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ANNUAL TREASURY INVESTEMENT STRATEGY 2023/24

1. INTRODUCTION

1.1 This report sets out the Treasury Management Strategy and policy for 2023/24. It includes: the interest rate outlook, the Council's treasury management arrangements for the year and the overall framework and risk management controls which are used in carrying out the Council's borrowing, lending and other treasury activities.

1.2 The Council's treasury management objectives and activities are defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) as:

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

1.3 Effective treasury management will provide support towards the achievement of the Council's business and service objectives. The Council is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

1.4 This Treasury Strategy forms part of the overall Corporate Planning Framework which complies with the statutory requirement to have regard to the following Codes and Guidance:

- CIPFA's **Code of Practice for Treasury Management in the Public Services** (revised December 2017 and 2021 code)
- CIPFA's **Prudential Code for Local Authority Capital Finance** (revised December 2017 and 2021 code)
- Government Guidance on **Local Authority Investments**

1.5 It provides a mechanism by which treasury management decisions can be aligned with the overarching corporate priorities and objectives over the medium term.

1.6 The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2023/24.

1.7 A detailed assessment of the current economic background and the forecast impact on credit and interest rates has been provided by the Council's Treasury Management advisors, Arlingclose. This is included as **Appendices 1-A and 1-B** to this Strategy.

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2. PURPOSE OF TREASURY MANAGEMENT

2.1 The 2023/24 Treasury Management Strategy has been developed with the following key aims:

- To outline how the Council will manage and invest its money to ensure it will have the financial resources to support the key priorities outlined in its Corporate Strategy.
- To set out key principles on which borrowing and investment decisions are made, including how security and risk are assessed.
- To present the arrangements for managing and monitoring treasury management decisions, including assessment of outcomes and the alignment to the Corporate Strategy.

3. PURPOSE OF TREASURY MANAGEMENT

3.1 The Council's objectives in relation to debt and investment can be stated as follows:

"To assist the achievement of the Council's service objectives by obtaining funding and managing the Council's debt and treasury investments at a net cost which is as low as possible, consistent with a high degree of interest cost stability and a very low risk to sums invested."

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

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

3.4 Therefore, for the Council, the achievement of high returns from treasury activities is of secondary importance compared with the need to limit the exposure of public funds to the risk of loss.

3.5 It is not possible to avoid all treasury risks, and a balance has to be struck. The main treasury risks which the Council is exposed to include:

- Interest rate risk - the risk that future borrowing costs rise
- Credit risk - the risk of default in a Council investment
- Liquidity and refinancing risks - the risk that the Council cannot obtain funds when needed

3.6 The Council's first Community Municipal Investment (CMI), named 'Cotswold Climate Investment' (CCI) which targeted a £0.500m fundraise closed on the 16 August 2022, fully funded by over 450 investors. As at 1 January 2023 the Council therefore holds a £0.500m loan administered through Abundance Investments Limited for the purpose of Community Municipal Investments at a rate of 2.2% (including management fees). The Cotswold Climate Investment will support a range of projects, including installing publicly available off-street electric vehicle charging points (EVCPs) around the District to encourage electric vehicle take-up, and improving the energy and carbon performance of the Council's Cirencester offices.

3.7 If the Council undertakes further borrowing it will be important for the Council to manage its interest rate exposure due to the risk that changes in the level of interest rates leads to an unexpected burden on the Council's finances. The stability of the Council's interest costs will be affected by the level of borrowing exposed to short term or variable interest rates. Short term interest rates are typically lower, so there can be a trade-off between achieving the lowest rates in the short term and in the long term, and between short term savings and long term budget stability.

3.8 As a result, the approach to risk must be implemented flexibly in the light of changing market circumstances.

4. WHY AND HOW WE INVEST OUR MONEY

4.1 The revised CIPFA Prudential and Treasury Codes recommend that authorities' capital strategies should include a policy and risk management framework for all investments. The Codes identify three types of local authority investment:

- **Treasury management investments**, which are taken to manage cash flows and as part of the Council's debt and financing activity
- **Commercial investments** (including investment properties), which are taken mainly to earn a positive net financial return
- **Service investments**, which are taken mainly to support service outcomes

4.2 The Council's Investment Strategy outlines the principles and arrangements in place for the second two categories of investment. The Treasury Management Strategy focuses on the first category. The following paragraphs set out the Council's policy for these 'treasury management' investments.

4.3 The Council holds significant 'treasury management' funds representing income received in advance of expenditure and reserves held. In the past 12 months, the Council's investment balance has averaged from £26m to £47m. The large range was due to the Council holding grants that were due to be returned to the Government. The average forecast investment balance for 2023/24 is estimated to be around £19.8m.

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4.4 On 30 November 2022, the Council held £47.235m of treasury investments which are outlined in Table 1.

Table 1 – Treasury investments as at 30 November 2022

Treasury Investments	30th November Actual Portfolio £m	30th November Average Rate %
Money Market Funds/Call Accounts and other pooled funds	8.735	1.34
Short Term Investments – Bank of England DMADF	23.00	1.62
Short Term Investments – Bank deposit (Santander)	3.00	3.26
CCLA Property Investment Management	2.500	3.86
CCLA Diversified Income	1.000	3.09
Schroders Unit Trusts Ltd	1.000	7.91
M&G Securities Ltd	2.000	5.75
Ninety One (formerly Investec)	2.000	4.09
Columbia Threadneedle Fund	2.000	3.68
Federated Cash Plus Fund	1.000	0.01
Fundamentum Housing REIT	1.000	2.80
Total treasury investments	47.235	2.29

4.5 Forecast investments over the next three financial years are shown in Table 2.

Table 2 – Investments balances

	31.3.22 Actual £m	31.3.23 Estimate £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m
Short term holdings					
Call Accounts	6.093	0	0	0	0
MMFs	8.703	5.685	4.000	2.500	2.500
Short Term Deposits	5.500	0.000	0.000	0.000	0.000
Current Account	0.126	0.100	0.100	0.100	0.100
Total Short term	**20.422**	**5.785**	**4.100**	**2.600**	**2.600**
Longer term holdings					
Pooled Funds	10.500	10.500	10.500	10.500	10.500
REIT	1.000	1.000	1.000	1.000	1.000
Cash + Fund	1.000	1.000	1.000	1.000	1.000
Total Longer term	**12.500**	**12.500**	**12.500**	**12.500**	**12.500**
TOTAL INVESTMENTS	**32.922**	**18.280**	**16.600**	**15.100**	**15.100**

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4.6 The Council's policy on treasury investments, in line with the CIPFA code, is to prioritise security and liquidity over yield. This focuses on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely to minimise risk of loss. Money held for the longer term is invested more widely, including bonds, shares and property to balance the risk of loss against the risk of receiving returns below inflation. Both short term and longer term investments may be held in pooled funds, where an external fund manager makes decisions on which investments to buy. The Council is also able to request the return of its funding at short notice with these pooled funds. 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 inflation rate, in order to maintain the spending power of the sum invested.

4.7 Due to the continuing effects of the coronavirus pandemic, councils experienced increased levels of cash during 2022/23, mostly due to grant income that Central Government provided to the Council as it looked to use local authorities to continue to support local populations in dealing with the financial impact of the pandemic. Toward the latter end of 2022/23 grant surpluses are being repaid reducing the cash available for investment significantly for 2023/24.

4.8 As a result of unprecedented economic times; the war in Ukraine, the fuel crisis and the political upheaval in September, the Bank of England Base Rate has risen from 0.75% to 3.50% in the short period to December 2022. This was done primarily to impact inflation that reached a peak of 11.1% in October, and regain financial stability and confidence in the market that arose from the Liz Truss mini budget. This meant that the Council was able to take advantage of higher than expected interest rates to increase income to support key priorities. Interest rates are expected to increase again but then remain at a peak for the majority of 2023/24 before reducing.

4.9 Under Financial Reporting Standards (IFRS 9), 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.

4.10 The Council will continue to make deposits only with institutions having high credit quality as set out in the Lending Criteria table below. These limits have been set by the Council in consultation with Arlingclose, the Council's Treasury advisors in Table 3. Further explanation of each of the categories in Table 3 are included as Appendix 1-B.

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Table 3 – Lending Criteria

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£3m	Unlimited
Secured investments *	25 years	£3m	Unlimited
Banks (unsecured) *	13 months	£3m	Unlimited
Building societies (unsecured) *	13 months	£2m	£10m
Registered providers (unsecured) *	5 years	£5m	£10m
Money market funds *	n/a	£3m	Unlimited
Strategic pooled funds	n/a	£4m	£20m
Real estate investment trusts	n/a	£3m	£20m
Other investments *	5 years	£1m-£3m	£10m

** investments in these sectors will only be made with entities whose lowest published long-term credit rating is no lower than A-*

4.11 Treasury investments will only be made with entities whose lowest published long term credit rating is no lower than an 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 on credit ratings, and all other relevant factors including external advice will be taken into account.

4.12 Money may be lent to the Council's own banker (Lloyds Banking Group), in accordance with the above lending limits. However, if Lloyds Bank does not meet the above criteria, money may only be lent overnight (or over the weekend), and these balances will be minimised.

4.13 Credit rating methodologies and credit limit requirements may change as the circumstances demand: in this event the Chief Finance Officer may determine revised and practicable criteria seeking similarly high credit quality, pending the next annual review of this treasury management policy.

4.14 Temporarily surplus cash will be invested having regard to the period of time for which the cash is expected to be surplus. The CIPFA Prudential Code envisages that authorities will not borrow more than three years in advance, so it is unlikely that the Council will plan to have surplus cash for longer than three years. However, where surplus cash for over 12 months is envisaged, it may be appropriate to include some longer term (non-specified) investments within a balanced risk portfolio.

4.15 In making investments in accordance with the criteria set out in this section, the Chief Finance Officer will seek to spread risk (for example, across different types of investment and to avoid concentration on lower credit quality). This may result in lower interest earnings, as safer investments will usually earn less than riskier ones.

4.16 The Council does not currently use investment managers (other than through the use of pooled investment vehicles such as Money Market Funds). However, if investment managers are appointed, their lending of Council funds would not be subject to the above restrictions, provided that their arrangements for assessing credit quality and exposure limits have been agreed by the Chief Finance Officer.

4.17 The Council seeks to be a responsible investor. 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 this 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 Authority 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.

5. HOW WE BORROW MONEY

5.1 As outlined in paragraph 3.6 at 01 January 2023, the Council holds a £0.5m loan administered through Abundance Investments Limited for the purpose of Community Municipal Investments. There are plans to borrow in the future to fund the Capital Programme. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The net borrowing can be reduced from this total through the use of reserves and working capital.

5.2 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 following three years. Table 4 shows that the Authority expects to comply with this recommendation during 2023/24.

5.3 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing, see Table 4a. This assumes that cash and investment balances are kept to a minimum level of £13m at year end to maintain sufficient liquidity but minimise credit risk.

5.4 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.

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5.5 The total forecast net borrowing against the CFR and liability benchmark is set out in the Table 4 and Table 4a below for the period of the Medium Term Financial Strategy.

Table 4 - Forecast Borrowing Requirement £m

	31.3.22 Actual	31.3.23 Estimate	31.3.24 Forecast	31.3.25 Forecast	31.3.26 Forecast
CFR	0.0	0.5	2.9	2.8	2.6
Less Outstanding External Borrowing	0	-0.5	-0.4	-0.3	-0.2
Internal Borrowing	**0.0**	**0**	**2.6**	**2.5**	**2.5**
Usable reserves	25.677	16.8	13.2	10.3	12
Working capital	*7.42*	2.7	2.9	2.9	2.9
Investments	**33.1**	**19.5**	**13.5**	**10.7**	**12.4**

Table 4a – Prudential Indicator: Liability Benchmark £m

	31.3.22 Actual	31.3.23 Estimate	31.3.24 Forecast	31.3.25 Forecast	31.3.26 Forecast
CFR	0.0	0.5	2.9	2.8	2.6
Less Balance Sheet Resources	-33.10	-19.5	-16.1	-13.2	-14.9
Net Loans Requirement	**-33.10**	**-19.0**	**-13.1**	**-10.5**	**-12.2**
Plus Liquidity Allowance	15.0	15.0	13.0	13.0	13.0
Liability Benchmark	***-18.1***	**-4.0**	**-0.1**	**2.5**	**0.8**

5.6 This benchmark is currently £-4.0 million, reflecting the fact that there is no requirement to undertake external borrowing and its cash balances are invested through application of the Treasury Management Strategy. Over the next two years, the liability benchmark moves to £2.5 million reflecting a use of capital receipts and earmarked reserves to partially fund the Capital Programme and need to externally borrow as represented in table 4.

Borrowing Strategy

5.7 This strategy sets out how the Council plans to obtain the required new borrowing shown above, by a combination of short term and long term borrowing.

5.8 The borrowing will be required to fund significant investments into the Council's key priorities as outlined in the Corporate Strategy, The key priorities are outlined below:

- Priority 1 – delivering our services to the highest standard
- Priority 2 – responding to the challenges presented by the climate crisis
- Priority 3 – providing good quality social rented homes
- Priority 4 – presenting a local plan that is green to the core

- Priority 5 – helping residents and communities access the support they need for good health and wellbeing
- Priority 6 – enabling a vibrant economy.

5.9 The Council's main objective when borrowing money is to strike a balance between securing low interest rates and certainty of costs over the period for which funds are required.

5.10 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 being currently similar to long-term rates, it is likely to be more cost effective in the short term to use internal resources or to borrow short term loans until interest rates decrease and then look at longer term loans.

5.11 By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of doing this will be monitored regularly against the potential for incurring additional costs by deferring borrowing into the future when long term borrowing rates are forecast to rise modestly, even if this causes additional cost in the short term.

5.12 The Council may also borrow short term loans to cover unplanned cash flow shortages.

<u>Sources of Borrowing</u>

5.13 The main source of long term borrowing for local authorities historically has been the **Public Works Loans Board (PWLB)**. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield. The Council has not undertaken any PWLB borrowing to fund commercial investments for yield and does not plan to do this in the future in order to retain access to PWLB loans. All capital investments are linked to service developments. The PWLB rate offers a cheaper and quicker route to borrowing than alternative sources of borrowing. The Council would thus aim to use the PWLB for its long term borrowing needs. In addition it is uncertain how private sector lenders would view the risk profile for councils that were no longer eligible for PWLB loans.

5.14 **The 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 market and lends proceeds to local authorities. This is a more complicated source of finance that the PWLB for two reasons; borrowing authorities are 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 Cabinet and Full Council.

5.15 **LOBOs**: The Council currently does not hold any 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.

5.16 **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.

5.17 **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.

5.18 **Local Climate Bonds /Community Municipal Investments** are a form of debt/loan-based crowdfunding. Community Bonds are issued by a council corporate body, with residents and general public investors providing capital on the basis of receiving a financial return. The majority of community bonds are typically linked in some form to environmental or social criteria and provide tangible benefit to the local community beyond just financial. Details of the Council's Community Municipal Investment are outlined in paragraph 3.6.

5.19 The Council will continue to monitor market developments and will seek to use and develop other funding solutions if better value may be delivered. This may include other sources of long term borrowing if the terms are suitable, including listed and private placements, bilateral loans from banks, local authorities or others and sale and leaseback arrangements.

5.20 The Treasury Management Prudential Limits and Indicators consistent with the above strategy are set out in Section 7.

5.21 The Treasury Management Strategy must be flexible to adapt to changing risks and circumstances. The strategy will be kept under review by the Chief Finance Officer in accordance with treasury management delegations.

6. MONITORING TREASURY MANAGEMENT INVESTMENTS

6.1 CIPFA guidance for Treasury Management in the Public Services (2017 edition), 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.

6.2 The guidance also requires the Council to produce reports on its treasury and investment management policies, practices and activities, as a minimum with a mid-term review and an annual report after year end closure.

6.3 The Council delegates responsibility for the implementation and regular monitoring of its treasury management practices to Cabinet and for the execution and administration of treasury management decisions to the Chief Finance Officer, who will act in accordance with this strategy. The Audit Committee will be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

6.4 Credit ratings are monitored on a real-time basis as provided via Arlingclose, and the Council's lending list is updated accordingly, when a rating changes. Other information is taken into account when deciding whether to lend. This may include the ratings of other rating agencies; commentary in the financial press; analysis of country, sector and group exposures; and the portfolio make up of Money Market Funds. The use of particular permitted counterparties may be restricted if this is considered appropriate.

6.5 Where deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, 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. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt management Office or invested in government treasury bills or other local authorities, as decided by the Chief Finance Officer.

6.6 In order to monitor this, the Council has set the following cash limits on the credit quality of the investments in Table 5.

Table 5 – Approved 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	£3m	Unlimited
Secured investments *	25 years	£3m	Unlimited
Banks (unsecured) *	13 months	£3m	Unlimited
Building societies (unsecured) *	13 months	£2m	£10m
Registered providers (unsecured) *	3 years	£3m	£10m
Money market funds *	n/a	£3m	Unlimited
Strategic pooled funds	n/a	£4m	£20m
Real estate investment trusts	n/a	£3m	£20m

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Sector	Time limit	Counterparty limit	Sector limit
Other investments *	3 years	£1m-£3m	£10m

** Investments in these sectors will only be made with entities whose lowest published long-term credit rating is no lower than A-*

6.7 The Council's revenue reserves available to cover investment losses are forecast to be £3.5m on 31 March 2023. In order to ensure that no more than a maximum of available reserves of 25% are therefore put at risk in the case of single default (other than the UK Government), the total lending limit will be £3m. A group of banks under the same ownership will be treated as a single organisation. Limits are also placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as in Table 6 below. Investments in pooled funds and multilateral development banks do not count against the limit for a single foreign currency, as the risk is spread over many countries.

Table 6 – Cash Limit by Organisation

Table 6 – Cash Limits	Cash limit
Any single organisation, except the UK Central Government	£3m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£3m per group
Any group of pooled funds under the same management	£4m per fund manager
Foreign countries	£3m per country
Registered providers	£3m in total
Real estate investment trusts	£3m per REIT
Unsecured investments with building societies	£2m in total per BS
Money Market Funds	£20m in total

6.8 The Council uses cash flow forecasting 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 MTFS and cash flow forecast.

6.9 The Treasury Management team has suitably qualified and trained staff to actively manage treasury risks within this Policy framework. Officers regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. However, staff resources are limited, and this may constrain the Council's ability to respond to market opportunities or take advantage of more highly structured financing arrangements. External advice and support may also be required. The following activities may for example require external advice and support based on an assessment at the time, to the extent that skills and resources are available:

- the refinancing of existing debt

- forward-starting loans
- leasing and hire purchase
- use of innovative or more complex sources of funding such as green bond issues, private placements and sale and leaseback structures
- investing surplus cash in institutions or funds with a high level of creditworthiness, rather than placing all deposits with the Government

6.10 The Council appointed Arlingclose Limited to provide treasury management advice to the Council, including the provision of credit rating and other investment information. Advisors are a useful support in view of the size of the Council's transactions and the pressures on staff time. The contract with Arlingclose is due to expire in 2022/23 and an invitation to tender has been issued. A new contract will be in place at 01 March 2023 with our existing advisor or with a new treasury management advisor.

6.11 Government investment guidance expects local authorities to have a policy for borrowing in advance of need, in part because of the credit risk of investing the surplus cash. The Council's policy is to borrow to meet its forecast Net Loan Debt, including an allowance (currently of £13m) for liquidity risks. The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the forecast capital programme or to meet other expected cash flows.

7. TREASURY MANAGEMENT PRUDENTIAL INDICATORS

7.1 The Council is required under the Local Government Act 2003 and the CIPFA Treasury Management Code to set Prudential Indicators for treasury management to measure and manage its exposure to treasury management risk using the following indicators:

7.2 **Security** – The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value weighted average 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	**A-**

7.3 **Interest Rate exposures** – This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one year 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	-£0.05m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£0.05m

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.

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

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and within 30 years	100%	0%
30 years and above	100%	0%

7.5 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.

7.6 **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 limits on the long term principal sum invested to final maturities for longer than a year will be:

Price risk indicator	2023/24	2024/25	2025/26
Limit on principal invested for longer than a year.	£15m	£15m	£15m
Amounts invested in longer term instruments with no fixed maturity date	£15m	£15m	£15m

8. TREASURY MANAGEMENT REVENUE BUDGET

8.1 The budget for investment income in 2023/24 is £0.719m, based on an average investment portfolio of £18.8m at an interest rate of 3.81%.

8.2 The Council aims to maintain its portfolio of long term investments in strategic funds at £12.5m. This is forecast to return £0.433m.

8.3 Investments in liquid assets such as bank deposits and money market funds are expected to return 3.8% and generate a yield of £0.286m.

8.4 This estimate reflects a prudent view of investment income. Actual interest income will be affected not only by future interest rates, but also by the Council's cash flows and the level of its revenue reserves and provisions.

9. OTHER

9.1 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).

9.2 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 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.

9.3 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.

9.4 MiFID II is a legislative framework instituted by the European Union to regulate the financial markets and improve protections for investors. This Council has elected for Professional Client Status which means that to be able to invest in certain investments, it must hold a minimum of £10m in investments. If this falls below the minimum level then access to certain financial market instruments could be made unavailable to this Council.

ANNEX F: APPENDIX 1-A

COTSWOLD DISTRICT COUNCIL

Arlingclose Economic and Interest Rate Forecast (November 2022)

The Bank of England (BoE) increased Bank Rate by 0.75% to 3.0% in November 2022, the largest single rate hike since 1989 and the eighth successive rise since December 2021. The decision was voted for by a 7 2 majority of the Monetary Policy Committee (MPC), with one of the two dissenters voting for a 0.50% rise and the other for just a 0.25% rise.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

The UK economy grew by 0.2% between April and June 2022, but the BoE forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.

CPI inflation is expected to peak at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets with a peak of 5.25%. However the BoE has stated it considers this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target.

Interest rates have also been rising sharply in the US, with the Federal Reserve increasing the range on its key interest rate by 0.75% in November 2022 to 3.75%-4.0%. This was the fourth successive 0.75% rise in a pace of tightening that has seen rates increase from 0.25%-0.50% in March 2022. Annual inflation has been slowing in the US but remains above 8%. GDP grew at an annualised rate of 2.6% between July and September 2022, a better-than-expected rise, but with official interest rates expected to rise even further in the coming months, a recession in the region is widely expected at some point during 2023.

Inflation has been rising consistently in the Euro Zone since the start of the year, hitting an annual rate of 10.7% in October 2022. Economic growth has been weakening with an expansion of just 0.2% in the three months to September 2022. As with the UK and US, the European Central Bank has been on an interest rate tightening cycle, pushing up its three key interest rates by 0.75% in October, the third major increase in a row, taking its main refinancing rate to 2% and deposit facility rate to 1.5%.

ANNEX F: APPENDIX 1-A

COTSWOLD
DISTRICT COUNCIL

Credit outlook:
Credit default swap (CDS) prices have followed an upward trend throughout the year, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic.

CDS price volatility has been higher in 2022 compared to 2021 and this year has seen a divergence in prices between ring-fenced (retail) and non-ring-fenced (investment) banking entities once again.

The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from to negative from stable.

There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.

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:
The Authority's treasury management adviser Arlingclose forecasts that Bank Rate will continue to rise in 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.

While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.

Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.6%, 3.7%, and 3.9% respectively over the 3-year period to September 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

A more detailed economic and interest rate forecast provided by Arlingclose is attached as Appendix 1-B.

ANNEX F: APPENDIX 1-B

COTSWOLD
DISTRICT COUNCIL

Arlingclose Underlying Assumptions (November 2022)

UK interest rate expectations have eased following the mini-budget, with a growing expectation that UK fiscal policy will now be tightened to restore investor confidence, adding to the pressure on household finances. The peak for UK interest rates will therefore be lower, although the path for interest rates and gilt yields remain highly uncertain.

Globally, economic growth is slowing as inflation and tighter monetary policy depress activity. Inflation, however, continues to run hot, raising expectations that policymakers, particularly in the US, will err on the side of caution, continue to increase rates and tighten economies into recession.

The new Chancellor dismantled the mini-budget, calming bond markets and broadly removing the premium evident since the first Tory leadership election. Support for retail energy bills will be less generous, causing a lower but more prolonged peak in inflation. This will have ramifications for both growth and inflation expectations.

The UK economy is already experiencing recessionary conditions, with business activity and household spending falling. Tighter monetary and fiscal policy, alongside high inflation will bear down on household disposable income. The short- to medium-term outlook for the UK economy is bleak, with the BoE projecting a protracted recession.

Demand for labour remains strong, although there are some signs of easing. The decline in the active workforce has fed through into higher wage growth, which could prolong higher inflation. The development of the UK labour market will be a key influence on MPC decisions. It is difficult to see labour market strength remaining given the current economic outlook.

Global bond yields have steadied somewhat as attention turns towards a possible turning point in US monetary policy. Stubborn US inflation and strong labour markets mean that the Federal Reserve remains hawkish, creating inflationary risks for other central banks breaking ranks.

However, in a departure from Fed and ECB policy, in November the BoE attempted to explicitly talk down interest rate expectations, underlining the damage current market expectations will do to the UK economy, and the probable resulting inflation undershoot in the medium term. This did not stop the Governor affirming that there will be further rises in Bank Rate.

Forecast:
The MPC remains concerned about inflation but sees the path for Bank Rate to be below that priced into markets.

Following the exceptional 75bp rise in November, Arlingclose believes the MPC will slow the rate of increase at the next few meetings. Arlingclose now expects Bank Rate to peak at 4.25%, with a further 50bp rise in December and smaller rises in 2023.

The UK economy likely entered into recession in Q3, which will continue for some time. Once inflation has fallen from the peak, the MPC will cut Bank Rate.

ANNEX F: APPENDIX 1-B

COTSWOLD DISTRICT COUNCIL

Arlingclose expects gilt yields to remain broadly steady despite the MPC's attempt to push down on interest rate expectations. Without a weakening in the inflation outlook, investors will price in higher inflation expectations given signs of a softer monetary policy stance.

Gilt yields face pressures to both sides from hawkish US/EZ central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales will maintain yields at a higher level than would otherwise be the case.

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.50	3.50	3.50
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.90	4.40	4.40	4.40	4.35	4.30	4.25	4.00	3.75	3.75	3.75	3.75
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
5yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.36	3.65	3.90	3.90	3.90	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20
Downside risk	0.00	0.70	0.90	1.00	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	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.46	3.70	3.75	3.75	3.75	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70
Downside risk	0.00	0.70	0.90	1.00	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	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.88	4.00	4.00	4.00	4.00	4.00	3.90	3.90	3.90	3.90	3.90	3.90	3.90
Downside risk	0.00	0.70	0.90	1.00	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	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.24	3.40	3.40	3.40	3.40	3.40	3.30	3.30	3.30	3.30	3.30	3.30	3.30
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

ANNEX F: APPENDIX 1-B

COTSWOLD
DISTRICT COUNCIL

Criteria Definitions

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

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

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

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

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

Strategic pooled funds: Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority 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 Authority's investment objectives will be monitored regularly.

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

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

Operational bank accounts: The Council banks with Lloyds (Lloyds Banking Group). On adoption of this Strategy, it will meet the minimum credit criteria of A- (or equivalent) long term. It is the Council's intention that even if the credit rating of Lloyds Bank falls below the minimum criteria A- the bank will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

Policy Investments: The Council will provide cash flow for third party organisations linked to the Council. The following limit is set for 2023/24:

- Publica Group - £0.5m up to one year duration
- Ubico - £0.5m up to one year duration

ANNEX F: APPENDIX 2

COTSWOLD
DISTRICT COUNCIL

ANNUAL NON-TREASURY INVESTEMENT STRATEGY 2023/24

1. INTRODUCTION

1.1 The Authority invests its money for three broad purposes:

- 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),
- to support local public services by lending to or buying shares in other organisations (service investments), and
- to earn investment income (known as commercial investments where this is the main purpose).

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.

2. TREASURY MANAGEMENT INVESTMENTS

2.1 The Authority 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 as a Council Tax 'billing authority' it 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 £12m and £21m during the 2023/24 financial year.

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

2.3 **Further details:** Full details of the Authority's policies and its plan for 2023/24 for Treasury Management investments are covered in a separate document, the Treasury Management Strategy, available here: [link].

3. SERVICE INVESTMENTS: LOANS

3.1 **Contribution:** The Council lends money to local charities, housing associations, local residents and its employees to support local public services, stimulate local economic growth and support Council priorities of providing socially rented housing and promoting carbon neutral

development and infrastructure. Loans to residents will be in line with Council approved policies such as its Starter Homes Initiative.
In the last quarter of 2022/23 the Council plans to lend £2.6m short term and £1.897m over 50 years) to a local Housing Association which supports the Council priorities of providing socially rented housing and promoting carbon neutral development and infrastructure

3.2 **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 Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for service purposes in £

Category of borrower	**31.3.2022 actual**			**2023/24**
	Balance owing	**Loss allowance**	**Net figure in accounts**	**Approved Limit**
Local charities	390,160	0	390,160	450,000
Housing associations	315,500	0	31,500	3,000,000
Loans to Ubico (£500,000) or Publica £500,000)	0	0	0	1,000,000
Local residents (equity loans)	111,012	0	111,012	130,000
Employees (car loans)	7,970	0	7,970	10,000
TOTAL	540,642	0	540,642	4,590,000

3.3 Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The loans the Council has made are limited to specific service areas and the likelihood of non-payment is considered minimal. There is no history of non-payment and no evidence to suggest that there will be any default against loans granted. As a result, no allowance for loss has been included against the loan balances. Should any indication be given that there is a risk of default, then the risk will be assessed and a provision established at that time. Should a loan default, the Authority will make every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

3.4 In addition to the loans granted, the Council has included provision in its Treasury Management Strategy to loan up to £0.500m to both Ubico and Publica Group (Support) Limited, should either company require support. The Council is a shareholder in Ubico and a shared owner in Publica. In both cases, the loan facility is to enable the Council to provide a loan for short-term cash flow purposes. No loans are currently in place.

3.5 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding service loans by undertaking credit checks and ensuring the appropriate legal documentation is in place to secure the Council's money.

4. SERVICE INVESTMENTS: SHARES

4.1 **Contribution:** The Council has a £1 shareholding in Ubico Ltd. Ubico Ltd is an environmental services company which provides household and commercial refuse collection, recycling, street cleansing, grounds maintenance and fleet maintenance services to the Council. Ubico is wholly owned by eight local authorities and operates as a not for profit enterprise.

4.2 **Security:** One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. The Council's investment is fixed at £1.

Table 2: Shares held for service purposes in £

Category of company	31.3.2022 actual			2023/24
	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Local authority owned company	1	-	1	1
TOTAL	**1**	**-**	**1**	**1**

4.3 **Risk assessment:** the Council has not invested in Ubico to generate a financial return. The Council has invested to support service delivery. Ubico is a cost sharing company, any surplus generated within Ubico is returned to the partner Councils as shareholders. Similarly, any deficit as to be met by the Councils. Through regular budget monitoring and transparency around contract sums and performance and regulator communication, the risk of any financial loss is mitigated.

4.4 **Liquidity:** The Council has invested purely to facilitate service provision rather than a financial return. The Council has no intention to dispose of its investment in the foreseeable future.

4.5 **Non-specified Investments:** Shares are the only investment type that the Authority 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 Authority's upper limits on non-specified investments. The Authority has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

5. COMMERCIAL INVESTMENTS: PROPERTY

5.1 **Contribution:** The Council invests in a number of commercial properties within the Cotswold District and three significant assets outside of the district. The properties acquired outside of the District were acquired with the intention of generating income to support the revenue budget and were funded from the Council's capital receipts and therefore did not require the Council to undertaken any borrowing.

Table 3: Property held for investment purposes in £

Property	**1 April 2021**	**31.3.2022 actual**		**31.3.2023 expected**	
	Value in accounts	**Gains or (losses)**	**Value in accounts**	**Gains or (losses)**	**Value in accounts**
Investment Property within Cotswold District	1,194,500	27,500	1,222,000	0	1,222,000
Investment Property inside of Cotswold District 27A Dyer Street	1,715,000	(295,000)	1,420,000	0	1,420,000
Investment Property outside of Cotswold District: Superdrug, Worcester	715,000	5,000	720,000	0	720,000
Investment Property outside of Cotswold District: Tesco, Seaford	1,035,000	95,000	1,130,000	0	1,130,000
Investment Property outside of Cotswold District: Wikinsons, West Bromwich	1,430,000	25,000	1,455,000	0	1,455,000
TOTAL	**6,142,500**	**(195,000)**	**5,947,000**	**0**	**5,947,000**

5.2 **Security:** A fair value assessment of the Council's investment property portfolio is undertaken each year as part of the final accounts process. Investment property is valued at market value. Property values fell during 2021/22 reflecting the valuer's assumption of the reductions in rental income expected in 2022/23 and potential void periods. The fair value of the Council's investment property portfolio is included in the Statement of Accounts; based upon 'market value'.

5.3 Table 3 shows fair value gains and losses in 2021/22 which are a direct result of the valuation undertaken as at 31st March 2022. The losses in respect of 27A Dyer Street will not be recognised unless the Council decides to dispose of the assets. The Council maintains sufficient liquidity so that there is no requirement to sell any of the investment properties. Over time, it is expected that the market value of investment properties will vary. Assets are considered sound with strong covenants and dependable income streams.

5.4 The proportion of the Council's Investment Property portfolio which is outside of the District, is held primarily to generate a stable income stream to support the revenue budget.

5.5 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding property investments by purchasing property with secure tenants on long leases and through:

- assessment of relevant market sector(s) including the level of competition, barriers to entry/exit, future market prospects
- assessment of exposure to particular market segments to ensure adequate diversification
- use of external advisors if considered appropriate by the S151 Officer
- full and comprehensive report on any new investments to Cabinet/Council
- continual monitoring of risk across the whole portfolio and specific assets

5.6 **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 Authority sets out in its Treasury Management Strategy provision of liquid investments should the Council be in need of cash. It is not anticipated that the Council would need to sell any Investment Property at short notice.

6. LOAN COMMITMENTS AND FINANCIAL GUARANTEES

6.1 Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Authority and are included here for completeness.

6.2 The Council is a shareholder of Ubico Ltd, owning one eighth of the company and is a joint partner in Publica Group (Support) Ltd, owning one quarter of the company. In both cases, should the company overspend, the Council be liable for its share of the additional costs. In both companies, sound financial management and budgetary control mitigate the risk that additional sums will be required without adequate notice. The Council is contractually committed to make up to £2.6m) of loans to a local Housing Association and expects £2.6m (short term) to be drawn down from the final quarter of 2022/23 and throughout 2023/24 and £1.897m (over 50 years) from March 2024.

7. PROPORTIONALITY

7.1 The Authority is dependent on profit generating investment activity to achieve a balanced revenue budget. Table 4 below shows the extent to which the expenditure planned to meet the service delivery objectives and/or place making role of the Authority is dependent on achieving the expected net profit from investments over the lifecycle of the Medium Term Financial Plan. Should it fail to achieve the expected net profit, the Council has earmarked reserves available to cover any immediate shortfall in income or will be required to generate savings elsewhere within the budget to continue to provide its services. The Business Manager responsible for the Council's property and estates function would review the cause of any shortfall and identify any actions needed to ensure the income shortfall is mitigated or remedied.

7.2 With the introduction of the revised PWLB lending terms, the Council has no intention of purchasing investment assets primarily for yield in the current and following two financial years. With no further expenditure planned on investment assets primarily for yield the proportion of investment to gross service expenditure will fluctuate as a result of changes in investment income from existing holdings and changes in gross service expenditure.

Table 4: Proportionality of Investments

	2021/22 Actual	2022/23 Forecast	2023/24 Budget	2024/25 Budget	2025/26 Budget
Investment income (£)	949,864	1,371,602	1,240,862	1,142,432	1,151,635
Gross service expenditure (£)	24,120,526	25,371,583	25,371,583	25,879,015	26,396,595
Proportion	3.94%	5.41%	4.89%	4.41%	4.36%

8. BORROWING IN ADVANCE OF NEED

8.1 Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Council will need to borrow in future years to fund new capital expenditure. Any funds borrowed will be in relation to specific schemes and based upon the cash required for the chosen schemes.

8.2 The Council may, in supporting the delivery of the Council's Capital Programme, borrow in advance of need where it is expected to demonstrate the best longer-term value for money position. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that the value for money can be demonstrated (i.e., the cost of holding does not outweigh the benefits of early borrowing) and that the Council can ensure the security of such funds.

8.3 The Council is aware that it will be exposed to the risk of loss of the borrowed sums, and potential interest rate changes. These risks will be managed as part of the Council's overall management of its treasury risks and will be reported through the standard reporting method.

9. CAPACITY, SKILLS AND CULTURE

Elected members and statutory officers:

9.1 The Council recognises that those elected Members and statutory officers involved in the investment decision process must have appropriate capacity, skills and information to enable them to:

- take informed decisions as to whether to enter into a specific investment;
- to assess individual assessments in the context of the strategic objectives and risk profile of the Council; and
- to enable them to understand how new decisions have changed the overall risk exposure of the Council.

9.2 The Council employs professionally qualified and experienced staff in senior positions with responsibility for advising Council on capital expenditure, borrowing and investment decisions. For example, the Chief Finance Officer is a qualified accountant with over 25 years' experience of working in local government finance. The Council pays for junior staff to study toward relevant professional qualifications, including Chartered Institute of Public Finance and Accountancy (CIPFA) and Association of Accounting Technicians (AAT).

9.3 Where Council staff do not have the knowledge and skills required, external advisers and consultants are engaged that are specialists in their field. The Council employs Arlingclose Limited as treasury management advisers. The Council employs other specialist advisers to advise upon specific, extraordinary transactions as required. Examples of such transactions include property acquisitions, and loans to third parties. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite or while Council staff develop those skills.

9.4 The Council will also consider whether relevant Members of Cabinet have appropriate skills, providing training where there is a skills gap.

9.5 The Council has experience of investing in commercial property in recent years. The Council's property service is provided through its strategic service provider Publica Group (Support) Ltd. The team of property officers have the following qualifications:

- BSc Hons Real Estate Management
- Associate Member Royal Institute Chartered Surveyors
- Member Royal Institute Chartered Surveyors
- Royal Institute Chartered Surveyors Registered Valuer

- CIMA certificate in Business Accounting
- Member Institute Welfare & Facilities management
- Technical member for Institute for Occupational Safety and Health

9.6 Due to current vacancies within the Property Services team, external valuers are in the process of being appointed to undertake the Investment Property valuations required as part of the preparation of the 2021/22 Statement of Accounts.

9.7 The Council's legal team have experience of carrying out due diligence checks, particularly for commercial property acquisitions, and the legal officers have the following qualifications:
- Fellows of the Chartered Institute of Legal Executives (CiLEX);
- Paralegal;
- Solicitors.

9.8 The Property and Legal Teams work together with the Finance team to support the Council's Chief Finance Officer and the Publica Finance Director in developing investment proposals for the Council. External specialist advice is obtained when required to support these teams.

9.9 The Council has previously invested in a range of commercial properties which are delivering a sustainable revenue stream to the Council.

9.10 **Commercial deals:** The Council's Chief Finance Officer, Deputy Chief Finance Officer and the Publica Finance Director are all aware of the core principles of the Prudential Framework and of the regulatory regime within which local authorities operate. There are a number of changes to how the prudential framework will operate from 2023/24. One key change relates to the approach to borrowing in advance of need in order to profit from additional sums borrowed. This has been updated to be clear that borrowing for debt for yield investment is not permissible under the Prudential Code.

9.11 Officers would work with a team of specialist officers to prepare business cases for any commercial deals for consideration by Members. It is the responsibility of the finance team to ensure that the implications of the Prudential Framework and the regulatory regime are considered as business cases are developed.

9.12 The Cabinet and Council also includes elected Members with a wealth of experience from business, banking and financial organisations. Members will use their knowledge, skills and experience to scrutinise business cases for proposed Council investments as set out below.

<u>Corporate governance:</u>

9.13 A Capital Programme Investment Board, composed of Members from both the Administration and the Opposition will work with Officers on business cases for future investment. The Board will scrutinise proposals, considering the contribution to delivery of the Council Priorities and impact upon the overall risk to the Council. The views of the Board will be considered by the Cabinet. The Cabinet will take decisions or make recommendations to the full Council on new investments that are not part of Treasury Management activity.

9.14 Financial performance is reported quarterly to the Council's Overview and Scrutiny Committee and to Cabinet. This includes the financial performance of the Treasury Management function and any other revenue generating investments.

9.15 The Audit Committee consider the draft Capital, Investment and Treasury Management Strategies and provides its views to the Cabinet for consideration. Cabinet recommends the suite of strategies to the Council for approval. Treasury Management performance is reported currently at half year and year end to the Council's Audit Committee and to full Council.

9.16 The Council's internal audit provider, South West Audit Partnership Ltd (SWAP) regularly audits the Council's treasury management activity and its processes and procedures for approving investment and performance management. SWAP reports to the Council's Audit Committee.

10. INVESTMENT INDICATORS

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

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

Table 5: Total investment exposure in £millions

Total investment exposure	**31.03.2022 Actual**	**31.03.2023 Forecast**	**31.03.2024 Forecast**
Treasury management investments	32,923,066	18,280,000	16,600,000
Service investments: Loans	540,642	698,748	2,363,687
Service investments: Shares	1	1	1
Commercial investments: Property	5,947,000	5,947,000	6,411,757
TOTAL INVESTMENTS	**39,410,709**	**24,925,749**	**25,375,445**
Commitments to lend	2,600,000	2,400,000	1,897,500
Guarantees issued on loans	0	0	0
TOTAL EXPOSURE	**42,010,709**	**27,325,749**	**27,272,945**

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Add and/or delete rows as appropriate. Property, shares and pooled funds should be shown at fair value as per the accounts. Loans, bonds and deposits should be shown at amortised cost net of loss allowances as per the accounts (on the basis that you are not exposed to losses on amounts you have already recorded as expenditure). Loan commitments and guarantees should be shown as the maximum exposure to loss, as in the statement of accounts disclosure notes.

10.3 **How investments are funded**: Government guidance is that these indicators should include how investments are funded. No investments are currently funded by borrowing. All of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

10.4 **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 7: Investment rate of return (net of all costs)

Investments net rate of return	2021/22 Actual	2022/23 Forecast	2023/24 Forecast
Treasury management investments	1.1%	2.2%	3.9%
Service investments: Charities Loans*	2%	2%	2%
Service investments: Housing Association Loans	0%	0%	3.25%
Service investments: Local residents (equity loans)	0%	0%	0%
Service investments: Employee car loans	2%	2%	0%
Service investments: Shares	0%	0%	0%
Commercial investments: Property**	9.8%	9.4%	9.56%

**This represents an average return based upon loans ranging from 0% to 3.5%.*

***Commercial Property returns are calculated based upon returns compared to the current market valuation of the asset not the purchase price).*

Add and/or delete rows as appropriate. Rate of return is calculated as annual net income (interest, dividends and rent received less interest paid and MRP on any associated borrowing, impairment gains and losses, valuation gains and losses, property running costs etc) divided by the average sum invested during the year.

ANNEX F: APPENDIX 2

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Whilst the guidance does not prescribe specific indicators, (apart from the above three), there are nine indicators recommended in the informal commentary and clients should consider the most appropriate indicators to use, given their investment activities and plans. [24]

Clients with long-term investments (or with short-term investments funded by long-term debt!) should select indicators showing the risks and opportunities of the investment over both its payback period and over the repayment period of any debt taken out. [25]

Table 8: Other investment indicators

Indicator	2021/22 Actual	2022/23 Forecast	2023/24 Forecast
e.g. Debt to net service expenditure ratio			
e.g. Commercial income to net service expenditure ratio			
etc.			
etc.			

ANNEX E

COTSWOLD
DISTRICT COUNCIL

ANNUAL MINIMUM REVENUE PROVISION STATEMENT

1. MRP STATEMENT 2023/24

1.1 Where the Authority 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 Authority 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 debt is repaid 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. This statement only incorporates options recommended in the Guidance.

1.4 For any unsupported capital expenditure incurred after 31 March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure for all other assets or on capital expenditure not related to fixed assets but which has been capitalised by regulation or direction (revenue expenditure financed by capital under statute), will be charged over the useful economic life (UEL) of the asset up to a maximum of 50 years. MRP will be applied in the year following expenditure was incurred.

1.5 For assets acquired by finance lease or private finance initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

1.6 Where former operating leases have been brought onto the balance sheet on 01 April 2023 due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or discounts, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard

1.7 Where loans are made to other bodies and designated as capital expenditure, no MRP will be charged. However, the capital receipts generated by the repayments on those loans will be set aside to repay debt instead.

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1.8 At the commencement of 2022/23 the Council had, a Capital Financing Requirement (CFR) of £xm in relation to a specific elements of capital expenditure incurred in the previous financial year (2021/22). The Council has incurred further amounts of capital expenditure in 2022/23 and will need to engage in an element of Prudential Code borrowing in that financial year to achieve total financing of its capital programme. It is inevitable therefore that the borrowing that is required in 2022/23 will require MRP to be charged to the Council's General Fund Revenue Account in 2023/24 and future years.

1.9 Capital expenditure incurred during 2023/24 will not be subject to MRP charge until 2024/25.

1.10 Based on the Council's latest estimate of its capital financing requirement (CFR) on 31 March 2023, the MRP budget for 2023/24 has been set at (£xm).

1.11 Overpayments: The Authority can make voluntary overpayments of MRP that are available to reduce the revenue charges in later years. No overpayment is planned.