North Northamptonshire Council

Treasury Management Strategy Statement

Minimum Revenue Provision Policy

Investment Strategy

2024/25

Treasury Management Strategy Statement

1. <u>Introduction</u>

1.1. Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and/or invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

1.2. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

1.3. Investments held for service purposes or for commercial profit are considered in the (Non Treasury) Investment Strategy.

2. <u>External Context</u>

2.1. **Economic background:** The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the Council's treasury management strategy for 2024/25. A detailed review of the economic background is set out in **Appendix C** to this report.

2.2. For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average interest rate/yield of 5.01%. A detailed look at the economic and interest rate forecast is set out in **Appendix A** to this report.

3. <u>Local Context</u>

3.1. On 31st December 2023, the Council held £210.6m of treasury investments and £442.7m of borrowing. This is set out in further detail at ***Appendix B***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast.

	31.3.23 Draft £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m
Capital financing requirement	750.093	745.581	745.700	744.460	738.129
Less: Other debt liabilities *	104.123	99.396	93.518	87.197	80.554
Loans CFR	**645.969**	**646.185**	**652.182**	**657.263**	**657.575**
Less: External borrowing **	463.572	438.167	440.219	438.242	438.242
Internal borrowing	**182.398**	**208.018**	**211.964**	**219.021**	**219.333**
Less: Balance sheet resources	407.100	407.100	407.100	407.100	413.900
Treasury investments	**224.702**	**199.082**	**195.136**	**188.079**	**194.567**

* leases and PFI liabilities that form part of the Authority's total debt

** shows only loans to which the Authority is committed and excludes optional refinancing

3.2. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

3.3. CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2024/25.

3.4. The CFR reflected for 2024/25 is still draft and is subject to change until the disaggregated balance sheet from the former County Council has been agreed and audited.

Liability benchmark

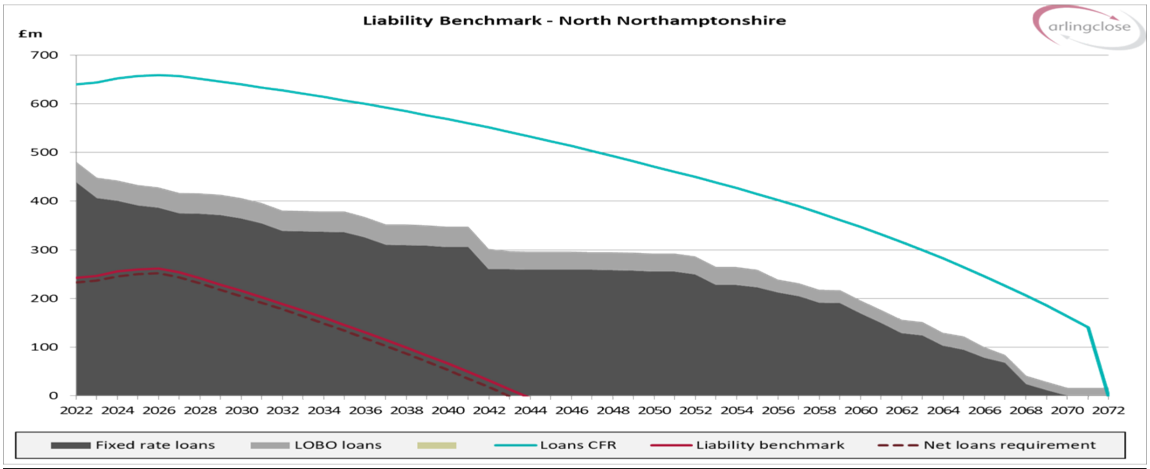
3.5. To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

3.6. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

3.7. *Table 2: Prudential Indicator: Liability benchmark*

	31.3.23 Draft £m	**31.3.24 Estimate £m**	**31.3.25 Forecast £m**	**31.3.26 Forecast £m**	**31.3.27 Forecast £m**
Loans CFR	645.969	646.185	652.182	657.263	657.575
Less: Balance sheet resources	-407.100	-407.100	-407.100	-407.100	-413.895
Net loans requirement	238.870	239.086	245.082	250.163	243.680
Plus: Liquidity allowance	10.000	10.000	10.000	10.000	10.000
Liability benchmark	**248.870**	**249.086**	**255.082**	**260.163**	**253.680**

3.8. Following on from the medium-term forecasts in table 2 above, the long-term liability benchmark assumes average capital expenditure funded by borrowing of £8m a year, minimum revenue provision on new capital expenditure based on a 25-year asset life and income, expenditure and reserves all increasing by inflation of 2.0% a year. This is shown in the chart below together with the maturity profile of the Council's existing borrowing:



Borrowing Strategy

3.9. The Council currently holds £438.2m of loans, a decrease of £25.4m on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Council does not expect to need to borrow in 2024/25.

3.10. **Objectives:** The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

3.11. **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

3.12. By doing so, the Council is able to reduce net borrowing costs and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly.

3.13. **Affordable borrowing limit:** The Authority is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 3: Authorised limit and operational boundary for external debt in £m

	2023/24	2024/25	2025/26	2026/27
Authorised Limit - borrowing	781.623	781.884	789.140	795.288
Authorised Limit - PFI and leases	125.989	120.269	113.156	105.508
Authorised Limit - total external debt	**907.612**	**902.153**	**902.297**	**900.797**
Operational Boundary - borrowing	710.57	710.80	717.40	722.99
Operational Boundary - PFI and leases	114.54	109.34	102.87	95.92
Operational Boundary - total external debt	**825.10**	**820.14**	**820.27**	**818.91**

3.14. The Council has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council intends to avoid this activity in order to retain its access to PWLB loans.

3.15. Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

3.16. In addition, the Council may borrow further short-term loans to cover unplanned cash flow shortages.

3.17. **Sources of borrowing:** The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- UK Infrastructure Bank Ltd
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds except the Cambridgeshire and Northamptonshire Pensions Scheme.
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

3.18. **Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback
- similar asset-based finance

3.19. **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Full Council.

3.20. **LOBOs:** The Council holds £37m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost.

3.21. In September 2023, Commerzbank exercised its option to increase the interest rate on a £5m loan previously held by the council under the proposed disaggregation agreement with West Northamptonshire Council. Rather than accept the proposed new interest rate of 6.44% (previous rate was 4.32%) for the remainder of the duration of the loan, officers opted to repay the loan from internal resources.

3.22. £10m of these LOBOs have options during 2024/25, and with interest rates having risen recently, there is a good chance that lenders will exercise their options, although the chance of a recall has diminished with recent forecast of a sharp fall in interest rates in 2024. If they do, the Council will likely take the option to repay LOBO loans to reduce refinancing risk in later years. Total borrowing via LOBO loans will be limited to £37m.

3.23. **Short-term and variable rate loans**: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

3.24. **Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

4. Treasury Investment Strategy

4.1. The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance has ranged between £168.9m and £239.9m. Due to debt repayment and further internal resources used to fund the capital programme, it is expected that investment balances will be lower in 2024/25.

4.2. **Objectives:** The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. 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 unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

4.3. **Strategy:** As demonstrated by the liability benchmark above, the Council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.

4.4. **ESG policy:** 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 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.

4.5. **Business models:** Under the IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

4.6. **Approved counterparties:** The Council may invest its surplus funds with any of the counterparty types in table 3 below, subject to the limits shown.

4.7. *Table 3: Treasury investment counterparties and limits*

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	£20m	Unlimited
Banks (unsecured) *	13 months	£10m	Unlimited
Building societies (unsecured) *	13 months	£5m	£20m
Registered providers (unsecured) *	5 years	£5m	£25m
Money market funds *	n/a	£20m	Unlimited
Strategic pooled funds	n/a	£20m	£20m
Real estate investment trusts	n/a	£20m	£50m
Other investments *	5 years	£10m	£20m

4.8. *** 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 [A-]. 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 considered.

4.9. 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 £5m per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

4.10. **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.

4.11. **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.

4.12. **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.

4.13. **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.

4.14. **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.

4.15. **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.

4.16. **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.

4.17. **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.

4.18. **Operational bank accounts:** The Council may incur operational exposures, for example through 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 £10m 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.

4.19. As the Council still operates a number of legacy bank accounts, it is often the case that balances are left in some of the accounts overnight. Balances on these accounts will generally be kept below £2m, but there may be instances where this limit will be exceeded. These banks are classed as operational bank accounts and therefore the £10m overall limit for operational bank accounts would apply.

4.20. **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. 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.

4.21. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “negative watch”) 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.

4.22. **Other information on the security of investments**: The Council understands that credit ratings are good, but not perfect, predictors of investment default. 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, reports in the quality financial press and analysis and advice from the Council’s treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

4.23. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, 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, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

4.24. Limits are also placed on fund managers, investments in brokers’ nominee accounts and foreign countries 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 4: Additional investment limits

	Cash limit
Any group of pooled funds under the same management	£20m
Negotiable instruments held in a broker’s nominee account	£50m
Foreign countries	£10m

4.25. **Liquidity management**: The Council uses purpose-built cash flow forecasting software to 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 plan and cash flow forecast.

5. <u>**Treasury Management Prudential Indicators**</u>

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

5.2. **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating/credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
Portfolio average credit [rating / score]	*A- / 7*

5.3. **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount it can borrow each quarter without giving prior notice.

Liquidity risk indicator	Target
Total sum borrowed in past 3 months without prior notice	£50m

5.4. **Interest rate exposures**: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£368,412
Upper limit on one-year revenue impact of a 1% fall in interest rates	(£368,412)

5.5. The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

5.6. **Maturity structure of borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Maturity structure of fixed interest rate borrowing 2023/24		
	Lower	Upper
Under 12 months	0%	30%
12 months to 2 years	0%	30%
2 years to 5 years	0%	30%
5 years to 10 years	0%	35%
10 years to 20 years	0%	40%
20 years to 30 years	0%	35%
30 years to 40 years	0%	50%
40 years to 50 years	0%	50%
Over 50 years	0%	25%

5.7. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

5.8. **Long-term treasury management investments:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management investments will be:

Price risk indicator	2024/25	2025/26	2026/27	No fixed date
Limit on principal invested beyond year end	£120m	£110m	£100m	£100m

5.9. Long-term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Related Matters

5.10. The CIPFA Code requires the Council to include the following in its treasury management strategy.

5.11. **Financial derivatives:** 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).

5.12. 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.

5.13. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

5.14. In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

5.15. **Housing Revenue Account:** On 1st April 2012, the legacy councils of Kettering Borough Council and Corby Borough Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured annually and interest transferred between the General Fund and HRA at the Council's average interest rate on treasury investments excluding strategic pooled funds, adjusted for credit risk if a net investment balance and at the Council's average rate of borrowing if a net borrowing balance.

5.16. **Markets in Financial Instruments Directive**: The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

6. Financial Implications

6.1. The budget for investment income in 2024/25 is £8.2m, based on an average interest rate of 5.01%. The budget for debt interest paid in 2024/25 is £11.1m, based on an average debt portfolio of £440.23m at an average interest rate of 3.14%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecasts, performance against budget will be correspondingly different.

6.2. Where investment income exceeds budget, e.g. from higher risk investments including pooled funds, or debt interest paid falls below budget, e.g. from cheap short-term borrowing, the revenue savings will be transferred to a treasury management reserve to cover the risk of capital losses or higher interest rates payable in future years.

6.3. The Council invests in three property funds which are currently valued at £25.4m. The increase in interest rate has impacted valuation of properties and property funds downwards, but all three funds are generating returns that are in line with expectation.

6.4. The Lothbury Property Fund (LPT) currently valued at £7.7m is one of the three funds the Council has invested into and is in the process of being merged with another, much larger, fund (UBS Triton Property Fund). The proposed merger is an alternative to closure of LPT fund. If the merger is not approved, the fund assets will be liquidated with the proceeds along with cash holdings distributed among all investors in proportion to their holdings in the Fund.

6.5. The Council's investment in property funds is considered long term investments and a counterbalance to short term investments which dominate the investment portfolio. Although, these investments continue to perform in line with expectation in terms of yield, there are periods when capital valuations of underlying property assets are down. This has the effect of reducing the value of the property fund and consequently the council's investment in these funds.

6.6. Under current regulations, the IFRS 9 statutory override for local authorities, allows the Council to remove the impacts of movements in pooled funds valuations (capital gains/losses) from the budget. However, following the most recent extension to this regulation, the government indicated that the statutory override would cease from March 2025. If this happens, from March 2026, the Council will have to account for movement in fair valuation of pooled fund assets in the budget, so that any unrealised capital gains/losses arising from fair value movements would have to be recognised in the year they are incurred.

6.7. In anticipation of the end of the statutory override and to mitigate future temporary movement in fair values of assets in pooled funds that could distort performance against budget, savings from the treasury budget including all additional income from investments or reduction in financing costs will be transferred to a treasury management reserve. This reserve will be used to mitigate against fluctuations in annual fair value movements which should minimise the impact of unrealised capital gains/losses on the revenue budget.

Other Options Considered

6.8. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Section 151 Officer, having consulted the Cabinet Member for Finance and Transformation, 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
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Arlingclose Economic & Interest Rate Forecast – November 2023

Underlying assumptions:

- UK inflation and wage growth remain elevated but, following a no-change MPC decision in November, Bank Rate appears to have peaked in this rate cycle. Near-term rate cuts are unlikely, although downside risks will increase as the UK economy likely slides into recession and inflation falls more quickly.
- The much-repeated message from the MPC is that monetary policy will remain tight as inflation is expected to moderate to target slowly. In the Bank's forecast, wage and services inflation, in particular, will keep CPI above the 2% target until 2026.
- The UK economy has so far been relatively resilient, but recent data indicates a further deceleration in business and household activity growth as higher interest rates start to bite. Global demand will remain soft, offering little assistance in offsetting weakening domestic demand. A recession remains a likely outcome.
- Employment demand is easing, although the tight labour market has resulted in higher nominal wage growth. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household spending will therefore be weak. Higher interest rates will also weigh on business investment and spending.
- Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. We believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further 'second-round' effects has diminished.
- Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant policy loosening in the future to boost activity.
- Global bond yields will remain volatile, particularly with the focus on US economic data and its monetary and fiscal policy. Like the BoE, the Federal Reserve and other central banks see persistently high policy rates through 2023 and 2024 as key to dampening domestic inflationary pressure. Bond markets will need to absorb significant new supply, particularly from the US government.
- There is a heightened risk of geo-political events causing substantial volatility in yields.

Forecast:

- The MPC held Bank Rate at 5.25% in November. We believe this is the peak for Bank Rate.
- The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. We see rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.
- The immediate risks around Bank Rate remain on the upside, but these diminish over the next few quarters and shift to the downside before balancing out, due to the weakening UK economy and dampening effects on inflation.
- Arlingclose expects long-term gilt yields to eventually fall from current levels (amid continued volatility) reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply.

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	5.40	5.40	5.40	5.30	5.15	4.80	4.30	4.10	3.80	3.50	3.25	3.05	3.05
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.28	4.35	4.30	4.25	4.10	4.00	3.75	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
10yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.32	4.40	4.35	4.30	4.25	4.15	4.00	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
20yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.78	4.70	4.65	4.55	4.45	4.35	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
50yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.38	4.30	4.25	4.20	4.15	4.15	4.10	4.10	4.10	4.10	4.10	4.10	4.10
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

PWLB Standard Rate = Gilt yield + 1.00%
PWLB Certainty Rate = Gilt yield + 0.80%
PWLB HRA Rate = Gilt yield + 0.40%
UK Infrastructure Bank Rate = Gilt yield + 0.40%

Appendix B – Existing Investment & Debt Portfolio Position

	31/12/23 Actual portfolio £m	31/12/23 Average rate %
External borrowing:		
Public Works Loan Board	395.524	3.01
Local authorities	0.200	0.00
LOBO loans from banks	37.000	4.25
Other loans	10.000	3.89
Total external borrowing	**442.724**	**3.13**
Other long-term liabilities:		
Private Finance Initiative	38.812	N/A
Leases	2.964	N/A
Total other long-term liabilities	**41.776**	**N/A**
Total gross external debt	**484.500**	N/A
Treasury investments:		
Local authorities	172.000	5.47
Banks (unsecured)	9.857	5.42
Money market funds	1.586	5.38
Real estate investment trusts	26.602	3.18
Other investments	0.591	0.00
Total treasury investments	**210.636**	**5.16**
Net debt	**273.864**	**N/A**

Appendix C – Detailed Economic Background

The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level in September and then again in November. Members of the BoE's Monetary Policy Committee voted 6-3 in favour of keeping Bank Rate at 5.25%. The three dissenters wanted to increase rates by another 0.25%.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with near-term risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

Office for National Statistics (ONS) figures showed CPI inflation was 6.7% in September 2023, unchanged from the previous month but above the 6.6% expected. Core CPI inflation fell to 6.1% from 6.2%, in line with predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling, declining to around 4% by the end of calendar 2023 but taking until early 2025 to reach the 2% target and then falling below target during the second half 2025 and into 2026.

ONS figures showed the UK economy grew by 0.2% between April and June 2023. The BoE forecasts GDP will likely stagnate in Q3 but increase modestly by 0.1% in Q4, a deterioration in the outlook compared to the August MPR. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.

The labour market appears to be loosening, but only very slowly. The unemployment rate rose slightly to 4.2% between June and August 2023, from 4.0% in the previous 3-month period, but the lack of consistency in the data between the two periods made comparisons difficult. Earnings growth remained strong, with regular pay (excluding bonuses) up 7.8% over the period and total pay (including bonuses) up 8.1%. Adjusted for inflation, regular pay was 1.1% and total pay 1.3%. Looking forward, the MPR showed the unemployment rate is expected to be around 4.25% in the second half of calendar 2023, but then rising steadily over the forecast horizon to around 5% in late 2025/early 2026.

Having increased its key interest rate to a target range of 5.25-5.50% in August 2023, the US Federal Reserve paused in September and November, maintaining the Fed Funds rate target at this level. It is likely this level represents the peak in US rates, but central bank policymakers emphasised that any additional tightening would be dependent on the cumulative impact of rate rises to date, together with inflation and developments in the economy and financial markets.

US GDP grew at an annualised rate of 4.9% between July and September 2023, ahead of expectations for a 4.3% expansion and the 2.1% reading for Q2. But as the impact from higher rates is felt in the coming months, a weakening of economic activity is likely. Annual CPI inflation remained at 3.7% in September after increasing from 3% and 3.2% consecutively in June and July.

Eurozone inflation has declined steadily since the start of 2023, falling to an annual rate of 2.9% in October 2023. Economic growth has been weak, and GDP was shown to have contracted by 0.1% in the three months to September 2023. In line with other central banks, the European Central Bank has been increasing rates, taking its deposit facility, fixed rate tender, and marginal lending rates to 3.75%, 4.25% and 4.50% respectively.

Credit outlook: Credit Default Swap (CDS) prices were volatile during 2023, spiking in March on the back of banking sector contagion concerns following the major events of Silicon Valley Bank becoming insolvent and the takeover of Credit Suisse by UBS. After then falling back in Q2 of calendar 2023, in the second half of the year, higher interest rates and inflation, the ongoing war in Ukraine, and now the Middle East, have led to CDS prices increasing steadily.

On an annual basis, CDS price volatility has so far been lower in 2023 compared to 2022, but this year has seen more of a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

Moody's revised its outlook on the UK sovereign to stable from negative to reflect its view of restored political predictability following the volatility after the 2022 mini-budget. Moody's also affirmed the Aa3 rating in recognition of the UK's economic resilience and strong institutional framework.

Following its rating action on the UK sovereign, Moody's revised the outlook on five UK banks to stable from negative and then followed this by the same action on five rated local authorities. However, within the same update the long-term ratings of those five local authorities were downgraded.

There remain competing tensions in the banking sector, on one side from higher interest rates boosting net income and profitability against another of a weakening economic outlook and likely recessions that increase the possibility of a deterioration in the quality of banks' assets.

However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast (November 2023): Although UK inflation and wage growth remain elevated, the Council's treasury management adviser Arlingclose forecasts that Bank Rate has peaked at 5.25%. The Bank of England's Monetary Policy Committee will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.

Arlingclose expects long-term gilt yields to eventually fall from current levels (amid continued volatility) reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

Like the BoE, the Federal Reserve and other central banks see persistently high policy rates through 2023 and 2024 as key to dampening domestic inflationary pressure. Bond markets will need to absorb significant new supply, particularly from the US government.

Minimum Revenue Provision Statement

1. Annual Minimum Revenue Provision Statement 2024/25

1.1. Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Council to have regard to the former Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance) most recently issued in 2018.

1.2. The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

1.3. The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

Northamptonshire County Council (NCC) Historic Debt Liability accumulated to 31st March 2007 – Transferred to North Northamptonshire Council (NNC)

1.4. A change in this policy was introduced in and applied from 2017/18, whereby the annuity method calculation methodology was backdated to apply from 2007/08 onwards. This recalculation when compared against actual MRP charges identified an amount of overprovision, which has been applied prospectively from 2017/18 onwards until fully exhausted.

NCC Debt Liability accumulated from 1st April 2007 (Transferred to NNC)

1.5. Up until 2016/17, MRP was provided for capital expenditure incurred from 1st April 2007 onwards under Option 3 of the Guidance, based on the estimated useful life of the assets and using an equal annual instalment method. MRP was charged from the year after the assets funded became operational.

1.6. A change in this policy was introduced in and applied from 2017/18, whereby MRP calculation was changed to an annuity calculation methodology backdated to apply from 2007/08. This recalculation when compared against actual MRP charges identified an amount of overprovision, which will be applied prospectively from 2017/18 onwards until fully exhausted.

District and Borough Council Debt (Transferred to NNC)

1.7. MRP relating to the historic debt liability incurred for years up to and including 2007 – 2008 were charged at the rate of 4% on the reducing balance, in accordance with Option 1 of the guidance, the "regulatory method".

1.8. The debt liability relating to capital expenditure incurred from 2008-2009 onwards was subject to MRP under Option 3, the "asset life method", and was charged over a period that is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, was related to the estimated life of that building.

1.9. Estimated useful life periods were determined in line with accounting guidance and regulations. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, the Council generally adopted these periods. However, the Council reserved the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

Debt Liability accumulated from 1st April 2021

1.10. For unsupported capital expenditure incurred from 1st April 2007 onwards, MRP will be charged from the year after the assets funded have become operational.

1.11. The Council will charge MRP using option 3, the "asset life method".

1.12. Estimated useful life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods set out in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

1.13. 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 that most reasonably reflects the anticipated period of benefit that arises from the expenditure. Whatever type of expenditure is involved, it will be grouped together in a manner that best reflects the nature of the main component of expenditure with substantially different useful economic lives.

1.14. The Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

- **Leases and Private Finance Initiatives** (PFI) – For assets acquired by leases or PFIs, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

- **Operating Leases** – Where former operating leases have been brought onto the balance sheet due to the adoption of the *IFRS 16 Leases* accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.

- **Loans to Third Parties** – For capital expenditure loans to third parties, the Council will make nil MRP unless

    a) the loan is an investment for commercial purposes and no repayment was received in year or

    b) an expected credit loss was recognised or increased in-year but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment on loans that are investments for commercial purposes, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. Sufficient MRP will be charged to ensure that the outstanding capital financing requirement (CFR) on the loan is no higher than the principal amount outstanding less the expected credit loss. This option was proposed by the government in its recent MRP consultation and in the Council's view is consistent with the current regulations.

- **Revenue Expenditure Funded from Capital Under Statute (REFCUS)** - Estimated life periods will be determined in line with accounting guidance and regulations. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, the Council will generally adopt these periods. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

- No MRP will be charged in respect of assets held within the Housing Revenue Account.

1.15. Capital expenditure incurred during 2024/25 will not be subject to a MRP charge until 2025/26 or later.

1.16. Based on the Council's latest estimate of its capital financing requirement (CFR) on 31st March 2023, the budget for MRP has been set as follows:

	31.03.2023 Draft CFR	2023/24 Draft MRP/ Loan Repayment
	£'000	£'000
General Fund	534,829	(3,368)
Loans to other bodies repaid in instalments	0	0
Voluntary overpayment (or use of prior year overpaym	(5,720)	(5,720)
Total General Fund	**529,110**	**(9,088)**
HRA CFR	116,859	(3,500)
Total	**645,969**	**(3,500)**

1.17. **Overpayments:** In earlier years, a predecessor Authority (NCC) of the Council had made voluntary overpayments of MRP that are available to reduce the revenue charges in later years. It is planned to draw down £5.96m of this in 2024/25.

MRP Overpayments Estimates	**£'000**
Actual balance 31.03.2023	19,949
Approved drawdown 2023/24	(5,720)
Expected balance 31.03.2024	14,229
Planned drawdown 2024/25	(5,959)
Forecast balance 31.03.2025	8,270

(Non Treasury) Investment Strategy

1. Introduction

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

a) because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),

b) to support local public services by lending to or buying shares in other organisations (**service investments**), and

c) to earn investment income (known as **commercial investments** where this is the main purpose).

1.2. This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

1.3. The statutory guidance defines investments as "all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios." The Council interprets this to exclude

a) trade receivables which meet the accounting definition of financial assets but are not investments in the everyday sense of the word, and

b) property held partially to generate a profit but primarily for the provision of local public services. This aligns the Council's definition of an investment with that in the 2021 edition of the CIPFA Prudential Code.

2. Treasury Management Investments

2.1. The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £139m and £210m during the 2024/25 financial year.

2.2. **Contribution:** The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

2.3. **Further details:** Full details of the Council's policies and its plan for 2024/25 for treasury management investments are covered in the treasury management strategy.

Service Investments: Loans

2.4. **Contribution:** The Council may lend money to its subsidiaries, its suppliers, local businesses, local charities, housing associations, local residents and its employees to support local public services and stimulate local economic growth. Northamptonshire County Council (NCC) entered into a joint service agreement with other councils and as part of that formed Local Government Shared Services (LGSS). NCC provided working loan of £900k to LGSS now Pathfinder Legal Services Limited (PLSL). In April 2021, the loan was shared equally between the Council and WNC when the two unitary authorities were formed. The council further agreed to convert 50% (£237.5k) of its share of the debt to share equity leaving a £237.5k in loan debt to the Council.

2.5. **Security:** The main risk when making service loans is that the borrower will 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, upper limits on the outstanding loans to each category of borrower have been set as follows:

2.6. *Table 1: Loans for service purposes*

Category of borrower	31.3.2024 Draft			2024/25
	Balance owing £'000	Loss allowance £'000	Net figure in accounts £'000	Approved Limit £'000
Subsidiaries	238	0	238	2,000
Local businesses	0	0	0	1,000
Local charities	0	0	0	250
Employees	0	0	0	200
TOTAL	**238**	**0**	**238**	**3,450**

2.7. Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts are shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

2.8. **Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding service loans by

Service Investments: Shares

2.9. **Contribution:** The Council invests in the shares of its subsidiaries to support local public services and stimulate local economic growth. The Council converted some of the original working capital loan provided to PLSL to share equity in April 2021. The council also owns equity worth £110k in the United Kingdom Municipal Bond Agency.

2.10. **Security:** One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Table 2: Shares held for service purposes

Category of company	31.3.2024 Draft			2024/25
	Amounts invested £'000	Gains or losses £'000	Value in accounts £'000	Approved Limit £'000
Subsidiaries	348	0	348	2,000

2.11. **Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding shares.

2.12. **Liquidity:** The investment are a combination of small investments in a subsidiary of the Council and jointly (public sector owned) corporations. The amount invested has little on the Council's liquidity position and there are no plans to increase investment in this subsidiary or make further investments in shares.

2.13. **Non-specified Investments:** 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 limits above on share investments are therefore also the Council's upper limits on non-specified investments. The Council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

Commercial Investments: Property

2.14. **Contribution:** The Council invests in regional commercial property with the intention of making a profit that will be spent on local public services.

Table 3: Property held for investment purposes

Property	Actual	31.03.2023 Draft		31.03.2024 Expected	
	Purchase Cost £'000	Gains or (losses) £'000	Value in accounts £'000	Gains or (losses) £'000	Value in accounts £'000
Denby	14,000	2,300	16,300	0	16,300
Wakefield	5,200	(400)	4,800	0	4,800
Total	**19,200**	**1,900**	**21,100**	**0**	**21,100**

2.15. **Security:** In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs. Taking as a whole, the accounting valuation of the commercial investment property portfolio exceeds total purchase costs.

2.16. A fair value assessment of the Council's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2023/24 year end accounts preparation and audit process value these properties below their cumulative purchase cost, then an updated investment strategy will be presented to Full Council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom. Currently, the valuations do not have any impact on revenue.

2.17. **Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding property investments.

2.18. Prior to going ahead with the purchase of a long-term investment, a valuation report is commissioned from expert external advisers. This comprehensive report reviewed the micro/macro economic environment and how the investment will meet the Council needs now and in the future. Where the investment had an existing occupier, the review will undertake a credit check/rating on such customers. For the two commercial properties in the Council's portfolio, the existing tenants were rated as low risk and the recommended level of credit that could be extended to the tenants were significantly higher than the annual rent value due on the properties. Further, both tenants were considered to be relatively financially strong at the time of the initial review

2.19. The value of these investments is reviewed annually. This valuation is used to adjust the accounting value of the investment as part of the end of year closure of accounts process. The valuation is also used to review performance and ongoing viability of the investment in the medium to long term and whether the Council should consider exiting the investment.

2.20. **Liquidity:** Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Council will undertake annual review of these investment with a view to determining their ongoing strategic value within the Council's overall investment portfolio. Where a commercial property is deemed no longer of strategic value within the investment portfolio the process of disposal will commence early to ensure an efficient disposal.

3. <u>Capacity, Skills and Culture</u>

3.1. **Elected members and statutory officers:** Officers involved in treasury management are experienced in the managing local authority treasury management functions with relevant qualification at all levels of staff structure. Treasury officers also attend training events/ seminars organised by external parties including the council's treasury management advisors.

3.2. This Council deems that its treasury officers have sufficient experience to manage the treasury activities that is approved under its TMSS/AIS. Where further training or experience is required for activities that are beyond current range of treasury management activities, treasury officers will be required to attend such training. Also, the Council's treasury advisor will be expected to support treasury decisions in such situations.

3.3. **Commercial deals:** The Council does not plan to invest further in commercial property deals. If this changes in future, the Council will ensure that officers involved in negotiations are fully appraised of the requirement of the core principles of the prudential framework and the regulatory regime within which local authorities are required to operate.

3.4. **Corporate governance:** The following activities are undertaking to monitor the Council's treasury activities:

- Full Council, following review by the Executive Committee, approves an annual Treasury Management Strategy Statement, Minimum Revenue Provision Policy and Investment Strategy;
- fortnightly/monthly meetings between treasury officers and senior finance management team to review treasury activities;
- monthly budget monitoring reports that updates senior management and Executive Committee on progress toward delivering treasury budget objectives;
- quarterly reports to the Executive Committee and bi-annual reports to Full Council reviewing all treasury activities including reporting against all treasury and prudential indicators set out in the approved annual Treasury Management Strategy Statement.

4. Investment Indicators

4.1. The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.

4.2. **Total risk exposure:** The first indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn down and guarantees the Council has issued over third-party loans.

Table 4: Total investment exposure

Total investment exposure (£'000)	31.03.2023 Actual	31.03.2024 Forecast	31.03.2025 Forecast
Treasury management investments	186,886	181,866	164,325
Service investments: Loans	238	238	238
Service investments: Shares	348	348	348
Commercial investments: Property	19,687	19,687	19,687
TOTAL INVESTMENTS / EXPOSURE	**207,158**	**202,138**	**184,597**

4.3. **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the assets listed in table 3 of this report could be described as investments being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

4.4. **Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 5: Investment rate of return (net of all costs)

Investments net rate of return	2022/23 Draft	2023/24 Budget	2024/25 Budget
Treasury management investments	1.91%	2.50%	5.01%
Service investments: Loans	0.00%	0.00%	0.50%
Service investments: Shares	0.00%	0.00%	0.50%
Commercial investments: Property	1.00%	1.00%	1.00%
ALL INVESTMENTS	**1.82%**	**2.35%**	**4.57%**