CAPITAL AND INVESTMENT STRATEGY 2024/25 – 2028/29

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 Council 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.

The Capital Strategy

4. 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
   - Environmental Social Governance (ESG) (e.g., address environmental sustainability in a manner which is consistent with our corporate policies. This is now a requirement of the TM Code)

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

6. 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 and outputs
   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) How the project affects the Council's Environmental targets
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.

7. 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

8. 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

	2023/24 Original £'000	2023/24 Revised £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000
Capital Expenditure	9,576	10,562	11,079	8,196	2,005	1,620	1,852
Less Financed by:							
Capital Receipts	3,387	3,826	2,989	5,999	292	0	0
Capital Grants/ Contributions	3,739	4,824	6,037	1,517	695	695	695
Reserves	1,450	1,912	2,053	680	1,018	925	1,157
Total Financing	8,576	10,562	11,079	8,196	2,005	1,620	1,852
Underlying need to Borrow	**1,000**	**0**	**0**	**0**	**0**	**0**	**0**

9. 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/deferred or spend is more than expected in the medium term. There is uncertainty surrounding the future of New Homes Bonus which has impacted on the level of capital grants received going forward. The allocation for 2024/25 as been assumed to be £1.5m with nothing anticipated in future years.

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

10. The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR) which remains a key indicator under the Prudential Code. The CFR increases with new debt-financed capital expenditure and reduces with Minimum Revenue Provision (MRP) and capital receipts used to replace debt. In addition the CFR will reduce with any voluntary contributions (VRP) made, as a result of financing requirements in relation to the Rushcliffe Arena development.

11. 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 need to externalise debt.

12. Table 2 below summarises the overall position regarding borrowing and available investments. It shows a decrease in CFR due to the anticipated capital receipt from the sale of land Hollygate Lane being used to reduce the additional CFR resulting from the completion of the Rushcliffe Oaks Crematorium and Bingham Arena and Enterprise Centre.

Table 2: CFR and Investment Resources

	2023/24 Forecast £'000	2024/25 Forecast £'000	2025/26 Forecast £'000	2026/27 Forecast £'000	2027/28 Forecast £'000	2028/29 Forecast £'000
Opening CFR	13,266	9,511	7,863	6,685	5,942	5,764
CFR in year	-	-	-	-	-	-
Less: MRP etc	(1,255)	(1,178)	(1,178)	(743)	(178)	(178)
Less: Capital Receipts Applied	(2,500)	(470)	-	-	-	-
Closing CFR	**9,511**	**7,863**	**6,685**	**5,942**	**5,764**	**5,586**
Less: External Borrowing	-	-	-	-	-	-
Internal Borrowing	9,511	7,863	6,685	5,942	5,764	5,586
Less:						
Usable Reserves	(25,560)	(22,663)	(19,662)	(17,314)	(15,707)	(14,251)
Working Capital	(42,906)	(40,906)	(38,906)	(36,906)	(34,906)	(32,906)
Available for Investment	(58,955)	(55,706)	(51,883)	(48,278)	(44,849)	(41,571)

13. The Council is currently debt free and the assumption in the capital expenditure plan is that the Council will not need to externally borrow over the period of the MTFS predominantly due to CIL and S106 monies. Available resources (usable reserves and working capital) gradually reduce with usable reserves being used over the medium term to finance both capital and revenue expenditure. Working capital is projected to steadily reduce as S106 monies in relation to Education are no longer paid to the Council.

14. Projected levels of the Council's total outstanding debt are shown below, compared with the capital financing requirement (see above). Statutory

guidance is that debt should remain below the CFR, except in the short term. As can be seen from table 3, the Council expects to comply with this.

Table 3 – Prudential Indicator: Gross Debt and the Capital Financing Requirement

	2023/24 Forecast £'000	2024/25 Forecast £'000	2025/26 Forecast £'000	2026/27 Forecast £'000	2027/28 Forecast £'000	2028/29 Forecast £'000
Debt (incl. PFI & leases)	0	0	0	0	0	0
Capital Financing Requirement	9,511	7,863	6,685	5,942	5,764	5,586

15. The new accounting standard IFRS16 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 is to be determined but it is thought that it is unlikely to impact significantly on the CFR.

Minimum Revenue Provision Policy

16. DLUHC Regulations 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 28-34. 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 (VRP). In times of financial crisis, the Council has the flexibility to reduce voluntary contributions. Table 2 (paragraph 12) includes the use of capital receipts to bring the CFR down by funding capital expenditure.

Treasury Management Strategy 2024/25 to 2028/29

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 66 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 (Treasury Management Practices) sets out the Council's practices relating to Environmental Social Governance (ESG) and is a developing area.

The Current Economic Climate and Prospects for Interest Rates

21. At the August 2023 meeting the Monetary Policy Committee (MPC) backed a hike in interest rates of 0.25 percentage points increasing Bank Rate to 5.25% as part of the monetary policy to meet Governments inflation target of 2%**.** It has remained at this level.

22. The Bank of England started raising interest rates from a record low of 0.1% in December 2021. Since then, the base rate has increased 14 consecutive times in an attempt to balance out inflation. The latest Monetary Policy report predicts that interest rates have peaked and are expected to remain around 5.25% until autumn 2024 and then decline gradually to 4.25% by the end of 2026. Arlingclose (the Council's Treasury Advisors) are forecasting cuts from quarter three 2024 to a low of around 3% by early to mid-2026.

23. The Consumer Prices Index (CPI) rose by 4.6% in the 12 months to October 2023, down from 6.7% in September. The target is to get inflation to 2% which causing pressure on the MPC to increase interest rates to the current peak. Inflation is expected to fall to a little above 4% by the end of 2023 and then gradually fall back towards 2% by the June 2024.

24. The unemployment rate in the UK is currently 4.3% (Nov 2023) and is projected to increase rise steadily to around 5% in late 2025 to early 2026.

25. Table 4 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 4: Budgetary Impact of Assumed Interest Rate Going Forward

	2024/25	2025/26	2026/27	2027/28	2028/29
Anticipated Interest Rate	4.50%	3.30%	2.75%	2.50%	2.50%
Expected interest from investments (£)	1,005,400	917,000	668,400	533,500	499,600
Other interest (£)	63,000	59,000	59,000	59,000	59,000
Total Interest (£)	**1,068,400**	**976,000**	**727,400**	**592,500**	**558,600**

Sensitivity:	£	£	£	£	£
- 0.25% Interest Rate	60,400	46,600	41,000	32,200	33,900
+ 0.25% Interest Rate	(60,400)	(46,600)	(41,000)	(32,200)	(33,900)

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 2024/25 to 2028/29

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:

- Municipal Bond Agency
- HM Treasury's PWLB lending facility

- Local authorities
- UK public and private sector pension funds
- Commercial banks in the UK
- Building Societies in the UK
- Money markets
- Leasing
- Capital market bond investors
- Special purpose companies created to enable local Council bond issue
- UK Infrastructure Bank
- Any institution approved for investments
- Retail investors via a regulated peer-to-peer platform

Public Works Loan Board (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 Council 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 5: The Authorised Limit

	2023/24 Estimate £’000	**2024/25 Estimate £’000**	**2025/26 Estimate £’000**	**2026/27 Estimate £’000**	**2027/28 Estimate £’000**	**2028/29 Estimate £’000**
Authorised Limit	25,000	20,000	20,000	20,000	20,000	20,000

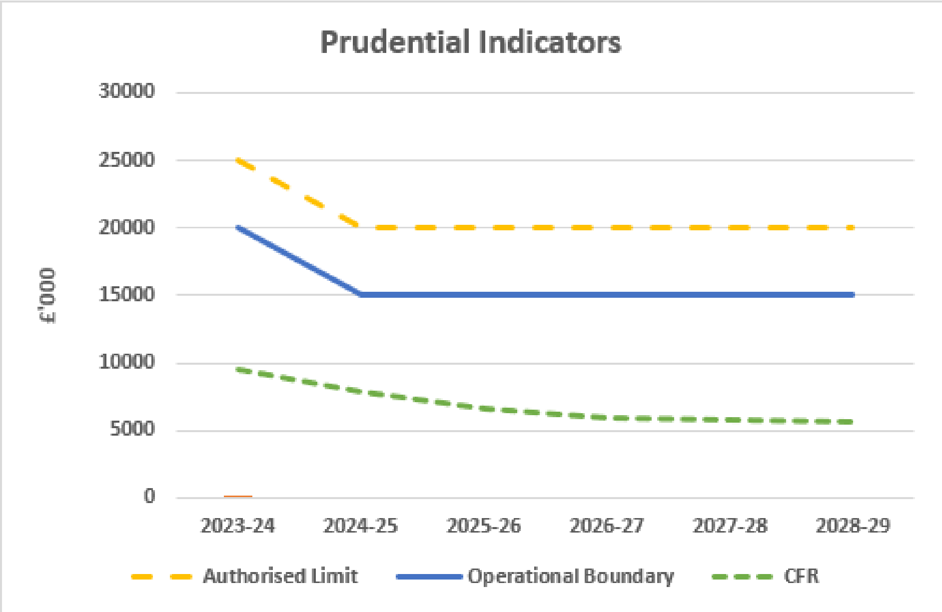
b) Operational Boundary for External Debt

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 £15m (Table 6) 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. Chart 1 below shows the prudential indicators graphically.

Table 6: The Operational Boundary

	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000
Operational Boundary	20,000	15,000	15,000	15,000	15,000	15,000

Chart 1: The Prudential indicators



32. The Council's is required to show the maturity structure of borrowing. The Council had no debt and is unlikely to need to borrow over the medium term and if it did, it would only be for small amounts so there is no significant refinancing risks and the limits in the strategy do not need to be restrictive.

Table 7 – Prudential Indicator: Refinancing Risk Indicator

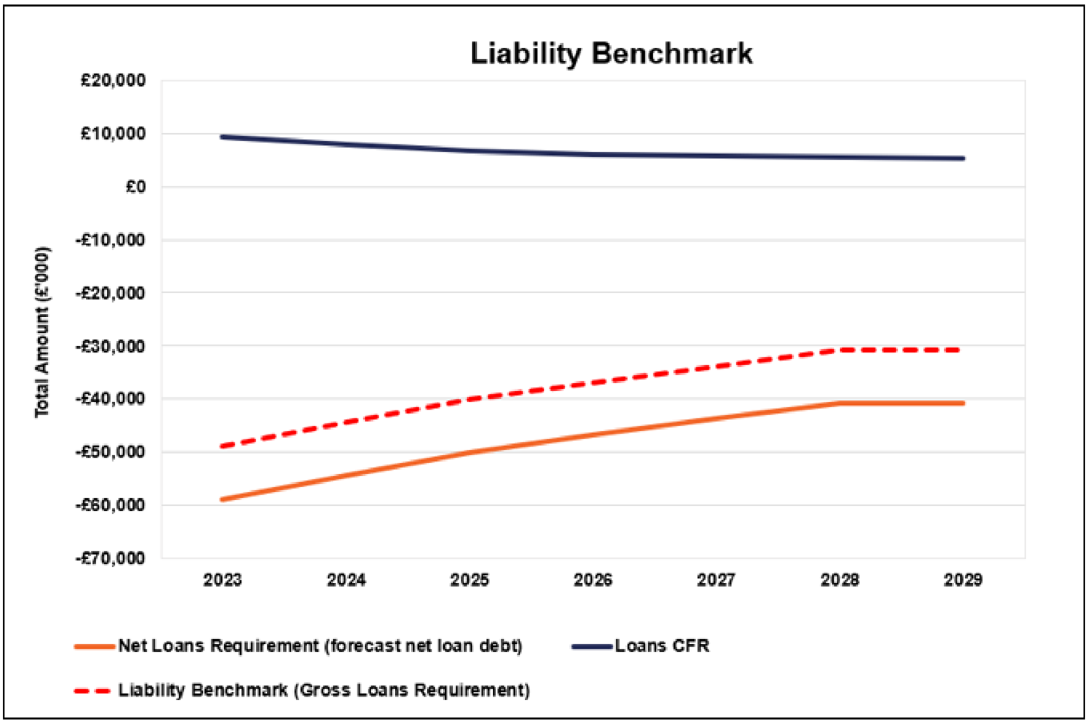
Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	100%	0%
12 months an within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

33. The Liability Benchmark reflects the real need to borrow and can be seen in table 8. In accordance with the Code this must also be shown graphically (Chart 2). 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 normal level. The Council has no need to borrow over the medium term.

Table 8 Prudential Indicator: Liability Benchmark

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	£'000	£'000	£'000	£'000	£'000	£'000
Closing CFR	9,511	7,863	6,685	5,942	5,764	5,586
Less:						
Usable Reserves	(25,560)	(22,663)	(19,662)	(17,314)	(15,707)	(14,251)
Working Capital	(42,906)	(40,906)	(38,906)	(36,906)	(34,906)	(32,906)
Plus minimum investments	10,000	10,000	10,000	10,000	10,000	10,000
LIABILITY BENCHMARK	(48,955)	(45,706)	(41,883)	(38,278)	(34,849)	(31,571)

Chart 2 Prudential Indicator: Liability Benchmark



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 figures fluctuate over the MTFS period but remain fairly close to a breakeven position reflecting both the downward trend in interest rates and the reducing MRP repayments, as payments in relation to Rushcliffe Arena are finalised. Although there are new non-treasury capital commitments in relation to Rushcliffe Oaks Crematorium and Bingham Arena and Enterprise Centre which give rise to further MRP, repayments are lower because they are spread over a longer period. Net revenue streams remain steady over the period.

Table 9: Proportion of Financing Costs to Net Revenue Stream

	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
General Fund	-0.72%	0.88%	1.73%	0.42%	-2.84%	-2.55%

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 Rushcliffe Oaks Crematorium and Bingham Market) 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 10: Proportion of Net Income to Net Revenue Stream

	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Net Income to Net Revenue Stream	10.9%	8.8%	10.1%	11.8%	12.0%	11.8%

Investment Strategy 2024/25 to 2028/29

37. Table 11 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 11: Investment Projections

	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Investments at 31 March £'000	58,955	55,706	51,883	48,278	44,849	41,571

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. Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will (in accordance with treasury advice) prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

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 12 and counterparties included at Appendix i.

Table 12: Counterparty Details

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£10m	Unlimited
Secured investments *	25 years	£10m	Unlimited
Banks (unsecured) *	13 months	£3m	Unlimited
Building societies (unsecured) *	13 months	£3m	£3m
Registered provider *	5 years	£5m	£5m
Money market funds *	n/a	£10m	Unlimited
Strategic pooled funds	n/a	£10m	£30m
Real estate investment trusts	n/a	£5m	£10m
Other investments *	5 years	£5m	£10m

*Please refer to Glossary at Appendix (iv)

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 Arlingclose (the Council's TM Advisors) even if they met the criteria above.

42. Credit rating information is provided by Arlingclose 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.

43. 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.

44. 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

45. 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.

46. 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

47. 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.

48. 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 service investment and non-specified investments as detailed in paragraphs 50 to 52 below.

49. The Council purchased £15m in pooled/diversified funds. The fair value of these funds fluctuates, the current value of these investments can be seen in Appendix ii. The downward trend experienced by the political turmoil last year coupled with high levels of inflation and monetary policies surrounding interest rates has impacted on these. The fluctuations in capital value of the pooled funds to date is a loss of £1.234m. This is currently reversed by the statutory override

preventing any accounting loss impacting on the revenue accounts. This is due to end 31 March 2025. The risk of this loss crystalising after this period has been largely mitigated by appropriations of £1.173m to the Pooled Funds reserve. It should be noted that whilst the value of this type of investment can fluctuate, the revenue returns make up a significant proportion of the overall returns on investments (the fair value of these investments accounted for 18% of average investment balances in 2022/23 but generated 32% interest). The Council will continue to monitor the position on these investments and take advice from the treasury advisors.

Service investments

50. The Council invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities (treasury management),
- to support local public services by lending to or buying shares in other organisations (service investments), and
- to earn investment income (known as commercial investments where this is the main purpose).

51. The Council can lend money to its suppliers, parish councils, local businesses, local charities, employees, housing associations to support local public services and stimulate local growth. The Council has existing loans to Nottinghamshire Cricket Club which not only stimulates the local economy but provides social outcomes The Trent Bridge: Community Trust delivers projects that have positive impacts on local communities such as tackling social exclusion and anti-social behaviour. The main risk when making service loans is that the borrower may be unable to repay the principal lent and/or the interest due. In order to limit this risk and ensure that total exposure to service loans remains proportionate to the size of the Council, the upper limit on any category of borrower will be £5 million.

Non-specified investments

52. Shares are the only investment type that the Council has identified that meets the definition of a non-specified investment in the government guidance. The Council does not intend to make any such investments, that are defined as capital expenditure by legislation.

Investment Limits

53. The Council's revenue reserves available to cover investment losses in a worst-case scenario are forecast to be around £15 million on 31st March 2024. 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 13: Investment limits

	Cash limit
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
Loans across unrated corporates	£5m in total

Treasury Management limits on activity

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

a) Interest Rate Exposures

55. 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 14: Interest Rate Exposure

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
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%

56. 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

57. 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 15: Principal Sums Invested over 1 year

	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Limit on Principal invested over 1 year £'000	29,500	27,900	25,900	24,100	22,400	20,800

Policy on the use of financial derivatives

58. 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 (Lender Option Borrowers Option) 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).

59. 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.

60. 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

61. Arlingclose will act as the Council's treasury management advisors until 31st October 2026 and replace Link Treasury Services. 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.

62. 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

63. 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

64. The CIPFA definition of investments in 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.

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

66. 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.

67. The Council will also monitor past Commercial Property investments against original objectives and consider plans to divest as part of a biennial review. The last report was presented to Governance Scrutiny Group in February 2024.

68. Proportionality is included as an objective in the Prudential Code. Clarification and definitions to define commercial activity and investment are also included, and the purchase of commercial property purely for profit cannot lead to an increased capital financing requirement (CFR).

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

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

70. The expected contributions from existing commercial investments are shown in Table 16. 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 and is estimated to be around 16% in 2024/25. This percentage has reduced leaving the Council less exposed to risks surrounding commercial property.

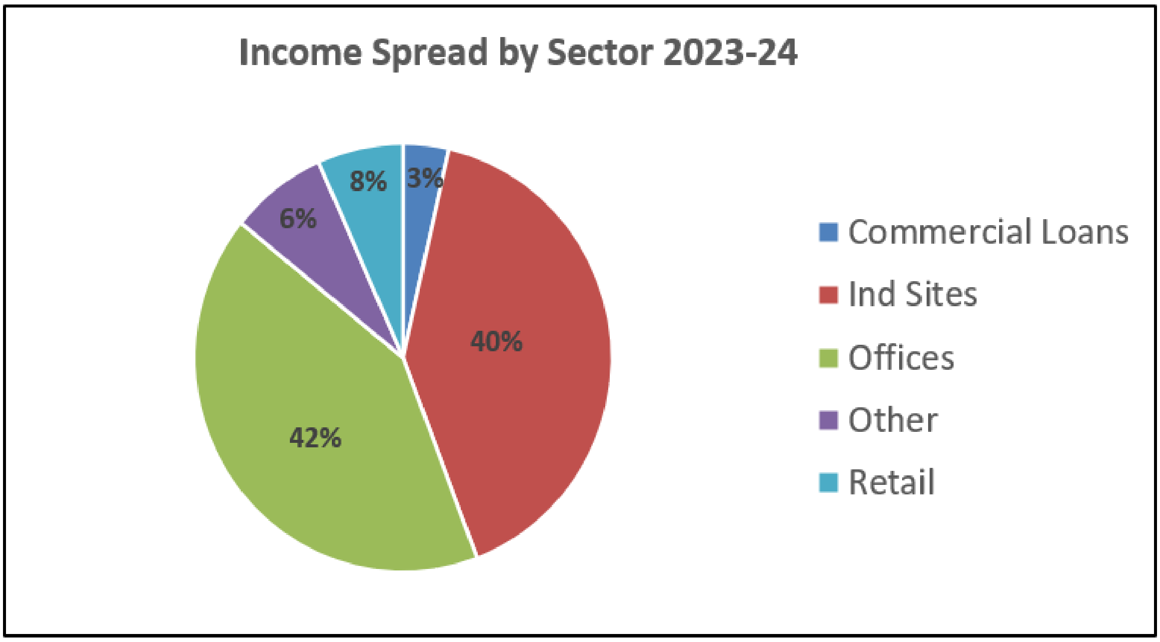
Table 16: Commercial Investment income and costs

	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000
Commercial Property Income	(1,832)	(1,902)	(1,953)	(2,014)	(2,014)	(2,018)
Running Costs	480	581	586	589	593	597
Net Contribution to core functions	(1,352)	(1,321)	(1,366)	(1,425)	(1,421)	(1,420)
Interest from Commercial Loans	(67)	(63)	(59)	(59)	(59)	(59)
Total Contribution	(1,419)	(1,384)	(1,425)	(1,484)	(1,480)	(1,479)
Sensitivity:						
+/- 10% Commercial Property Income	183	190	195	201	201	202
Indicator:						
Investment Income as a % of total	15.7%	16.0%	16.1%	16.5%	16.3%	16.0%
Total Income	12,105	12,313	12,478	12,584	12,709	13,013

b) Risk Exposure Indicators

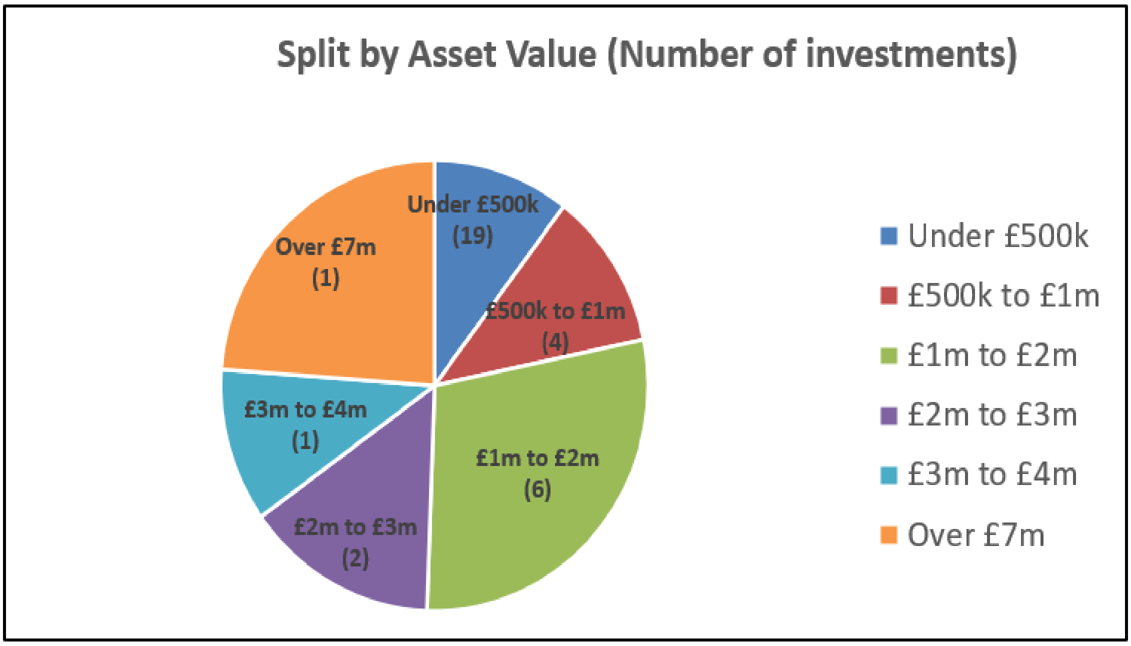
71. The Council can minimise its exposure to risk by spreading investments across sectors and by avoiding single large-scale investments (Chart 3 and 4 below). Generally, there is a spread of investment across sectors in the Council's portfolio. The Council's commitment to economic regeneration (not purely financial return) has meant that many of its investments have been in industrial units, which have been very successful.

<u>Chart 2 Income Spread by Sector</u>



c) Security and Liquidity

<u>Chart 3 Investment by Asset Value</u>



72. 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.

73. 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.

74. 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.

75. 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 February 2024 paragraph 69 refers.

76. The investments are subject to ongoing review with regards to their financial viability or indeed whether they are surplus to requirement. At the February 2024 Governance Group Meeting, 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

77. 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, next scheduled for January 2024.
- 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 by the Governance Scrutiny Group to ensure that training provided achieves the desired outcomes. Attendance at training is recorded and members are encouraged to attend all Treasury training.

78. 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 8

Appendix (ii)

Pooled Funds – Changes in Fair Value since Acquisition

Fair Value	31.03.23	30.04.23	31.12.23	Amount Invested	Difference	Difference in valuation from initial investment
Aegon-Previously Kames	4,364,956	4,411,518	4,530,206	5,000,000	165,249	(469,794)
Ninety One-Previously Investec	4,559,707	4,560,198	4,558,231	5,000,000	(1,475)	(441,769)
RLAM	983,676	988,835	1,003,107	1,000,000	19,431	3,107
CCLA Property	2,018,374	2,018,374	2,005,610	2,000,000	(12,764)	5,610
CCLA Divesified	1,839,164	1,856,626	1,918,266	2,000,000	79,102	(81,734)
	13,765,876	**13,835,552**	**14,015,420**	15,000,000	**249,544**	**(984,580)**

Appendix (iii)

Current Book Value of Non-Treasury Investments

	Current Book Value £000	Previous Book Value £000
The Point Office Accommodation	3.429	3.395
Hollygate Lane, Cotgrave Industrial Units	2.918	2.716
Unit 3 Edwalton Business Park	2.432	2.433
Unit 1 Edwalton Business Park	1.954	1.955
Bardon Single Industrial Unit	2.078	1.820
Trent Boulevard	1.559	1.415
Cotgrave Phase 2	1.266	1.385
Colliers Business Park Phase 2	1.422	1.323
Bridgford Hall Aparthotel and Registry Office	1.150	1.121
Finch Close	0.978	0.931
Boundary Court	0.838	0.809
Colliers Business Park Phase 1	0.787	0.720
Mobile Home Park	0.400	0.480
Cotgrave Precinct Shops	0.478	0.482
New Offices Cotgrave	0.484	0.422
TOTAL INVESTMENT PROPERTY*	**22.173**	**21.407**
Notts County Cricket Club Loan	1.499	1.570
TOTAL	**23.672**	**22.977**

* Note values are as at 31st March 2023 and 2022

Appendix (iv)

Glossary

Minimum credit rating: Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than [AA-]. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £10 million per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

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

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

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

Registered providers (unsecured): Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

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

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Council's investment at risk.

Operational bank accounts: The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank. 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 £**10 million** per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.