Appendix A

CAPITAL AND INVESTMENT STRATEGY 2020/21 – 2024/25

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 Communities and Local Government (CLG) issued revised Guidance on Local Authority Investments in February last year 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 MHCLG 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 objectives (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); and
   - Practicability (e.g. the achievability of the Corporate Plan)

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 aims and objectives;
   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) 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

	2019/20 Original £'000	**2019/20 Revised £'000**	**2020/21 Estimate £'000**	**2021/22 Estimate £'000**	**2022/23 Estimate £'000**	**2023/24 Estimate £'000**	**2024/25 Estimate £'000**
Capital Expenditure	16,506	25,230	18,936	8,250	2,035	2,513	2,613
Less Financed by:							
Capital Receipts	4,414	8,564	14,922	3,076	1,122	1,600	1,800
Capital Grants/ Contributions	2,439	2,152	2,428	2,726	613	613	613
Reserves	50	481	70	50	300	300	200
Underlying need to Borrow	**9,603**	**14,033**	**1,516**	**2,398**	**-**	**-**	**-**

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 or are more than expected in the medium term; and what is the future of New Homes Bonus (NHB) from 2020 given it will be subject to a consultation this summer. The legacy payments for previous years are anticipated to reduce by 1 year each year resulting in the NHB payments ceasing in 2023/24

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

10. The Capital Financing Requirement (CFR) represents the Council's underlying need to borrow for capital expenditure. 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 MRP raised through Council Tax, as a result of financing requirements in relation to the Arena development, and in later years Bingham Leisure Hub.

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 to avoid borrowing, sometimes known as internal borrowing.

12. The table below summarises the overall position with regard to borrowing and available investments and shows an increase in CFR reflecting the capital commitment on projects such as the crematorium and Bingham Hub

Table 2: CFR and Investment Resources

	2019/20 Projected £'000	2020/21 Forecast £'000	2021/22 Forecast £'000	2022/23 Forecast £'000	2023/24 Forecast £'000	2024/25 Forecast £'000
Opening CFR	8,300	15,067	21,849	23,173	21,926	20,679
CFR in year	7,767	7,782	2,398	-	-	-
Less: MRP etc	(1,000)	(1,000)	(1,074)	(1,247)	(1,247)	(1,247)
Closing CFR	**15,067**	**21,849**	**23,173**	**21,926**	**20,679**	**19,432**
Less: External Borrowing	-	(5,000)	(9,902)	(9,772)	(9,642)	(9,512)
Internal Borrowing	15,067	16,849	13,271	12,154	11,037	9,920
Less:						
Usable Reserves	(14,820)	(16,676)	(16,627)	(18,001)	(18,145)	(15,510)
Working Capital	(17,061)	(14,501)	(13,316)	(14,243)	(14,243)	(14,243)
Available for Investment(-)	(16,814)	(14,328)	(16,672)	(20,090)	(21,351)	(19,833)

13. The Council is currently debt free although there is an underlying assumption in the capital expenditure plans that the Council may need to externally borrow £5 million in both 2020-21 and 2021-22. Available resources (usable reserves and working capital) remain steady over the medium term, with usable reserves being used to finance both capital and revenue expenditure over time.

14. The total amount borrowed will not exceed the authorised borrowing limit of £25m. The maximum period between borrowing and expenditure is expected to be 2 years, although the Authority is not required to link particular loans with particular items of expenditure.

15. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Authority's gross external debt should be lower than its highest forecast CFR over the next three years. Table 2 shows that the Authority expects to comply with this recommendation.

16. The new accounting standard IFRS16 comes into force on 1st April 2020. 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 still yet to be determined and this is likely to impact on the CFR. As we currently have no external borrowing this is unlikely to affect the Authorised Limit.

Minimum Revenue Provision Policy

17. Revised CLG 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 30-35. 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.

Treasury Management Strategy 2020/21 to 2024/25

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

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

    The code also covers non-cash investments which are covered at paragraph 65 below.

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.

<u>The Current Economic Climate and Prospects for Interest Rates.</u>

21. The major external influence on the Authority's treasury management strategy for 2020/21 will be the economic growth consequences of the UK's exit from the European Union and the trading arrangements agreed with the EU and the rest of the world. Uncertainties over the future are weighing on growth.

22. Economic growth is projected to fall slightly to 1.1% over the coming year, owing to high uncertainties surrounding the outcome of Brexit negotiations. Unemployment remains low at 3.8% and is projected to reach 4.1% during 2020.

23. The current Bank of England base rate remains 0.75% and has been since 2 August 2018. The Bank of England is closely watching the British economy to see how it responds to Brexit. Link forecasts that rates will rise to 1.00% in 2020/21 however when estimating investment returns we have prudently assumed the rate to remain at 0.75% for the foreseeable future.

24. Inflation levels are expected to increase to 2.01% in 2020.

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

	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Anticipated Interest Rate (%)	1.87	1.87	1.87	1.87	1.87
Expected interest from investments (£)	293,800	311,900	389,900	442,200	438,800
Other interest (£)	83,000	78,000	74,000	70,000	64,000
Total Interest (£)	**376,800**	**389,900**	**463,900**	**512,200**	**502,800**

Sensitivity:	**£**	**£**	**£**	**£**	**£**
- 0.25% Interest Rate	(1,000)	(4,000)	(12,000)	(16,000)	(16,000)
+ 0.25% Interest Rate	1,000	4,000	12,000	16,000	16,000

26. As previously reported 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 2020/21 to 2024/25

Prudential Indicators for External Debt

28. Table 2 above identifies that the Council may need to externally borrow over the MTFS if it is not possible to internally borrow. This would result in borrowing costs. Possible levels of external borrowing are reflected in the figures.

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

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.

Table 4: The Authorised Limit

	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 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 as the Council is expected to borrow over the period of the MTFS.

Table 5: The Operational Boundary

	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Operational Boundary	20,000	20,000	20,000	20,000	20,000	20,000

Prudential Indicators for Affordability

32. 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

33. 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 (a credit indicates interest earned rather than cost) is changing over time. The trend below is consistent with the fact that our treasury investments will decline initially due to non-treasury investments in Cotgrave Masterplan/Phase 2, Industrial units at Moorbridge, and other Asset Investment Strategy investments and capital commitments (Crematorium and Bingham Hub).

Table 6: Proportion of Financing Costs to Net Revenue Stream

	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
General Fund	6.77%	6.01%	7.31%	8.58%	7.91%	8.07%

Investment Strategy 2019/20 to 2024/25

36. The movement in investments are due to increases in Capital Receipts related to Sharphill and S106 receipts as shown below.

Table 7: Investment Projections

	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Investments at 31 March	16,814	14,328	16,672	20,090	21,351	19,833

34. Both the CIPFA Code and the CLG 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 investment.

35. 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 mission 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).

36. 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.

37. 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 8 and counterparties included at Appendix (i):

Table 8: 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.

38. 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 new TM Advisors -see paragraph 60) even if they met the criteria above.

39. 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.

40. The Authority 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 the Authority maintaining operational continuity.

41. 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.

42. 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.

43. 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

44. 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.

45. When deteriorating financial market conditions affect the creditworthiness 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 Authority 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 Authority'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

46. The Council uses its own processes to monitor cashflow 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 Authority's medium term financial strategy and cash flow forecast.

47. 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. Funds are separated between specified and non-specified investments as detailed below.

Specified investments

48. The CLG 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"

49. The Council now defines "high credit quality" organisations as those having a credit rating of A- and above.

Non-specified investments

50. 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 9: 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

51. The Authority's revenue reserves available to cover investment losses in a worst-case scenario are forecast to be £14.02 million on 31st March 2021. In order that no more than 40% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £10.0 million. 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 10: 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	£25m in total

Treasury Management limits on activity

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

a) Interest Rate Exposures

53. This indicator is set to control the Authority'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 11: Interest Rate Exposure

	2019/20	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
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%

54. 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

55. 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 principle 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 12: Principal Sums Invested over 1 year

	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Limit on Principal invested over 1 year	8,400	7,200	8,300	10,000	10,700	9,900

Policy on the use of financial derivatives

56. 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).

57. 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 Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account 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.

58. 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

59. During 2019/20 the Council held a competitive tender process and as a result has new Treasury Management Advisors. Link Asset Services have been

appointed as the Council's treasury management advisors until 31st October 2022. 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.

60. 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.

Member and Officer Training

61. The increased member consideration of treasury management matters and the need to ensure that officers dealing with treasury management are trained and kept up to date requires a suitable training process for members and officers. In general, members training needs are reported through the Member Development Group, however, the Council will also specifically address this important issue by:

- Periodically facilitating workshops for members on finance issues;
- Interim reporting and advising members of Treasury issues via GSG;
- Identifying officer training needs on treasury management related issues through the Performance Development and Review appraisal process;

With regards to officers:

- Attendance at training events, seminars and workshops; and
- Support from the Council's treasury management advisors.

Other Options Considered

62. The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Executive Manager – 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. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller

Commercial Investments

63. The definition of investments in CIPFA's definition of treasury management activities above (paragraph 20) 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. All investments require an appropriate investment management and risk management framework, which is outlined below.

64. The Council is committed to becoming self-sustainable as Central Government funding reduces. This includes ensuring that the Council maximises any income from existing assets and, where there is a business case, invests in assets where there is a commercial return. The Council is holding significant capital funding resources although going forward it may need to undertake borrowing. Current resources are invested with various financial institutions in line with the Treasury Management Strategy. However, other investments represent an opportunity to generate higher returns on these funds.

65. In recent years the Council identified specific sums for its Asset Investment Strategy (AIS) within the Capital Programme which has totalled £20m and includes commercial investment in areas such as investment in property and subsidiaries, or loans that support service outcomes.

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 (ii).

67. Individual commercial investment proposals included within the Asset Investment Strategy are subject to specific business appraisals. The governance surrounding such decisions is included in the AIS. As well as considering the Net Present Value, Internal Rate of Return and impact on the General Fund of any commercial investment proposals, the decision to invest also takes into account the following assessment matrix:

ASSESSMENT CRITERIA	Excellent / very good	Good	Satisfactory	Marginal	Uncertain
Tenancy strength	Multiple tenants with strong financial covenant	Single tenant with strong financial covenant	Single or multiple tenants with good financial covenant	Tenants with average financial covenant	Tenants with poor financial covenant strength
Lease length and break (for main tenants/income)	>15 years	11 - 15 years	10 - 8 years (10 year lease)	7 - 5 years (5 year break)	<5 years or vacant (break Dec 2021 &
Rate of Return - % rent against capital	>8%	7%-8%	5%-7%	3%-5%	<3%
Portfolio mix (asset type is balanced in portfolio - no more than x% of	<50%	50%-60%	>60%-70%	70%-80%	>80% of portfolio
Property Sector & Risk	Industrial (lower risk)	Office (lower-mid risk)	Warehouse Retail (med risk)	Retail, Leisure (higher risk)	Residential (not part of investment strategy)
Void (after Lease end including marketing, fit out and rent free)	0-9 months	9-12 months	12-18 months	18-24 months	>24 months
Location	Prime	Not prime but in established location	Secondary	Remote from other developments	Isolated, undeveloped area, limited infrastructure links
Tenure	Freehold	Lease >200 years	Lease 100 - 199 years	Lease 75 - 99 years	Lease <75 years
Repairing terms links to Building quality	Full repairing & insuring	Interal repairing 100% recoverable	Internal repairing partially recoverable	Internal repairing non recoverable	Landlord
Building Quality/Age	<10 years	10-20 years	21-30	31-35	>35
Rental Growth	within 1 year	within 2-5 years	within 5-7 years	within 7-10 years	>10 years
Purchase Price	<£2m	Between £2m and £3m	Between £3m and £4m	Between £4m and £7m	>£7m
Proximity to Borough	within Borough	within Nottinghamshire	within East Midlands	within the Midlands	National
Energy Rating (2018 legislation can't let with F/G assessment)	A/B	C	D	E	F/G

68. To be considered for investment 50% of the criteria above must be excellent, good or satisfactory.

69. The matrix above is supplemented by additional contextual information covering resale opportunities (liquidity), location, risks, benefits and economic conditions.

70. The Government has issued revised guidance on Local Government Investments, effective from April 2018. This guidance introduces additional disclosure requirements some of which are specific to investments of a commercial nature. These disclosures and indicators cover items included in the Council's Asset Investment Strategy, as well as pre-existing commercial investments and are detailed below:

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

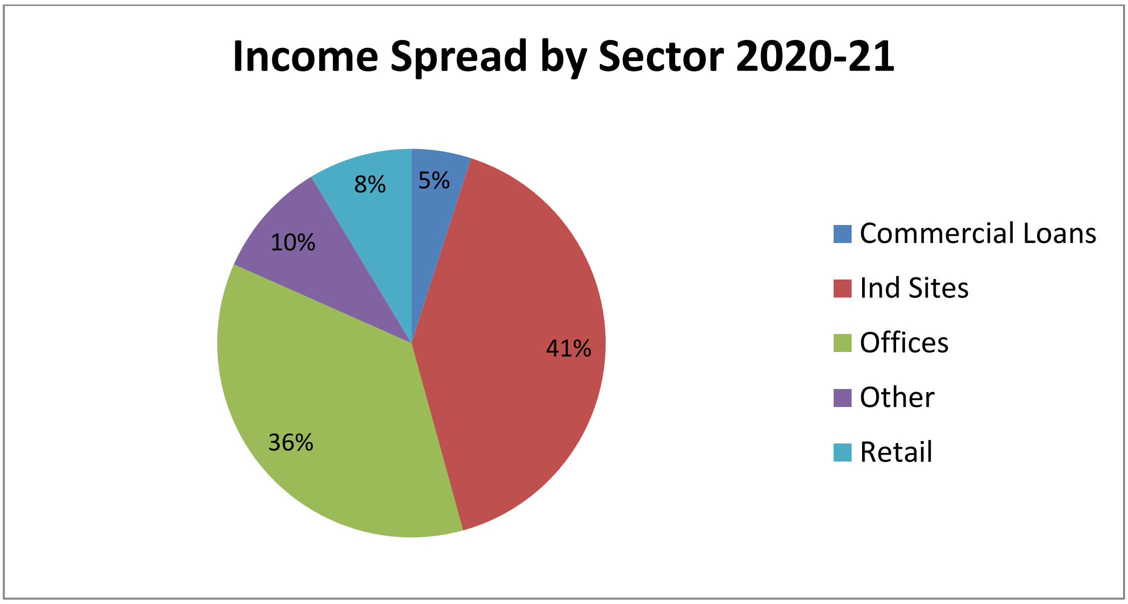
71. The expected contributions from commercial investments included in the Asset Investment Strategy are shown in Table 13. In order to manage the risk to the Council's budget, income from commercial investments should not be a significant proportion of the Council's income. Our objective is that this ratio should not exceed 30%, subject to annual review (as demonstrated below).

Table 13: Commercial Investment income and costs

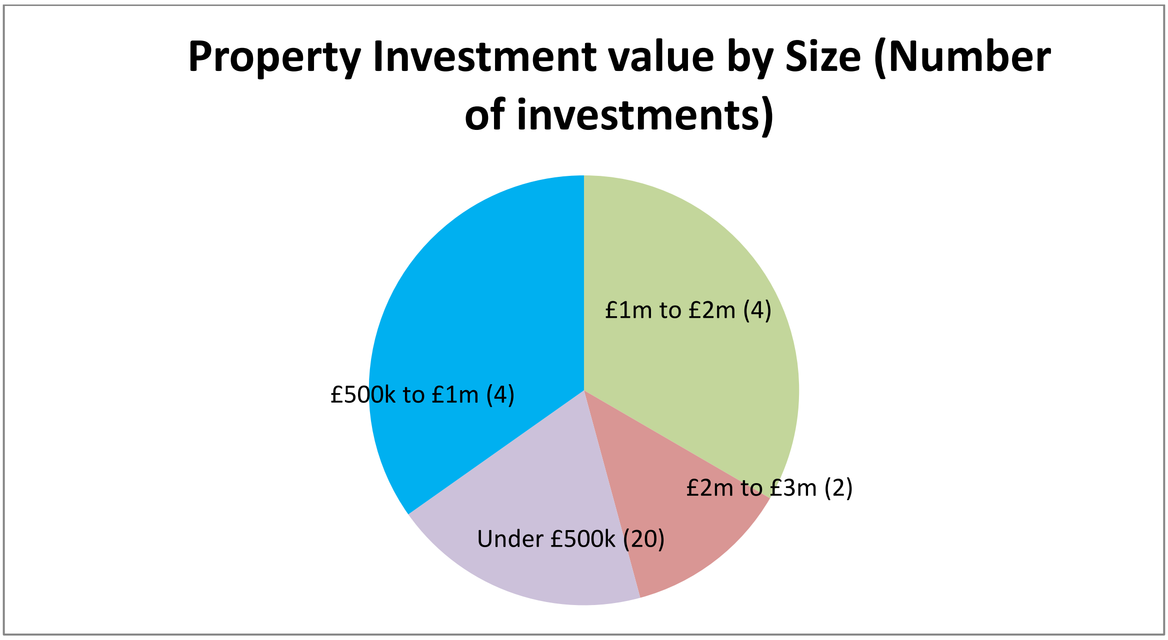
	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Commercial Property Income	(1,330)	(1,524)	(1,718)	(2,038)	(2,083)	(2,130)
Running Costs	382	356	357	357	357	357
Net Contribution to core functions	(948)	(1,168)	(1,361)	(1,681)	(1,726)	(1,773)
Interest from Commercial Loans	(84)	(80)	(76)	(71)	(67)	(63)
Total Contribution	(1,032)	(1,248)	(1,437)	(1,752)	(1,793)	(1,836)
Sensitivity:						
+/- 10% Commercial Property Income	133	152	172	204	208	213
Indicator:						
Investment Income as a % of total Council Income	18.3%	19.8%	20.7%	24.1%	24.2%	24.7%

b) Risk Exposure Indicators

72. 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



73. 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.

74. 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.

75. 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.

76. 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.

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
- NEX Treasury
- Invesco Asset Management Ltd
- CCLA
- Goldman Sachs Asset Management
- Black Rock
- HSBC Asset Management

Appendix (ii)

Existing Material Investments

	Book Value £000
The Point Office Accommodation	3.200
Hollygate Lane, Cotgrave Industrial Units	2.435
Bardon Single Industrial Unit	1.800
Trent Boulevard	1.400
Colliers Business Park Phase 2	1.250
Bridgford Hall Aparthotel and Registry Office	1.220
Finch Close	0.925
Bingham Land off Chapel Lane	0.900
Boundary Court	0.805
Unit 10 Chapel Lane	0.670
Colliers Business Park Phase 1	0.610
New Offices Cotgrave	0.345
TOTAL INVESTMENT PROPERTY*	**15.560**
Notts County Cricket Club Loan	2.700
TOTAL	**18.260**

* Material Investments