the forecast level of investment or new external debt.

2.7 The Council has an increasing CFR until the end of 2026/27 due to future planned unfunded capital expenditure. After which the CFR reduces as *MRP charges exceed unfunded capital expenditure*. This position is continually reviewed due to the level of reserves and working capital having many variables and due to slippage in delivery of the capital programme making forecasting with certainty difficult. It shows a high-level direction of travel and indicates we may need to take on external debt in future years. The associated costs for external borrowing have been provided for in the Medium-Term Financial Strategy.

Table 4 - Balance Sheet Summary and Forecast

31st March:	2023	2024	2025	2026	2027	2028
Capital Financing Requirement	166.3	174.3	188.9	200.6	196.7	192.4
Less: External Borrowing	-90.5	-86.3	-85.1	-82.3	-82.3	-82.0
Under(Over) Borrowing	**75.8**	**88.0**	**103.9**	**118.3**	**114.3**	**110.4**
Less: Usable Reserves plus working Capital	-81.6	-78.1	-74.6	-72	-72.5	-72.5
Investments / (New Borrowing)	**5.8**	**-9.9**	**-29.3**	**-46.3**	**-41.8**	**-37.9**

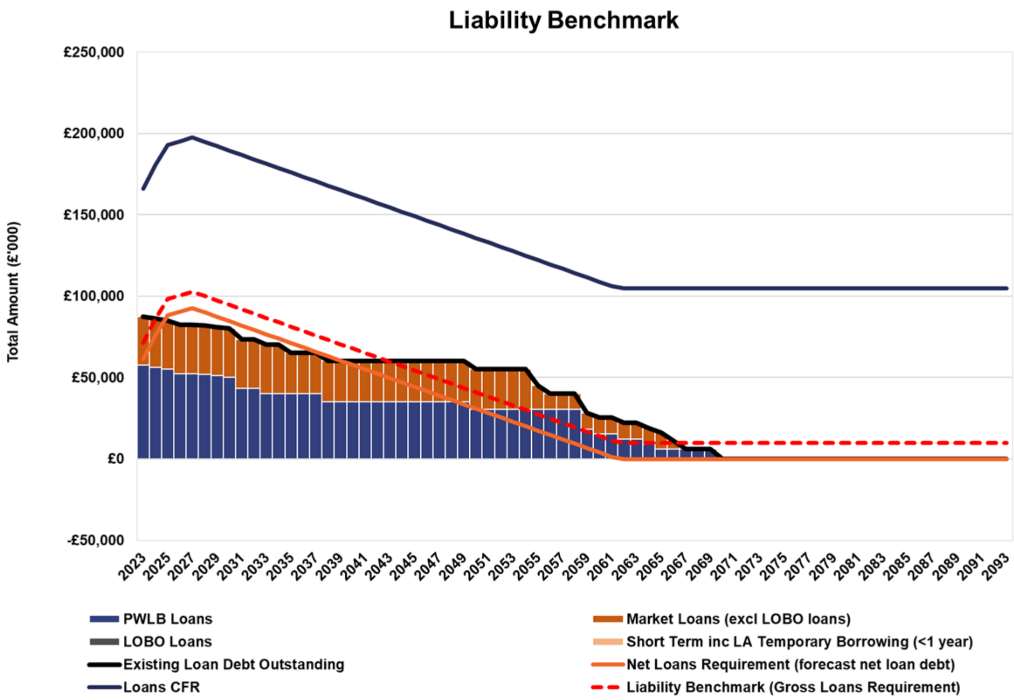
2.8 The 2021 Treasury Management Code introduced the Liability Benchmark (LB).

There are four components to the LB (see Table 4 below): -

- **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years.
- **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.

- **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
- **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

Table 5 – Liability Benchmark



2.8 **Affordability prudential indicators**
The Strategy details the overall capital and control of borrowing prudential indicators, but within this framework, prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

2.9 **Ratio of financing costs to net revenue stream (See Appendix A Table 1)**
This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The estimates of financing costs include current commitments and the proposals in the budget report.

2.10 **Treasury indicators for debt (See Appendix A Table 8 and 9)**
There are three debt related treasury activity limits. The purpose of these is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

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

2.11 **Treasury Indicators: limits to borrowing activity**

2.12 **The operational boundary (See Appendix A Table 6)**. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

2.13 **The authorised limit for external debt (See Appendix A Table 5)**. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

The latest Affordability Prudential Indicators and Treasury Indicators are attached at Appendix 'A'.

TREASURY MANAGEMENT STRATEGY STATEMENT

2.14 The capital expenditure plans set out details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's Capital Strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The Strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the Annual Investment Strategy.

2.15 This Council defines its treasury management activities as:

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

This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

2.16 The investment policy objective of this Council is the prudent investment of its treasury balances. The Council's investment priorities are the security of capital and liquidity of its investments so that funds are available for expenditure when needed. Both the CIPFA code and DLUHC guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return or yield. The generation of investment income to support the provision of local authority services is important, but is a secondary objective.

2.17 The Council's borrowing objectives are to minimise the revenue costs of debt whilst maintaining a balanced loan portfolio. The Council will set an affordable borrowing limit each year in compliance with the Local Government Act 2003 and will have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities when setting that limit.

2.18 **Current portfolio position**
The Council's current treasury portfolio position is set out in **<u>Appendix 'B'</u>**.

2.19 **Prospects for interest rates**
The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The details of their latest view is shown in **<u>Appendix 'C'</u>** to this report.

2.20 **Borrowing strategy**

2.20.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt. Cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy remains prudent. Counterparty risk is still an issue that needs to be considered.

2.20.2 Against this background and the risks within the economic forecast, caution will be adopted within the treasury operations. The S151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. Any decisions will be reported to the appropriate decision making body at the next available opportunity.

2.20.3 The approved sources of long term and short term borrowing are:

- Public Works Loans Board (PWLB) and any successor body.
- Any institution approved for investments (see Annual Investment Strategy below)
- Any bank or building society authorised to operate in the UK.
- UK public bodies including pension funds (excluding Nottinghamshire County Council Pension Fund)
- Capital Market bond investors.

2.20.4 In addition, capital finance may be raised by the following methods that are not classed as borrowing, but may be classed as other debt liabilities:

- Operating and Finance leases
- Hire Purchase
- Sale and leaseback

2.20.5 **LOBOs:** The Council holds £15m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option either to accept the new rate or to repay the loan at no additional cost. There will be two options in 2024/25. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so. It is unlikely that the Council will take out any new LOBO loans in the future.

2.21 **Policy on borrowing in advance of need**
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. 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.

2.21.1 Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

2.21.2 The Corporate Resources Director reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the 2024/25 annual budget report.

2.22 **Debt rescheduling**

2.22.1 Rescheduling of current borrowing in our debt portfolio may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.

2.22.2 The reasons for any debt rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

2.23 **Apportioning interest to the Housing Revenue Account**

2.23.1 The Council currently operates a one pool approach on external debt. The interest charges are initially charged to the General Fund and recharged to the Housing Revenue Account (HRA) through the Item 8 (item 8 of Part I and item 8 of Part II of Schedule 4 to, the Local Government and Housing Act 1989) adjustment. The Council has fixed the interest rate charged on the Capital Financing Requirement (CFR) of the HRA to 4.43%. The HRA CFR is currently £80.061m. If this does not change the annual interest amount charged to the HRA will be £3.547m.

2.23.2 The Council will credit the HRA each year with its share of interest receivable. This will be calculated by multiplying the average HRA reserve balances by the average interest receivable percentage.

3 ANNUAL INVESTMENT STRATEGY

3.1.1 Investment policy

3.1.2 The Council's investment policy has regard to the DLUHC's Guidance on Local Government Investments ("the Guidance") and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the CIPFA TM Code"). The Council's investment priorities will be security first, portfolio liquidity second, and then return.

3.1.3 In accordance with the above guidance from the DLUHC and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

3.1.4 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 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.

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

3.2 Creditworthiness policy

3.2.1 The primary principle governing the Council's investment criteria is the security of its investments, followed by liquidity, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

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

3.2.2 The S151 Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determine which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

3.2.3 Credit rating information is supplied by Link Asset Services, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list.

3.2.4 The intention of the Strategy is to provide security of investment and the minimisation of risk. The aim is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

The Council's general policy objective is to invest its surplus funds prudently. The Council's investment priorities are:

highest priority - security of the invested capital;
followed by - liquidity of the invested capital (this enables the Council to react to changing circumstances);
finally - an optimum yield which is proportionate with security and liquidity.

Investments made by the Council's Officers are restricted to the following organisations:-

(a) Banks or Building Societies who currently meet the Link Asset Services suggested investment duration
(b) Nationalised Industries and Statutory Corporations
(c) Other Government Institutions
(d) Other Local Authorities
(e) Money Market Funds
(f) Bills of Exchange which have been accepted by authorised institutions
(g) United Kingdom Gilt-edged Securities
(h) Negotiable instruments such as Certificates of Deposit, Treasury Bills and Corporate Bonds
(i) Approved Country limit**.** The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of *AA+*. The list of countries that qualify using this credit criteria as at the date of this report are shown in Annex D Treasury Management Practice, TMP1 Risk Management, b) Approved Countries for Investments. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.
(j) Pooled Funds – Multi Asset Income funds, bond funds and property funds.

This (Pooled Funds) will represent a new class of investment available for the Council.

Total investments with any one institution shall not exceed £5m, except for the Debt Management Office (DMO). An unlimited amount can be deposited with the DMO. The DMO is probably the most secure institution that the Council can invest its funds with. By increasing the limit to unlimited this will avoid investment of short term surplus cash in less secure counterparties.

Total investments of over 365 days shall not exceed £5m in total.

The Council's operational bank account is currently provided by Barclays Bank.

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

3.3 **Specified investments/unspecified investments**

3.3.1 Investments are categorised as specified and non-specified investments.

Specified investments defined by DLUHC guidance as those:

- Denominated in pound sterling,
- Due to be repaid within 12 months of arrangements,
- Not defined as capital expenditure by legislation,
- Invested with one of:
  - The UK Government
  - A UK local authority, parish council, or community council, or
- A body or investment scheme of "high credit quality"

The Council now defines "high credit quality" organisations as those having a minimum sovereign credit rating of AA+.

Non-specified investments - those with less high credit quality, those 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.

3.3.2 The Council does not currently hold any non-specified investments. The Council is setting a limit of £5m for non-specified investments to allow for use of non-specified investments, should it be considered appropriate to use these in the future and so the Council is not restricted by the strategy. Non-specified investments will be limited to long-term investments, i.e. those that are due to mature 365 days or longer from the date of arrangements, and instruments that are more complex such as diversified or property funds.

3.4 **Country and sector limits**

Due care will be taken to consider the country, group, and sector exposure of the Council's investments. This report is requesting that the Council will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ from rating agencies.

Total investments with any one group shall not exceed £5m.

Sector limits will be monitored regularly for appropriateness.

3.5 **Investment Strategy**

3.5.1 **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 the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods the value to be obtained from longer term investments will be carefully assessed.

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

- **Investment returns expectations**.

  LINK GROUP FORECASTS

  We now expect the MPC will keep Bank Rate at 5.25% for the first half of 2024 to combat on-going inflationary and wage pressures. We do not think that the MPC will increase Bank Rate above 5.25%, but it is possible.

3.5.2 Table 7 below shows the forecast investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Table 7 – Forecast Investment Rates

Average earnings in each year	Now	Previously
2023/24 (residual)	5.30%	5.30%
2024/25	4.70%	4.70%
2025/26	3.20%	3.00%
2026/27	3.00%	2.80%
2027/28	3.25%	3.05%
Years 6 to 10	3.25%	3.05%
Years 10+	3.25%	3.05%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Year	Average Return
2022/23	2.00%
2023/24	2.00%
2024/25	1.50%
2025/26	1.25%

3.5.3 **Investment treasury indicator and limit - Total principal funds invested for greater than 365 days**. This limit is set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment. It is based on the availability of funds beyond each year-end. The Council's investment treasury indicator and limit for 2024/25 is to be £5m.

3.6 **Investment Liquidity**
In consultation with the external treasury advisors, the Council will review its balance sheet position, level of reserves and cash requirements in order to determine the length of time for which investments can be prudently committed. Investments will be

placed at a range of maturities, including having money on-call in order to maintain adequate liquidity.

3.7 **External Fund Manager**
External fund managers can be appointed to manage a portfolio of investments. The Council currently has no funds externally managed and is unlikely to do so in the short to medium term.

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

4 MINIMUM REVENUE PROVISION (MRP) STATEMENT

4.1 An underpinning principle of the local authority financial system is that all capital expenditure has to be financed either from capital receipts, capital grants (or other contributions) or eventually from revenue. The amount charged to the revenue budget for the capital expenditure is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008.

4.2 The Local Government Act 2003 requires the Council to have regard to the Department for Levelling Up, Housing and Communities (DLUHC) 'Guidance on Minimum Revenue Provision'. The latest guidance was issued in February 2018.

4.3 The broad aim of the DLUHC Guidance is to ensure a prudent provision is made from revenue over time to cover the total amount of capital expenditure needed to be met from revenue. A prudent provision is considered to be, where the period over which MRP is charged is aligned to the period over which the capital expenditure provides benefits (asset life). MRP cannot be negative and can only be zero if the CFR is nil or negative, or if the charge is fully reduced by reversing previous overpayments. A maximum asset life of 50 years can be used, unless in the opinion of an appropriately qualified professional advisor the life of the asset is expected to exceed 50 year.

4.4 The DLUHC Guidance requires the Council to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. However, the guidance gives flexibility in how MRP is calculated, providing the calculation is 'prudent'. The following policy included in the statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

4.5 In accordance with the latest DLUHC Guidance, for capital expenditure financed by borrowing, the Council has four broad options:
- The 4% reducing balance method.
- The straight line asset life method
- The annuity asset life method
- The Depreciation method.

4.6 Minimum Revenue Provision Policy

4.7 Regulation 28 of the 2003 Regulations requires the Council to calculate in each financial year a prudent provision to ensure that debt is repaid over a period that is reasonably commensurate with that over the capital expenditure provides benefits (asset life).

4.8 For pre 2008 supported borrowing, the Council has moved to a 50 year Annuity method, charging MRP based on a corresponding 50 year PWLB borrowing rate. This is more prudent than the previous 4% reducing balance as this calculation extends to over 300 years.

4.9 For post 2008 it is proposed that unsupported borrowing, and any new borrowing, MRP will be calculated as follows:

- For assets with a life of 10 years or less, the straight line asset life method (as is currently the case).
- For assets with a life in excess of 10 years, the annuity asset life method will be used.

4.10 The asset life method calculation requires estimated useful lives of assets to be input into the calculations. These life periods will be determined by the Chief Financial Officer (S151), with regard to the statutory guidance and advice from professional valuers if required.

4.11 The annuity rate used for the MRP charge will be the Public Works Loans Board (PWLB) certainty rate on the date the capital expenditure is incurred, where a one-off capital payment is made i.e. for in District investment properties for regeneration purposes. For all other capital expenditure funded from borrowing, where the expenditure is incurred over a period of time, the average annual PWLB certainty rate for the financial year will be used.

4.12 The Chief Financial Officer (S151) may also determine that if, in their opinion, the straight line method is more prudent for an asset with a life in excess of 10 years then this option may be used.

4.12.1 MRP will not be charged until the later of; the year after capital expenditure is incurred or the year after the asset becomes operational.

4.13 Capital Receipts from the sale of investment properties funded as prudential borrowing will be used to reduce the Capital Financing Requirement by the outstanding prudential borrowing for the asset sold.

4.14 No MRP will be charged for assets in the Housing Revenue Account.

4.15 Voluntary Revenue Provision (VRP) may be made at the discretion of the S151 Officer.

4.16 For leases that are included on the balance sheet the MRP charge will be the same as the principal repayment on the lease.

4.17 Where loans are made to third parties for their capital expenditure, no MRP will be charged. However, the capital receipts generated by the annual repayments on those loans will be put aside to repay debt instead.

Annex A Prudential Indicators

Prudential Indicators of Affordability

The Council is required to consider all of its available resources in the medium term (usually defined as three years) together with total plans for expenditure. Any known significant variations beyond this timeframe also need to be taken into account.

The Prudential indicators for affordability are as follows:

a) Estimate of the ratio of financing costs to the net revenue stream for the next three years split between the Housing Revenue Account and the General Fund

For the next three years the Council is required to calculate an estimated ratio of its financing costs to net revenue stream for both the General Fund and the Housing Revenue Account (HRA). For the HRA this is calculated by dividing the HRA capital financing costs by the total estimated Council Dwelling Income. For the General Fund this is calculated by dividing the General Fund capital financing costs by the estimated Council Tax Receipt plus Central Government Grants.

The suggested indicators for the next three years are displayed in Table 1 below.

Table 1 – Ratio of financing costs to net revenue stream for the Housing Revenue Account and General Fund.

	2024/2025 %	2025/2026 %	2026/2027 %
Housing Revenue Account	8.22	8.47	8.59
General Fund	25.85	33.90	39.52

The General Fund indicators are based on best estimates for NNDR. These will be updated to reflect final MTFS for Cabinet in February. The Ratio for the General Fund increases from 2025/26 as a result of reduced Government funding and increased MRP charges due to Capital Programme Developments.

Table 2 – Ratio of financing costs to net revenue stream for the General Fund including Investment Property income.

	2024/2025 %	2025/2026 %	2026/2027 %
General Fund	0.48	1.27	5.78

The investment properties have significant financing costs. However, these financing costs are significantly more than offset by the income they generate.

b) Estimate of the incremental impact of capital investment decisions on the Council Tax and Rent Levels

Authorities are required to estimate for the next three years the impact on the Council Tax (General Fund) and Rent levels (HRA) of the capital programme including running costs and financing costs. These indicators have been prepared using the revised Capital Programme, on the same agenda as this report.

The suggested indicators for the incremental impact for the next three years are shown in Table 3 below.

Table 3 - Incremental Impact of capital investment decisions on Council Tax and Rent Levels

	2024/2025 %	**2025/2026 %**	**2026/2027 %**
General Fund (Band D)	32.43	29.62	27.86
HRA (52 weeks)	0	0	0

Table 3 includes Minimum Revenue Provision (MRP) and interest payable as the incremental charges for capital investment funded by borrowing. MRP is not charged until the later of i) the year following purchase or ii) the year the asset becomes operational. Therefore, the MRP charges are included in the calculations in the year it is estimated the MRP charges will be made. The ratio for the General Fund is calculated by estimating the interest payable on the average capital borrowing requirement plus the MRP charges and dividing this by the estimated number of band D equivalents

There is not anticipated to be any new borrowing for the HRA between 2024/25 – 2026/27.

c) Net borrowing and the Capital Financing Requirement split between the General Fund and the Housing Revenue Account

In order to ensure that in the medium term borrowing is only undertaken for capital purposes, local authorities are required to ensure that external borrowing does not exceed, except in the short term, the total of their capital financing requirement over the planning period. In broad terms the capital financing requirement reflects an authority's need to borrow for capital purposes and is a measure of the assets contained on the balance sheet which have as yet not been fully financed, i.e. there is still some indebtedness outstanding.

It is necessary to estimate the capital financing requirement at the end of the forthcoming year and the subsequent two years for both the Housing Revenue Account and General Fund activities. These are presented in Table 4 below.

Table 4 – Estimates of Capital Financing Requirement.

	31st March 2025	**31st March 2026**	**31st March 2027**
	£m	**£m**	**£m**
Housing Revenue Account	80.061	80.061	80.061
General Fund	108.878	120.569	116.634
Total	**188.939**	**200.630**	**196.695**

d) Capital Expenditure

Estimates of capital expenditure for the next three years split between the General Fund and the Housing Revenue Account

The estimated total capital expenditure per year for 2024/25 to 2026/27, as detailed in the Capital Programme Report approved by Cabinet on the 19th February 2024, is shown below in Table 5:

Table 5 – Housing Revenue Account and General Fund Capital Expenditure estimates.

	2024/2025	2025/2026	2026/2027
	£m	£m	£m
Housing Revenue Account	25.030	18.342	18.474
General Fund	53.027	19.819	5.860
Total	**78.057**	**38.161**	**24.334**

External Debt

e) Authorised Limit

For the next three years the authority is required to set an authorised limit for its total external debt, gross of investments. This is calculated by taking into account current external debt, new borrowing for loans which mature or for capital purposes and the need to borrow on a short term basis to cover for temporary shortfalls in revenue income and expenditure.

The future authorised limits for the next three years are contained in Table 6 below.

Table 6 – Authorised Limits for External Debt

	2024/2025	2025/2026	2026/2027
	£m	£m	£m
Borrowing	250	224	216

f) Operational Boundary

As well as an authorised limit the local authority must also set an operational boundary for its external debt for the next three years. The operational boundary is based on the most likely or prudent but not worst case scenario in relation to cash flow.

The future Operational Boundary for the next three years is shown in Table 7.

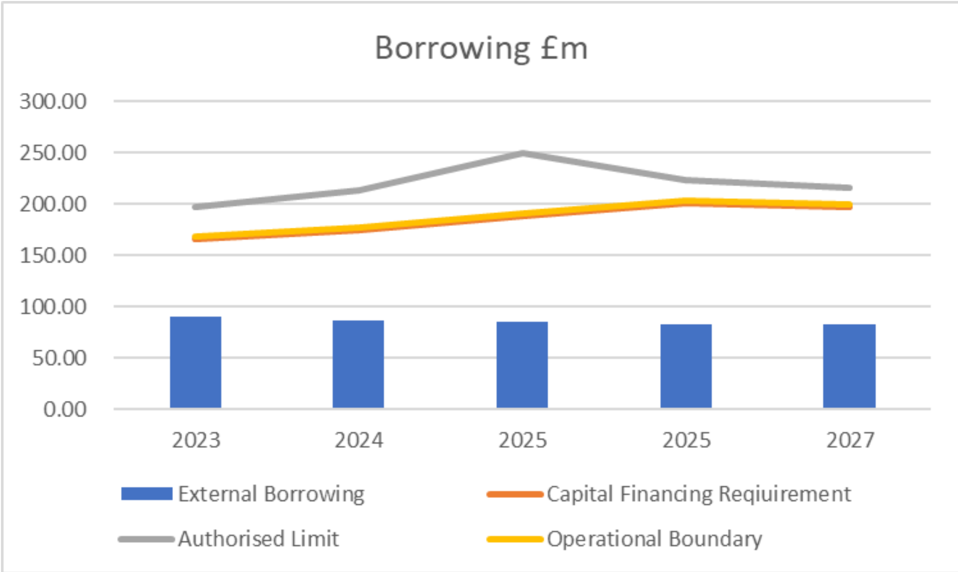
Table 7 – Operational Boundary for External Debt

	2024/2025	2025/2026	2026/2027
	£m	£m	£m
Borrowing	191	203	199

g) Comparison of External Debt to Capital Financing Requirement, Operational Boundary and Authorised Limit

Table 8 below shows the gap between the existing external debt to the Capital Financing Requirement, Operational Boundary and Authorised Limit

Table 8 – Borrowing



Prudential Indicators for Treasury Management

The prudential indicators for prudence have to be set taking into account those relating to affordability as outlined above and are as follows:

Treasury Management

a) Interest rate exposure

Local authorities are required to set limits for the next three years for the upper limits on exposure to the effects of changes in interest rates. The indicators relate to both fixed and variable rate interest and are net of any investments.

Depending on the level of interest rates and their expected movement in the year, the Council may take up all of its new borrowings in the form of either fixed or variable rate debt. The figures in Table 8 give the following maximum levels, when compared to the authorised limit, of exposure to fixed and variable interest rates, which are prudent limits for the forthcoming years:

Table 8 - Interest Rate Exposure

Principal Outstanding	**2024/2025**	**2025/2026**	**2026/2027**
	£m	**£m**	**£m**
Fixed Rates	250.0	224.0	216.0
Variable Rates (No more than 40% of the operational boundary).	100.0	89.6	86.4

b) Maturity Structure of borrowing

For the next three years the authority is required to set both lower and upper limits for the maturity structure of its borrowing. This indicator relates only to fixed rate debt and is therefore a measure of the longer-term exposure to interest rate risk.

Table 9 shows the proposed lower and upper limits for all three years, given the current structure of the Council's debt portfolio:

Table 9 - Maturity Structure of Debt

Maturity Structure of Fixed Rate Borrowing	Forecast Position for 31/03/2024	Lower Limit %	Upper Limit %
Under 12 Months	3.65%	0%	10%
Under 24 Months	6.75%	0%	15%
Under 5 years	7.15%	0%	20%
Under 10 years	20.39%	0%	25%
Under 20 years	31.72%	0%	40%
Under 30 years	37.38%	0%	50%
Under 40 years	74.75%	0%	80%
Under 50 years	100.00%	0%	100%
50 Years and Above	0.00%	0%	0%

c) Principal sums invested for more than 364 days

Where a local authority invests or plans to invest for periods of more than 364 days it must set an upper limit for each year for the maturity of such investments. The purpose of setting this limit is to contain any exposure to losses, which might arise in the event of having to seek early repayment of the investment and / or adverse movements in shorter-term interest rates.

It is suggested that the use of longer-term investments be limited to a maximum of £5m in each of the next three years to tie in with the Council's already approved policy of not investing more than £5m with any one bank or building society at the same time.

Annex B Council's current treasury portfolio position

Table 1 - Current Debt and Investment Portfolio Position 31st December 2023

Maturity Structure of Fixed Rate Borrowing	Amount £m	Forecast Position for 31/03/2024	Lower Limit %	Previous Upper Limit %	Revised Upper Limit %
Under 12 Months	3.227	3.65%	0%	10%	10%
Under 24 Months	5.963	6.75%	0%	15%	15%
Under 5 years	6.314	7.15%	0%	20%	20%
Under 10 years	18.009	20.39%	0%	25%	25%
Under 20 years	28.009	31.72%	0%	40%	40%
Under 30 years	33.009	37.38%	0%	50%	50%
Under 40 years	66.009	74.75%	0%	80%	80%
Under 50 years	88.309	100.00%	0%	100%	100%
50 Years and Above	0.000	0.00%	0%	0%	0%

Table 2 – Council Loans at the 31st December 2023

External Borrowing	£m
Fixed Rate PWLB	56.309
Fixed Rate Other Loans (Banks)	15.000
LOBO Loans	17.000
Total Gross External Debt	**88.309**
Money Market Funds	-19.050
Call Accounts	-2.377
Fixed Term Deposits	-33.500
Total Treasury Investments	**-54.927**
Total Net External Debt	**33.382**

Table 3 – Council Money Market Fund investments as at the 31st December 2023

N.B. for all of these investments the Authority is classed as professional investor under MIFID II regulation.

Money Market Fund	£m
Aberdeen GBP Liquidity Fund	5.000
Insight Sterling Liquidity Fund	4.050
Federated Short Term	5.000
Aviva GBP Luquidity Fund	5.000
Total	**19.050**

Table 4 – Council Call Account Investments as at 31st December 2023

Call Accounts	£m
Barclays Bank	2.274
Handelsbanken	0.103
Total	**2.377**

Table 5 – Council Term Deposit Investments as at 31st December 2023

Fixed Term Deposits	£m
Wakefield Metropolitan Borough Council	5.000
Cheltenham Borough Council	5.000
Gloucester City Council	1.500
Barnsley MBC	5.000
Halton Borough Council	5.000
West Berkshire District Council	2.000
Lancashire County Council	5.000
South Ayrshire Council	5.000
Total	**33.500**

Annex C - Prospects for interest rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 07 November 2023. These are forecasts for PWLB certainty rates, (gilt yields plus 80 bps).

Link Group Interest Rate View	07.11.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

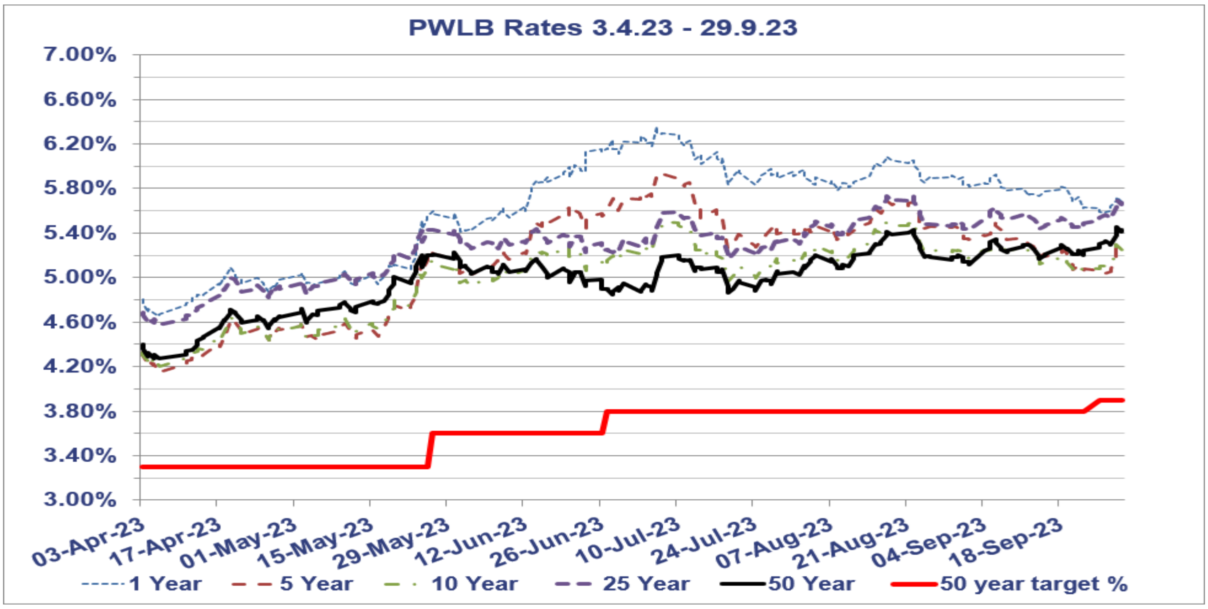
ECONOMIC BACKGROUND

- The first half of 2023/24 saw:
  - Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
  - Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
  - CPI inflation falling from 8.7% in April to 6.7% in September, its lowest rate since February 2022, but still the highest in the G7.
  - Core CPI inflation declining to 6.1% in September from 7.1% in April and May, a then 31 years high.
  - A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose by 7.8% for the period June to August, excluding bonuses).
- The registering of 0% GDP for Q3 suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.
- As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of- living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.
- But the cooling in labour market conditions still has not fed through to an easing in wage growth. The headline 3myy rate rose 7.8% for the period June to August, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England’s closely watched measure of regular annual average total pay growth for the private sector was 7.1% in June to August 2023, for the public sector

this was 12.5% and is the highest total pay annual growth rate since comparable records began in 2001. However, this is affected by the NHS and civil service one-off non-consolidated payments made in June, July and August 2023. The Bank of England's prediction was for private sector wage growth to fall to 6.9% in September.

- In its latest monetary policy meeting on 06 November, the Bank of England left interest rates unchanged at 5.25%. The vote to keep rates on hold was a split vote, 6-3. It is clear that some members of the MPC are still concerned about the stickiness of inflation.
- Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. In terms of messaging, the Bank once again said that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures", citing the rise in global bond yields and the upside risks to inflation from "energy prices given events in the Middle East". So, like the Fed, the Bank is keeping the door open to the possibility of further rate hikes. However, it also repeated the phrase that policy will be "sufficiently restrictive for sufficiently long" and that the "MPC's projections indicate that monetary policy is likely to need to be restrictive for an extended period of time". Indeed, Governor Bailey was at pains in his press conference to drum home to markets that the Bank means business in squeezing inflation out of the economy.
- This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates in the future.

In the table below, the rise in gilt yields across the curve as a whole in 2023/24, and therein PWLB rates, is clear to see.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.14%	4.20%	4.58%	4.27%
Date	06/04/2023	06/04/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.51%	5.73%	5.45%
Date	06/07/2023	07/07/2023	22/08/2023	17/08/2023	28/09/2023
Average	5.62%	5.16%	5.01%	5.29%	5.00%
Spread	1.71%	1.79%	1.31%	1.15%	1.18%

The peak in medium to longer dated rates has generally arisen in August and September and has been primarily driven by continuing high UK inflation, concerns that gilt issuance may be too much for the market to absorb comfortably, and unfavourable movements in US Treasuries.

The S&P 500 and FTSE 100 have struggled to make much ground through 2023.

CENTRAL BANK CONCERNS –

Currently, the Fed has pushed up US rates to a range of 5.25% to 5.5%, whilst the MPC followed by raising Bank Rate to 5.25%. EZ rates have also increased to 4% with further tightening a possibility.

Ultimately, however, from a UK perspective it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

Annex D Treasury Management Practices

TMP1 RISK MANAGEMENT
a) GENERAL STATEMENT

The DLUHC issued Investment Guidance in 2018, and this forms the structure of the Council's policy below.

The key intention 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. This Council adopted the Code on 04/03/2019 and will apply its principles to all investment activity. In accordance with the Code, the Corporate Finance Manager has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Environmental, Social and Governance (ESG)

This Authority has always followed a Security, Liquidity and Yield (SLY) policy for its treasury management investments with security being the most important as the Council needs to be as certain as possible when an investment is made that the amount invested is returned when due. Liquidity is important because the Council needs cash to deliver its day to day activities therefore treasury officers have to determine how much should be invested in call accounts where daily access is available and how much is invested in term accounts where the money is only available on maturity. Finally yield, which is the least important of the three, will only be considered after the security and liquidity requirements have been satisfied. For example if the Council had an opportunity to invest a sum of money and there were two investment opportunities and each of these both met the security and liquidity criteria then in this scenario the investment that pays the greatest yield will be chosen.

The Council will consider an organisation's ESG credentials when it has to choose between counterparties that both have similar SLY criteria.

Annual Investment Strategy - The key requirements of both the Code and the investment guidance are to set an annual Investment Strategy, as part of its annual Treasury Management Strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing 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:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, housing association, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds, rated AAA by at least two of the three main rating agencies i.e. Standard and Poor's, Moody's and / or Fitch rating agencies.
5. A body that is considered of a high credit quality (such as a bank or building society for category 5 this covers bodies with a minimum Short Term rating of Standard and Poor's P-2 or the Moody's and Fitch equivalent).

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 a maximum investment of £5m in any one institution and a maximum duration of up to 1 year or duration as advised by our treasury management advisers.

Non-specified investments – are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non-specified investments would include any sterling investments with:

	Non Specified Investment Category	Limit (£)
a.	**Supranational bonds greater than 1 year to maturity** **(a) Multilateral development bank bonds** - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Reconstruction and Development Bank etc.). **(b) A financial institution that is guaranteed by the United Kingdom Government** (e.g. National Rail) The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	AAA long term ratings £5m £5m
b.	**Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal	£5m

	on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	
c.	**The Council's own banker** if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	£250k

NOTE 1. This Authority will seek further advice on the appropriateness and associated risks with investments in these categories.

Within category c, and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in this body. The intention will be to keep overnight balances to a minimum. Any balance on this account will be when the Authority has not had the opportunity to transfer balances to an approved counterparty.

The monitoring of investment counterparties - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Section 151 Officer, and if required new counterparties which meet the criteria will be added to the list.

b) APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA+. The Authority will continue to invest with counterparties in the UK despite the UK only currently having an AA- rating.

Based on lowest available rating

AAA

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

AA+

- Canada
- Finland
- U.S.A.

THIS LIST IS AS AT 2.12.2023

c) TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Full Council

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

(ii) Cabinet

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit Committee

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

d) THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer *(see TM Code page 38 (iv))*

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

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