Appendix A

CAPITAL AND INVESTMENT STRATEGY 2023/24 – 2027/28

Introduction

1. The Local Government Act 2003 requires the Council to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities when carrying out capital and treasury management activities.

2. The Department for Levelling Up, Housing & Communities (DLUHC) has issued Guidance on Local Authority Investments that requires the Council to approve an investment strategy before the start of each financial year.

3. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the DLUHC Guidance.

4. Revisions to CIPFA's Treasury Management Code and Prudential Code (Dec 2021) come into full effect in 2023/24, including revised reporting requirements (these include changes in the Capital strategy, prudential indicators, and investment reporting) which had been deferred but which the Council is already following. Treasury Management Practices (TMPs) have been updated accordingly and are referenced below. Main changes relate to greater emphasis on environmental sustainability and the knowledge and skills of staff/council members dealing with treasury management. In addition, there is the introduction of Investment Management Practices (IMPs) which cover investment objectives/criteria, risk management and decision making.

The Capital Strategy

5. The Council's capital expenditure plans are summarised below and forms the first of the prudential indicators. Capital expenditure needs to have regard to:

    - Corporate Priorities (e.g., strategic planning)
    - Stewardship of assets (e.g., asset management planning)
    - Value for money (e.g., option appraisal)
    - Prudence and sustainability (e.g., implications for external borrowing and whole life costing)
    - Affordability (e.g., implications for council tax)
    - Practicability (e.g., the achievability of the Corporate Strategy)
    - Proportionality (e.g., risks associated with investment are proportionate to financial capacity); and
    - ESG (Environmental, Social, and Governance e.g., address environmental sustainability in a manner which is consistent with our corporate policies. This is now a requirement of the TM Code)

6. Each year the Council will produce a Capital Programme to be approved by Full Council in March as part of the Council Tax setting.

7. Each scheme is supported by a detailed appraisal (which may also be a Cabinet Report), as set out in the Council's Financial Regulations. The capital appraisals will address the following:

   a) A detailed description of the project
   b) How the project contributes to the Council's Corporate Priorities and Strategic Commitments (particularly the Council's environmental and carbon policies)
   c) Anticipated outcomes
   d) A consideration of alternative solutions
   e) An estimate of the capital costs and sources of funding
   f) An estimate of the revenue implications, including any savings and/or future income generation potential
   g) A consideration of whether it is a new lease agreement
   h) A consideration of sustainability in accordance with corporate objectives
   i) Any other aspects relevant to the appraisal of the scheme as the S151 Officer may determine

   The appraisal requirement applies to all schemes except where there is regular grant support and if commercial negotiations are due to take place and further reporting to Cabinet or Full Council is therefore required.

8. From time-to-time unforeseen opportunities may arise, or new priorities may emerge, which will require swift action and inclusion in the Capital Programme. These schemes are still subject to the appraisal process and the Capital Programme will contain a contingency sum to allow such schemes to progress without disrupting other planned capital activity.

Capital Prudential Indicators

a) Capital Expenditure Estimates

9. Capital expenditure can be financed immediately through the application of capital resources, for example, capital receipts, capital grants or revenue resources. However, if these resources are insufficient or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need. Table 1 summarises the capital expenditure projections and anticipated financing.

Table1: Projected Capital Expenditure and Financing

	2022/23 Original £'000	2022/23 Revised £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Capital Expenditure	14,611	19,579	9,576	4,340	5,935	2,265	1,370
Less Financed by:							
Capital Receipts	8,921	4,759	3,387	2,260	4,690	670	195
Capital Grants/ Contributions	4,085	4,347	3,739	1,570	695	695	695
Reserves	1,605	1,223	1,450	510	550	900	480
Total Financing	14,611	10,329	8,576	4,340	5,935	2,265	1,370
Underlying need to Borrow	**0**	**9,250**	**1,000**	**0**	**0**	**0**	**0**

10. The key risks to the capital expenditure plans are that the level of grants estimated is subject to change, anticipated capital receipts are not realised or spend is more than expected in the medium term. The Government had planned to cease New Homes Bonus from 2023/24 which impacted on the level of capital grants received going forward. We have had a reduced allocation in 2023/24 and its future remains uncertain.

b) The Council's Underlying Need to Borrow and Investment position

11. The Capital Financing Requirement (CFR) represents the Council's underlying need to borrow for capital expenditure and it remains a key indicator under the Prudential Code. This underlying need to borrow will increase the CFR (i.e., the use of internal borrowing, which reduces our investment balance). This increase is offset by Minimum Revenue Provision (MRP) and any additional voluntary contributions (VRP) raised through Council Tax, as a result of financing requirements in relation to the Arena development, Cotgrave redevelopment, Bingham Leisure Hub, and the Crematorium.

12. The Council also holds usable reserves and working capital which represent the underlying resources available for investment. The Council's current strategy is to use these resources, by way of internal borrowing, to avoid the commitment to external debt.

13. The table below summarises the overall position regarding borrowing and available investments and shows an increase in CFR reflecting the completion of the Crematorium and Bingham Leisure Hub in 2022-23. The capital receipt anticipated from the sale of land Hollygate Lane will be used to reduce the CFR in following years.

Table 2: CFR and Investment Resources

	2022/23 Forecast £'000	2023/24 Forecast £'000	2024/25 Forecast £'000	2025/26 Forecast £'000	2026/27 Forecast £'000	2027/28 Forecast £'000
Opening CFR	7,283	15,516	12,605	9,385	8,116	7,281
CFR in year	9,250	1,000	-	-		
Less: MRP etc	(1,017)	(1,311)	(1,320)	(1,269)	(835)	(269)
Less: Capital Receipts Applied		(2,600)	(1,900)			
Closing CFR	**15,516**	**12,605**	**9,385**	**8,116**	**7,281**	**7,012**
Less: External Borrowing	-	-	-	-	-	-
Internal Borrowing	15,516	12,605	9,385	8,116	7,281	7,012
Less:						
Usable Reserves	(24,866)	(22,129)	(22,632)	(20,451)	(18,665)	(18,281)
Working Capital	(43,569)	(38,625)	(35,750)	(33,750)	(31,750)	(29,750)
Available for Investment	(52,919)	(48,149)	(48,997)	(46,085)	(43,134)	(41,019)

14. The Council is currently debt free and the assumption in the capital expenditure plans is that the Council will not need to externally borrow over the MTFS predominantly due to CIL and S106 monies. Available resources (usable reserves and working capital) gently tail off over the medium term, with usable reserves being used over the medium term to finance both capital and revenue expenditure and working capital steadily reducing as S106 monies in relation to Education are no longer paid to the Council.

15. The new accounting standard IFRS16 has been delayed again and now comes into force on 1st April 2024. IFRS 16 affects how leases are measured, recognised, and presented in the accounts and essentially means that some leases may have to be classified as capital expenditure. The full impact of this change will be determined but it is thought that it is unlikely to impact significantly on the CFR.

Minimum Revenue Provision Policy

16. DLUHC Regulations have been issued which require the Governance Scrutiny Group to consider a Minimum Revenue Provision (MRP) Statement in advance of each year. Further commentary regarding financing of the debt is provided in paragraphs 28-33. A variety of options are provided to Councils, so long as there is prudent provision. The Council has chosen the Asset Life Method (Option 3 within the Guidance) with the following recommended MRP Statement:

MRP will be based on the estimated life of the assets, in accordance with Option 3 of the regulations. Estimated life periods within this limit will be determined under delegated powers, subject to any statutory override. (DCLG revised guidance states maximum asset lives of 40 and 50 years for property and land respectively)

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

This option provides for a reduction in the borrowing need over approximately the asset's life.

17. As well as the need to pay off an element of the accumulated General Fund borrowing requirement used to fund capital expenditure each year (the CFR), through a revenue charge (the MRP) the Council is also allowed to make additional voluntary contributions (voluntary revenue provision – VRP). In times of financial crisis, the Council has the flexibility to reduce voluntary contributions. Table 2 (paragraph 13) shows a decision to use capital receipts to bring the CFR down by funding capital expenditure.

Treasury Management Strategy 2023/24 to 2027/28

18. The CIPFA Treasury Management Code (2021) defines treasury management activities as:

> *"The management of the organisation's borrowing, investments and cash flows, including 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."*

The code also includes non-cash investments which are covered at paragraph 67 below. Under the revised Prudential code, investments are separated into categories for Treasury Investment, Service Investment and Commercial Investment.

19. The CIPFA Code of Practice for Treasury Management in the Public Services (the "CIPFA Treasury Management Code") and the CIPFA Prudential Code require local authorities to produce a Treasury Management Strategy Statement on an annual basis.

20. This Strategy Statement includes those indicators that relate to the treasury management functions and help ensure that the Council's capital investment plans are affordable, prudent, and sustainable, while giving priority to the security and liquidity of those investments. TMP 1 sets out the Council's practices relating to ESG and is a developing area.

The Current Economic Climate and Prospects for Interest Rates

21. At the December 2022 meeting the monetary policy committee (MPC) backed a hike in interest rates of 0.5 percentage points despite fears the UK economy is about to enter a long recession.

22. It is exactly a year since the Bank of England started raising interest rates from a record low of 0.1% in December 2021. On the 15 December the Bank of England raised the Bank Rate for the ninth time in a year, a 0.5% jump to 3.5%. The financial markets believe interest rates will peak at 4.75% next year. Link (the Council's Treasury Advisors) are forecasting a stepped increase with rates peaking at 4.5% in June 2023 before starting to tail off from December 2023 dropping to 4.0% in March 2024 and gradually reducing to 2.5% by September 2025.

23. Inflation is currently at 10.7% due to higher energy and commodity prices and continuing supply shortages. The target is to get inflation to 2% which is why the MPC is under pressure to increase interest rates. Inflation is expected to remain high for the first quarter of 2023 and then gradually fall back towards 2% by the April 2024.

24. The unemployment rate in the UK is currently 3.7% (Nov 2022) and is projected to trend around 5% in 2023 and 6% in 2024.

25. The table below shows the assumed average interest (which reflects a prudent approach) that will be made over the next five years for budget setting purposes.

Table 3: Budgetary Impact of Assumed Interest Rate Going Forward

	2023/24	2024/25	2025/26	2026/27	2027/28
Anticipated Interest Rate	4.50%	4.00%	3.00%	2.50%	2.50%
Expected interest from investments (£)	1,292,308	839,420	613,045	547,570	542,995
Other interest (£)	67,000	63,000	59,000	59,000	59,000
Total Interest (£)	**1,359,308**	**902,420**	**672,045**	**606,570**	**601,995**

Sensitivity:	£	£	£	£	£
- 0.25% Interest Rate	(307,700)	(205,800)	(37,000)	(24,700)	(19,300)
+ 0.25% Interest Rate	307,700	205,800	37,000	24,700	19,300

26. In the event that a bank suffers a loss, the Council could be subject to bail-in to assist with the recovery process. The impact of a bail-in depends on the size of the loss incurred by the bank or building society, the amount of equity capital and junior bonds that can be absorbed first and the proportion of insured deposits, covered bonds and other liabilities that are exempt from bail-in.

27. The Council has managed bail-in risk by both reducing the amount that can be invested with each institution to £10 million and by investment diversification between creditworthy counterparties.

Borrowing Strategy 2023/24 to 2027/28

Prudential Indicators for External Debt

28. Table 2 above identifies that the Council will not need to externally borrow over the MTFS instead choosing to internally borrow. Whilst this means that no external borrowing costs (interest/debt management) are incurred, there is an opportunity cost of using internal borrowing by way of lost interest on cash balances.

29. The approved sources of long-term and short-term borrowing are:

- Internal borrowing
- Municipal Bond Agency
- Public Works Loan Board (or the body that will replace the PWLB in the future)
- Local authorities
- UK public and private sector pension funds
- Commercial banks
- Building Societies in the UK
- Money markets
- Leasing
- Capital market bond investors
- Special purpose companies created to enable local authority bond issue

PWLB Borrowing is at Gilts +80bps (certainty rate). If applying, there is the need to categorise the capital programme into 5 categories including service, housing and regeneration. If any Authority has assets that are being purchased 'primarily for yield' anywhere in their capital programme they will not be able to access PWLB funding.

a) Authorised Limit for External Debt

30. The authorised limit is the "affordable borrowing limit" required by section 3 (1) of the Local Government Act 2003 and represents the limit beyond which borrowing is prohibited. It shows the maximum amount the Council could afford to borrow in the short term to maximise treasury management opportunities and either cover temporary cash flow shortfalls or use for longer term capital investment. It should be set higher than the CFR plus a safety margin of £5m to £10m.

Table 4: The Authorised Limit

	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Authorised Limit	25,000	25,000	25,000	25,000	25,000	25,000

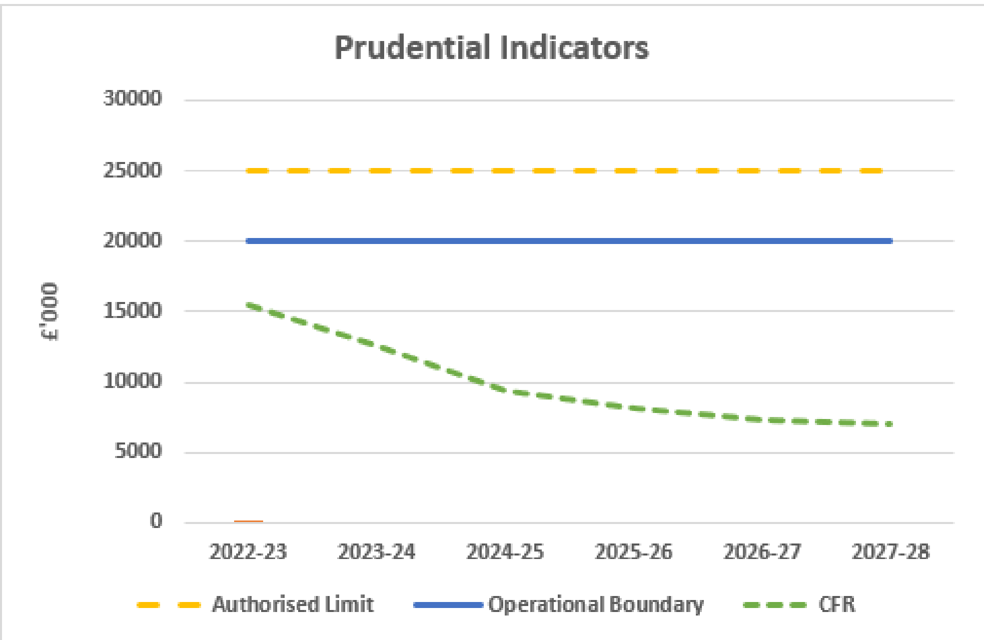
b) Operational Boundary for External Debt

31. The operational boundary is the expected borrowing position of the Council during the course of the year. The operational boundary is not a limit and actual borrowing can be either below or above the boundary subject to the authorised limit not being breached. The Operational Limit has been set at £20m and, whilst the Council is not expected to externally borrow over the period of the MTFS, this provides a cushion and gives flexibility should circumstances significantly change.

Table 5: The Operational Boundary

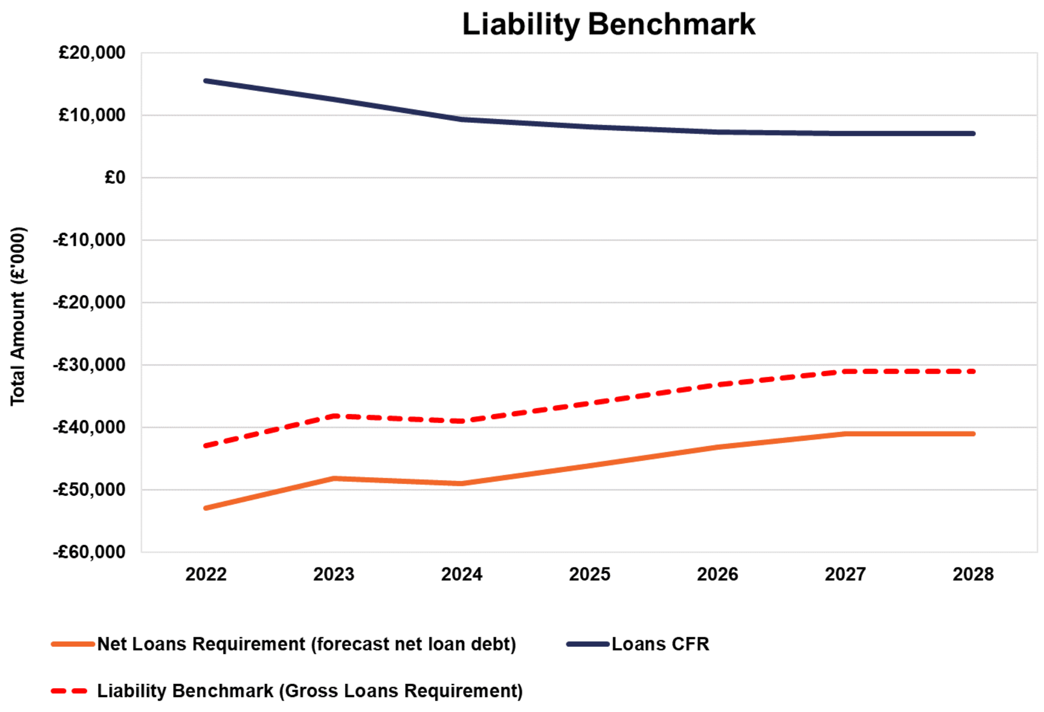
	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Operational Boundary	20,000	20,000	20,000	20,000	20,000	20,000

32. The Prudential indicators are shown graphically below.



33. The TM Code introduces a new indicator called the Liability Benchmark which reflects the real need to borrow. The Benchmark must also be shown graphically. The Liability Benchmark in the table and graph below shows that the Council's CFR is reducing due to MRP repayments, reserves are being used to fund future capital expenditure and working capital/S106 monies are returning to a more realistic level. The Council has no need to borrow over the medium term.

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Closing CFR	15,516	12,605	9,385	8,116	7,281	7,012
Less:						
Usable Reserves	(24,866)	(22,129)	(22,632)	(20,451)	(18,665)	(18,281)
Working Capital	(43,569)	(38,625)	(35,750)	(33,750)	(31,750)	(29,750)
Plus minimum investments	10,000	10,000	10,000	10,000	10,000	10,000
LIABILITY BENCHMARK	(42,919)	(38,149)	(38,997)	(36,085)	(33,134)	(31,019)



Prudential Indicators for Affordability

34. Affordability indicators provide details of the impact of capital investment plans on the Council's overall finances.

a) Actual and estimates of the ratio of net financing costs to net revenue stream

35. This indicator identifies the trend in net financing costs (borrowing costs less investment income) against net revenue income. The purpose of the indicator is to show how the proportion of net income used to pay for financing costs is changing over time. A credit indicates interest earned rather than an interest cost. The credit figure in 2023-24 reflects the rapid rise in interest rates and the downward trend, in later years, reflects the reduction in MRP as payments in relation to the Arena are finalised and despite new non-treasury capital commitments in the Crematorium and Bingham Hub giving rise to further MRP, repayments are less because they are spread over a longer period.

Table 6: Proportion of Financing Costs to Net Revenue Stream

	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
General Fund	4.92%	-0.37%	3.22%	4.45%	-0.32%	-0.31%

b) Estimates of net income to net revenue stream

36. This is a new indicator that looks at net income from commercial and service investments (for example it includes the Crematorium) and expresses it as a percentage of net revenue streams. The increase reflects rent increases and full year effect of the crematorium becoming operational.

Table 7: Proportion of Net Income to Net Revenue Stream

	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Net Income to Net Revenue Stream	11.3%	11.4%	15.5%	15.7%	15.6%

Investment Strategy 2023/24 to 2027/28

37. Table 8 below shows the Council's investment projections. The downward movement reflects the use of capital receipts to finance capital expenditure. In addition, it reflects the release of S106 monies and the loss of S106 receipts for Education which are no longer paid to the Council.

Table 8: Investment Projections

	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Investments at 31 March £'000	52,919	48,149	48,997	46,085	43,134	41,019

38. Both the CIPFA Code and the DLUHC Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitable low investment income. Accordingly, the Council ensures that robust due diligence procedures cover all external investments.

39. The Council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the Council's Corporate Objectives and values. This would include avoiding direct investment in institutions with material links to:
    a) Human rights abuse (e.g., child labour, political oppression);
    b) Environmentally harmful activities (e.g., pollutants, destruction of habitat, fossil fuels); and
    c) Socially harmful activities (e.g., tobacco, gambling).

40. The Council will keep under review the sensitivity of its treasury assets and liabilities to inflation and will seek to manage the risk accordingly in the context of the whole of the Council's inflation exposures.

41. The Council will invest its surplus funds with approved counterparties. Where appropriate, the Council is registered as a professional client (under MIFID II) with the counterparty limits shown below in Table 9 and counterparties included at Appendix i. Government is currently reviewing UK regulations in light of Brexit, but at this point, there is no direct impact on the way the Council invests. However, members will be updated if there are any changes as they materialise:

Table 9: Counterparty Details

Credit Rating	Banks* Unsecured	Banks* Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 20 Years	n/a	n/a
AAA	£3.0m 3 years	£10.0m 10 years	£10.0m 20 years	£3.0m 10 years	£5.0m 10 years
AA+	£3.0m 2 years	£10.0m 10 years	£10.0m 5 years	£3.0m 4 years	£5.0m 4 years
AA	£3.0m 1 year	£10.0m 4 years	£10.0m 3 years	£3.0m 2 years	£5.0m 4 years
AA-	£3.0m 1 year	£10.0m 2 years			£5.0m 4 years
A+	£3.0m 6 months	£10.0m 2 years			£5.0m 2 years
A	£3.0m 6 months	£10.0m 1 year			£5.0m 2 years
A-	£3.0m 3 months	£10.0m 6 months			£5.0m 2 years
Pooled Funds**	£10m per fund				

*Banks includes Banks and Building Societies.

**Pooled funds do not have a defined maturity date. Monies in Money Market Funds can be withdrawn on the same date; monies in other pooled funds can be withdrawn giving the requisite notice, generally between 1 and 7 days.
Monies in the CCLA Property Fund can be withdrawn on each monthly redemption date, if required; it is the Council's intention to hold its investment over a reasonable time frame for property investments, which is 5 years, subject to cash flow requirements.

42. Although the above table details the counterparties that the Council could invest funds with, it would not invest funds with counterparties against the advice of Link (our TM Advisors) even if they met the criteria above.

43. Changes to any of the above can be authorised by the Section 151 Officer or the Financial Services Manager and thereafter will be reported to the Governance Scrutiny Group. This is to cover exceptional circumstances so that instant decisions can be made in an environment which is both fluid and subject to high risk.

44. The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank

with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £2,000,000 per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of an Authority maintaining operational continuity.

45. Credit rating information is provided by Link on all active counterparties that comply with the criteria above. A counterparty list will be maintained from this information and any counterparty not meeting the criteria will be removed from the list.

46. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
    - no new investments will be made,
    - any existing investments that can be recalled or sold at no cost will be, and
    - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

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

Credit Risk

48. The CIPFA Treasury Management Code recommends that organisations should clearly specify the minimum acceptable credit quality of its counterparties; however, they should not rely on credit ratings alone and should recognise their limitations. Full regard will therefore be given to other available information on the credit quality of the organisations, in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantial doubts about its credit quality, even though it may meet the credit rating criteria.

49. When deteriorating financial market conditions affect the credit worthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a

reduction in the level of investment income earned but will protect the principal sum invested.

Current investments

50. The Council uses its own processes to monitor cash flow and determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial strategy and cash flow forecast.

51. Surplus funds are invested based on the most up to date forecasts of interest rates and in accordance with the Council's cash flow requirements in order to gain the maximum benefit from the Council's cash position throughout the year. Generally speaking, in times of rising interest rates it is prudent to invest short term, whilst also ensuring a diversified portfolio. Funds are separated between specified and non-specified investments as detailed in paragraphs 53 to 55 below.

52. The Council holds approximately £15m in pooled/diversified funds. The fair value of these funds can fluctuate. These can be seen in Appendix ii. Some funds are just starting to pick up from the downward trend experienced by the political turmoil last year. However some funds are still reporting a downward trend. Cabinet reports have recommended mitigation by appropriations to reserves of £0.6m from 2022/23 in year efficiencies and £0.2m from 2021/22. Currently there is a statutory override preventing any accounting loss impacting on the revenue accounts. This was due to end next 31st March 2023 however DLUHC having decided, after consultation, to extend this for a further two years. As part of the budget and financial strategy 2023-24 report being taken to Full Council, it is being recommended that a separate reserve is identified to cover this risk of £1m. It should be noted these funds over the past 3 years have generated £1.35m in interest receipts, 65% of total interest received by the Council and our expectation is over time the value will rise as the economy recovers.

Specified investments

53. The DLUHC guidance defines specified investments as those:

- Denominated in pound sterling,
- Due to be repaid within 12 months of arrangements,
- Not defined as capital expenditure by legislation, and
- 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"

54. The Council now defines “high credit quality” organisations as those having a credit rating of A- and above.

Non-specified investments

55. Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e., those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and scheme not meeting the definition on high credit quality. Limits on non-specified investments are shown in the following table:

Table 10: Non-specified Investment Limits

	Cash Limit
Total long-term investments	£15m
Total investments without credit ratings or rated below A- (except UK Government and local authorities)	£5m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£3m
Total non-specified investments	£15m

Investment Limits

56. The Council’s revenue reserves available to cover investment losses in a worst-case scenario are forecast to be around £16 million on 31st March 2023. The maximum that will be lent to any one organisation (other than the UK Government) will be £10.0 million. This figure is constantly under review to assess risk in the case of a single default. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers’ nominee accounts, foreign countries, and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country since the risk is diversified over many countries.

Table 11: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£10m each
UK Central Government	Unlimited

Any group of organisations under the same ownership	£10m per group
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£3m per country
Registered providers	£5m in total
Unsecured investments with any building society	£3m in total
Loans across unrated corporates	£5m in total
Money Market Funds	£40m in total

Treasury Management limits on activity

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

a) Interest Rate Exposures

58. This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net interest payable will be:

Table 12: Interest Rate Exposure

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Upper Limit on fixed interest rate exposure	50%	50%	50%	50%	50%	50%
Upper Limit on variable interest rate exposure	100%	100%	100%	100%	100%	100%

59. Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Principal Sums Invested over 1 year

60. This limit is intended to contain exposure to the possibility of any loss that may arise as a result of the Council having to seek early repayment of any

investments made. The limits on the long-term principal sum invested to final maturities beyond the period end are set at 50% of the sum available for investment (to the nearest £100k), as follows:

Table 13: Principal Sums Invested over 1 year

	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Limit on Principal invested over 1 year £'000	26,500	24,100	24,500	23,000	21,600	20,500

Policy on the use of financial derivatives

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

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

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

Treasury Management Advisors

64. Link Treasury Services will act as the Council's treasury management advisors until 31st October 2023 and is currently going through a procurement process. The company provides a range of services which include:

- Technical support on treasury matters and capital finance issues
- Economic and interest rate analysis

- Generic investment advice on interest rates, timing, and investment instruments; and
- Credit ratings/market information service comprising the three main credit rating agencies.

65. Whilst the treasury management advisors provide support to the internal treasury function, the current market rules and the CIPFA Treasury Management Code confirms that the final decision on treasury management matters rests with the Council. The service provided by the Council's treasury management advisors is subject to regular review.

Other Options Considered

66. The DLUHC Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance and Corporate Services, having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Our policy is to have a feathered approach i.e., a range of counterparties spread over different time periods (short/medium/long term), this mitigates risk of changes in credit ratings and interest rates whether they go up or down.

Commercial Investments

67. The definition of investments in CIPFA's definition of treasury management activities above (paragraph 18) covers all financial assets of the organisation as well as other non-financial assets which the organisation holds primarily for financial returns, such as investment property portfolios. This may therefore include investments which are not managed as part of normal treasury management or under treasury management delegations.

68. The Council whilst committed to being self-sustainable has taken the decision to no longer invest on property for commercial gain. This accords with the current professional ethos of CIPFA, mentioned below. Hence the Council no longer has an Asset Investment Fund, which was £20m.

69. Under the updated Prudential code Local Authorities are no longer be allowed to borrow to fund non-financial assets solely to generate a profit.

70. The Council will maintain a summary of current material investments, subsidiaries, joint ventures, and liabilities, including financial guarantees and the organisation's risk exposure. The current summary is included at Appendix iii.

71. The Council will also monitor past Commercial Property investments and against original objectives and consider plans to divest as part of a biennial review. The last report was presented to Cabinet 14 December 2021 agenda item 6 – Review of Investment Assets. This is due to be reviewed once again in December 2023.

72. Proportionality is now included as an objective in the Prudential Code, clarification, and definitions to define commercial activity and investment are included, and the purchase of commercial property purely for profit cannot lead to an increased capital financing requirement (CFR). Paragraph 75 covers the issue of proportionality with different types of asset investments the Council has made.

73. The Council must disclose its dependence on commercial income and the contribution non-core investments make towards core functions. This covers assets purchased through the Council's AIS, as well as other pre-existing commercial investments.

74. The expected contributions from commercial investments are shown below. To manage the risk to the Council's budget, income from commercial investments should not be a significant proportion of the Council's income. It is estimated to be around 24% in the current year.

a. **Dependence on commercial income and contribution non-core investments make towards core functions**

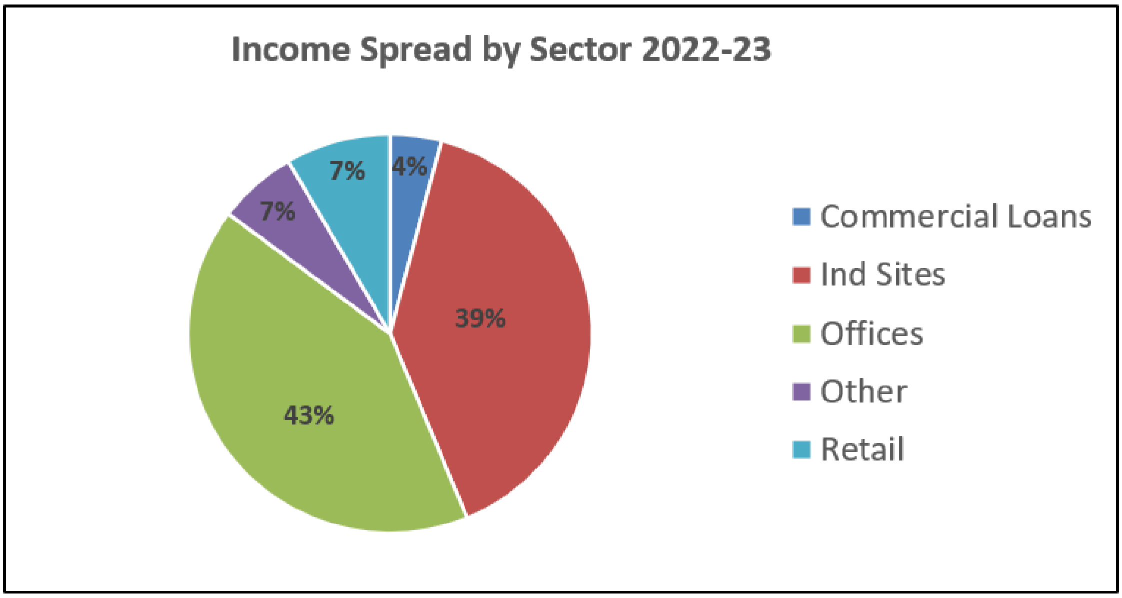
75. The expected contributions from existing commercial investments are shown in Table 14. To manage the risk to the Council's budget, income from commercial investments should not be a significant proportion of the Council's income. Our objective is that this ratio should not exceed 30%, subject to annual review. Running costs drop initially before starting to rise again, reflecting NNDR savings as empty units at the Point and Bingham Enterprise Centre are occupied and also reflects movements on responsive works budgets.

Table 14: Commercial Investment income and costs

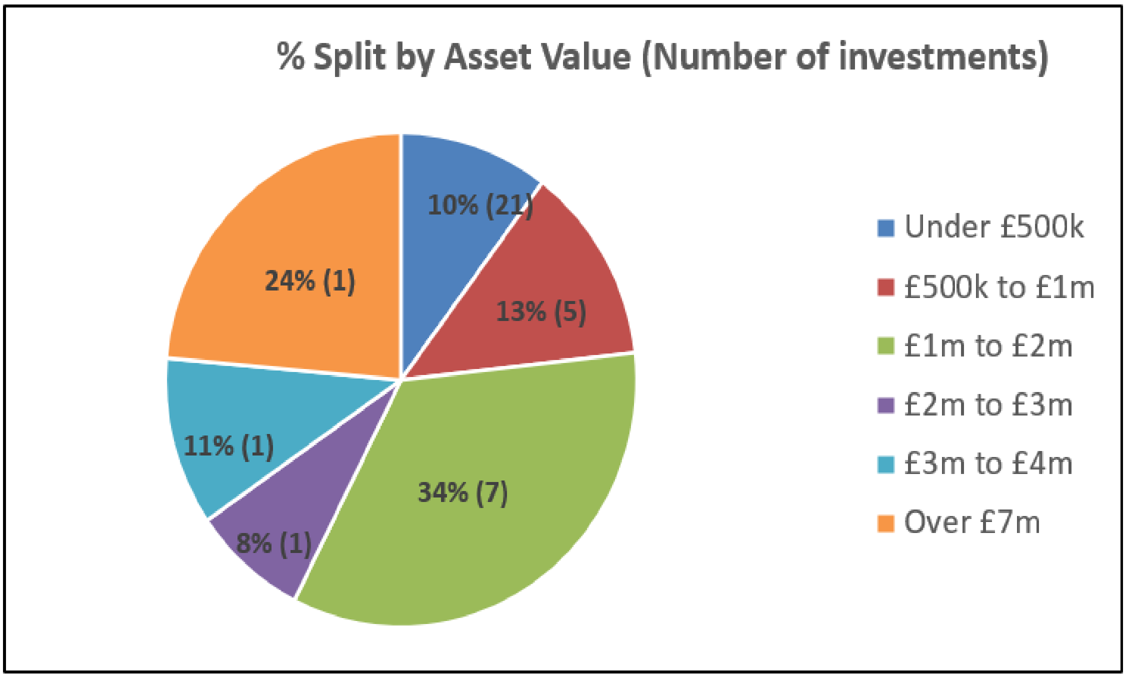
	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Commercial Property Income	(1,738)	(1,832)	(1,894)	(1,924)	(1,962)	(1,962)
Running Costs	591	480	468	476	482	487
Net Contribution to core functions	(1,147)	(1,352)	(1,426)	(1,449)	(1,480)	(1,475)
Interest from Commercial Loans	(72)	(67)	(63)	(59)	(59)	(59)
Total Contribution	(1,219)	(1,419)	(1,489)	(1,508)	(1,539)	(1,534)
Sensitivity:						
+/- 10% Commercial Property Income	174	183	189	192	196	196
Indicator:						
Investment Income as a % of total Council Income	24.2%	18.8%	19.9%	20.3%	20.5%	20.3%
Total Income	7,486	10,117	9,824	9,792	9,880	9,955

b) Risk Exposure Indicators

76. The Council can minimise its exposure to risk by spreading investments across sectors and by avoiding single large-scale investments. Generally, there is a spread of investment across sectors. The Council's commitment to economic regeneration (not purely financial return) has meant that many of its investments have been in industrial units, which have been very successful.



c) Security and Liquidity



77. Commercial investments are held for longer term asset appreciation as well as yield. Investments or sales decisions will normally be planned as part of the consideration of the 5-year capital strategy to maximise the potential return. Nevertheless, the local and national markets are monitored to ensure any gains are maximised or losses minimised.

78. To help ensure asset values are maintained the assets are given quarterly inspections, together with a condition survey every 3 years. Any works required to maintain the value of the property will then form part of Council's spending plans.

79. The liquidity of the assets is also dependent on the condition of the property, the strength of the tenants and the remaining lease lengths. The Council keeps these items under review with a view to maximising the potential liquidity and value of the property wherever possible.

80. The liquidity considerations for commercial investments are intrinsically linked to the level of cash and short-term investments, which help manage and mitigate the Council's liquidity risk. A review of the Council's commercial assets was undertaken and reported to Governance Scrutiny Group in November 2021 and on to Cabinet December 21 paragraph 71 refers.

81. The investments are subject to ongoing review with regards to their financial viability or indeed whether they are surplus to requirement. At the November 2021 Governance Group Meeting and December 2021 Cabinet, details on the risks surrounding the Council's commercial properties were reported, as well as providing a pathway to potential commercial asset disposal, if required.

Member and Officer Training

82. The updated TM Code requires Local Authorities to document a formal and comprehensive knowledge and skills schedule reflecting the need to ensure that both members and officers responsible for treasury management are suitably trained and kept up to date (TMP 10). There will be specific training for members training involved in scrutiny and broader training for members who sit on full Council. Previously these needs have been reported through the Member Development Group, with the Council specifically addressing this important issue by:

- Periodically facilitating workshops for members on finance issues most recently provided in January 2023.
- Interim reporting and advising members of Treasury issues via Governance Scrutiny Group.

With regards to officers:

- Attendance at training events, seminars, and workshops; and
- Support from the Council's treasury management advisors
- Identifying officer training needs on treasury management related issues through the Performance Development and Review appraisal process

CIPFA have developed a self-assessment tool which will need to be completed so that a tailored, recorded and monitored training plan can be drawn up to ensure that training provided achieves the desired outcomes. Attendance at training should be recorded and action taken where poor attendance is identified. Regular communication is encouraged.

83. The Council has piloted a 'training needs' template which will be modified for new Governance Group Members after the local elections. This should inform training requirements. Furthermore, the Council will continue to have its Annual Treasury Management training session with Councillors provided by its Treasury advisers.

Appendix (i)

Counterparty Registrations under MIFID II

The Council is registered with the following regulated financial services organisations who may arrange investments with other counterparties with whom they have themselves registered:

- BGC Brokers LP
- Royal London Asset Management
- Tradition UK Ltd
- King & Shaxson
- Aberdeen Asset Management
- Aviva
- Institutional Cash Distributors Ltd
- Federated Investors (UK) LLP
- Invesco Asset Management Ltd
- CCLA
- Goldman Sachs Asset Management
- Black Rock
- Aegon Asset Management
- Ninety One
- HSBC Asset Management
- Imperial Treasury Services

Appendix (ii)

Fair Value	31.03.22	30.06.22	30.09.22	31.12.22	Difference
Aegon-Previously Kames	4,976,196	4,425,213	4,145,841	4,377,738	-598,458
Ninety One-Previously Invest	4,819,826	4,538,071	4,401,865	4,498,733	-321,092
RLAM	991,193	982,352	965,030	978,590	-12,603
CCLA Property	2,416,786	2,543,095	2,435,135	2,058,130	-358,656
CCLA Divesified	2,018,480	1,887,902	1,845,419	1,830,824	-187,656
	15,222,481	**14,376,633**	**13,793,290**	**13,744,015**	**-1,478,466**

Appendix (iii)

	Current Book Value £000	Previous Book Value £000
The Point Office Accommodation	3.395	3.508
Hollygate Lane, Cotgrave Industrial Units	2.716	2.628
Unit 3 Edwalton Business Park	2.433	2.450
Unit 1 Edwalton Business Park	1.955	1.950
Bardon Single Industrial Unit	1.820	1.777
Trent Boulevard	1.415	1.412
Cotgrave Phase 2	1.385	-
Colliers Business Park Phase 2	1.323	1.269
Bridgford Hall Aparthotel and Registry Office	1.121	1.120
Finch Close	0.931	0.916
Boundary Court	0.809	0.789
Colliers Business Park Phase 1	0.720	0.663
Unit 10 Chapel Lane	0.680	0.666
Mobile Home Park	0.480	0.477
Cotgrave Precinct Shops	0.482	0.470
New Offices Cotgrave	0.422	0.401
TOTAL INVESTMENT PROPERTY*	**22.087**	**20.496**
Notts County Cricket Club Loan	1.570	1.646
TOTAL	**23.657**	**22.142**

* Note values are as at 31st March 2022 and 2021

Glossary of Terms

CCLA Property Fund - this a local authority property investment fund. The property fund is designed to achieve long term capital growth and a rising income from investments in the commercial property sector.

Covered Bonds – these investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means they are exempt from bail-in.

Financial Derivatives – A financial contract that derives its value from the performance of an underlying asset

Money Market Funds – these funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks.

Pooled Funds – shares in diversified investment vehicles consisting of different investment types including banks, equity shares and property, these funds have the advantage of providing wide diversification of investment risks