



**COTSWOLD**  
DISTRICT COUNCIL

Council name	<b>COTSWOLD DISTRICT COUNCIL</b>
Name and date of Committee	<b>AUDIT AND GOVERNANCE COMMITTEE – 25 JANUARY 2024</b>
Subject	<b>ANNUAL TREASURY MANAGEMENT STRATEGY AND NON-TREASURY MANAGEMENT INVESTMENT STRATEGY (DRAFT)</b>
Wards affected	N/A
Accountable member	Cllr Mike Evemy, Deputy Leader and Cabinet Member for Finance Email: <a href="mailto:mike.evemy@cotswold.gov.uk">mike.evemy@cotswold.gov.uk</a>
Accountable officer	David Stanley, Deputy Chief Executive and Section 151 Officer Email: <a href="mailto:david.stanley@cotswold.gov.uk">david.stanley@cotswold.gov.uk</a>
Report author	Michelle Burge, Chief Accountant Email: <a href="mailto:democratic@cotswold.gov.uk">democratic@cotswold.gov.uk</a>
Summary/Purpose	<p>The Council is required to approve a Treasury Management Strategy and Non-Treasury Investment Strategy (Investment Strategy) for 2024/25 before 01 April 2024.</p> <p>The attached Treasury Management Strategy Statement (TMSS) for 2024/25 (Appendix 1) and Non-Treasury Investment Strategy (Appendix 2) is prepared in accordance with the “Prudential Code” and the “Treasury Management Code of Practice” (2021 Editions), and the former Ministry of Housing, Communities and Local Government (MHCLG) revised guidance on Local Government Investments</p>
Annexes	N/A
Recommendation(s)	That the Committee considers the draft Treasury Management and Non-Treasury Investment Strategy for 2024/25 and provides feedback to the Cabinet and Council for consideration as part of the Council’s budget setting process
Corporate priorities	The Council’s Capital Strategy underpins all of the Council Priorities and is relevant to the Council principle of “Value for money – we will use the council’s resources wisely, but will invest in the fabric and future of the district”.



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Key Decision	NO
Exempt	NO
Consultees/ Consultation	N/A



## **1. BACKGROUND**

- 1.1** This draft report sets out the proposed Treasury Management Strategy and Non-Treasury Investment Strategy for the year 2024/25, including the borrowing and investment strategies and treasury management indicators for capital finance for 2024/25 and the Minimum Revenue Provision Statement.
- 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 Authority 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** The CIPFA "Prudential Code" 2021 edition, "Treasury Management Code of Practice" 2021 edition and MHCLG revised guidance February 2018 focus on "non- treasury" investments. Resulting in a requirement for a separate Non-Treasury Investment Strategy (Appendix 2) must be approved before April 2024.

## **2. TREASURY MANAGEMENT**

- 2.1** The purpose of the Treasury Management operation is to ensure that cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Council's low risk approach, pursuing optimum performance while ensuring that security of the investment is considered ahead of investment return. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure.
- 2.2** The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure the Council can meet its capital spending obligations. The management of longer-term cash may involve the arrangement of long and/or short-term loans (external borrowing) or may use longer term cash flow surpluses in lieu of external borrowing (internal borrowing).
- 2.3** Accordingly, the Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management 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"
- 2.4** The primary purpose of non-treasury investment management operations is to ensure that all investment decisions that are made primarily to generate a profit have a suitable level of security and liquidity. Ensuring risks and rewards are monitored regularly.



- 2.5 The secondary function of investment management is to generate potential returns and monitor performance of returns on a regular basis.
- 2.6 The purpose of the Indicators is to set a framework for affordable, prudent and sustainable capital investment.
- 2.7 Appendices (1 to 3) set out the Treasury Management Strategy, Non-Treasury Management Investment Strategy and Minimum Revenue Provision Statement for 2024/25 and fulfil key legislative requirements as follows:

**Appendix 1**

- The Treasury Management Strategy which sets out how the Council's treasury operation will support capital decisions taken during the period, the day-to-day treasury management and the limitations on activity through treasury prudential indicators, in accordance with CIPFA's Code of Practice on Treasury Management and Prudential Code;
- The Annual Borrowing Strategy which sets out the Council's objectives for borrowing together with the approved sources of long and short-term borrowing and;
- Annual Treasury Management Investment Strategy which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss, in accordance with CIPFA's Code of Practice on Treasury Management.

**Appendix 2**

- The Non-Treasury Investment Strategy sets out the Council's investment decisions taken during the period and monitors performance and security, in accordance with DLUHC Investment Guidance.

**Appendix 3**

- The Council's Minimum Revenue Provision (MRP) Statement, which sets out how the Council will pay for capital assets through revenue each year, as required by the Local Government Act 2003 (Regulations 27 and 28 in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003).

**3. ALTERNATIVE OPTIONS**

- 3.1 None

**4. FINANCIAL IMPLICATIONS**

- 4.1 Financial implications are set out within the body of the report.

**5. LEGAL IMPLICATIONS**

- 5.1 There are no legal implications arising from this report.



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**6. RISK ASSESSMENT**

- 6.1 The process for identification and management of risks associated with the Capital Strategy are set out within the document.

**7. EQUALITIES IMPACT**

- 7.1 None directly arising from this report.

**8. CLIMATE AND ECOLOGICAL EMERGENCIES IMPLICATIONS**

- 8.1 None directly arising from this report.

**9. BACKGROUND PAPERS**

- 9.1 None.

(END)

## Appendix I

### DRAFT ANNUAL TREASURY INVESTMENT STRATEGY 2024/25

#### I. INTRODUCTION

- I.1 This report sets out the Treasury Management Strategy and policy for 2024/25. 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.
- I.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.”*

- I.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.
- I.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 Council Capital Finance** (revised December 2017 and 2021 code)
  - The Government Guidance on **Local Council Investments**
- I.5 It provides a mechanism by which treasury management decisions can be aligned with the overarching corporate priorities and objectives over the medium term.
- I.6 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.

- 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 I-A to this Strategy.

## **2. PURPOSE OF TREASURY MANAGEMENT**

- 2.1 The 2024/25 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. TREASURY MANAGEMENT STRATEGY**

- 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 2024 the Council therefore holds a £0.404m 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 councils' capital strategies should include a policy and risk management framework for all investments. The Codes identify three types of local Council 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 £26.9m to £54.9m. 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 2024/25 is estimated to be around £27.5m

**4.4** On 31 December 2023, the Council held £38.178m of treasury investments which are outlined in Table 1.

Table 1 – Treasury investments as at 30 December 2023

<b>Treasury Investments</b>	<b>31 December Actual Portfolio £m</b>	<b>31 December Average Rate %</b>
Money Market Funds/Call Accounts and other pooled funds	6.9	5.313
Short Term Investments – Bank of England DMADF	17.7	5.261
CCLA Property Investment Management	2.5	4.48
CCLA Diversified Income	1.0	3.69
Schroders Unit Trusts Ltd	1.0	7.22
M&G Securities Ltd	2.0	6.63
Ninety One (formerly Investec)	2.0	4.03
Columbia Threadneedle Fund	2.0	3.9
Federated Cash Plus Fund	1.0	N/A
Fundamentum Housing REIT	1.0	2.85
<b>Total treasury investments</b>	<b>37.1</b>	<b>4.92</b>

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

Table 2 – Investments balances

	<b>31.3.23 Actual £m</b>	<b>31.3.24 Estimate £m</b>	<b>31.3.25 Forecast £m</b>	<b>31.3.26 Forecast £m</b>	<b>31.3.27 Forecast £m</b>
<b>Short term holdings</b>					
Call Accounts	3.104	0.000	0.000	0.000	0.000
MMFs	8.979	10.299	5.995	6.382	1.765
Short Term Deposits	4.283	0.000	0.000	0.000	0.000
Current Account	0.126	0.100	0.100	0.100	0.100
<b>Total Short term</b>	<b>16.492</b>	<b>10.399</b>	<b>6.095</b>	<b>6.482</b>	<b>1.865</b>



<b>Longer term holdings</b>					
Pooled Funds	10.500	10.500	10.500	10.500	8.500
REIT	1.000	1.000	1.000	1.000	1.000
Cash + Fund	1.000	1.000	1.000	1.000	1.000
<b>Total Longer term</b>	<b>12.500</b>	<b>12.500</b>	<b>12.500</b>	<b>12.500</b>	<b>10.500</b>
<b>TOTAL INVESTMENTS</b>	<b>28.992</b>	<b>22.899</b>	<b>18.595</b>	<b>18.982</b>	<b>12.365</b>

- 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** 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.
- 4.8** 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. The BoE expects CPI inflation to continue to fall but may take up to 2025 to reach their 2% target. The Council has been able to take advantage of the higher interest rates in 2023/24 to generate income to support key priorities, however it is widely considered that interest rates have peaked and will start to reduce in the second quarter of 2024/25.
- 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 Approved Investment Counterparties and Limits, Table 3 below. These limits have been set by the Council in consultation with Arlingclose, the Council's Treasury advisors. Further explanation of each of the categories in Table 3 are included as Appendix I-B.

**Table 3 – 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) *	5 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
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 Deputy Chief Executive 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 Deputy Chief Executive 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 Deputy Chief Executive 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 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.

## **5. HOW WE BORROW MONEY**

- 5.1** As outlined in paragraph 3.6 at 1st January 2023, the Council holds a £0.404m 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 Council expects to comply with this recommendation during 2024/25.
- 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.
- 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**

	<b>31.3.23</b> Actual	<b>31.3.24</b> Estimate	<b>31.3.25</b> Forecast	<b>31.3.26</b> Forecast	<b>31.3.27</b> Forecast
CFR	0.020	0.387	0.435	0.400	4.536
Less Outstanding External Borrowing	-0.451	-0.357	-0.260	-0.158	-0.051
<b>Internal Borrowing</b>	<b>-0.431</b>	<b>0.0300</b>	<b>0.175</b>	<b>0.242</b>	<b>4.485</b>
Usable reserves	-22.869	-20.429	-16.270	-16.725	-14.350
Working capital	-4.672	-2.500	-2.500	-2.500	-2.500
<b>Investments</b>	<b>-27.972</b>	<b>-22.899</b>	<b>-18.594</b>	<b>-18.982</b>	<b>-12.365</b>

**Table 4a – Prudential Indicator: Liability Benchmark £m**

	<b>31.3.23</b> <b>Actual</b>	<b>31.3.24</b> <b>Estimate</b>	<b>31.3.25</b> <b>Forecast</b>	<b>31.3.26</b> <b>Forecast</b>	<b>31.3.27</b> <b>Forecast</b>
CFR	0.02	0.39	0.44	0.40	4.54
Less Balance Sheet Resources	-27.78	-22.93	-18.77	-19.22	-16.85
<b>Net Loans Requirement</b>	<b>-27.76</b>	<b>-22.54</b>	<b>-18.33</b>	<b>-18.82</b>	<b>-12.31</b>
Plus Liquidity Allowance	15.00	13.00	13.00	13.00	13.00
<b>Liability Benchmark</b>	<b>-12.76</b>	<b>-9.54</b>	<b>-5.33</b>	<b>-5.82</b>	<b>0.69</b>

- 5.6** This benchmark is currently £-9.54 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 £0.69 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:
- Delivering Good Services
  - Responding to the Climate Emergency.
  - Delivering Housing
  - Supporting Communities
  - Supporting the 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. Short-term interest rates continue to be 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.

#### Sources of Borrowing

- 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 than 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 Deputy Chief Executive Officer in accordance with treasury management delegations.

## **6. MONITORING TREASURY MANAGEMENT INVESTMENTS**

- 6.1** The CIPFA guidance for Treasury Management in the Public Services (2021 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 quarterly and 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 Deputy Chief Executive 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 Deputy Chief Executive Officer.
- 6.6** In order to monitor this, the Council has set cash limits on the credit quality of the investments and their limits as can be seen in Table 3, section 4.10 above.
- 6.7** The Council's revenue reserves available to cover investment losses are forecast to be £3.4m on 31 March 2024. 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 5 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 5 – Cash Limit by Organisation**

Table 5 – 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 was renewed at 1<sup>st</sup> March 2023 and is due to end February 2026.

- 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% <u>rise</u> in interest rates	-£0.153m
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	£0.153m

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 Council'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	2024/25	2025/26	2026/27
Limit on principal invested for longer than a year.	£13m	£13m	£13m
Amounts invested in longer term instruments with no fixed maturity date	£13m	£13m	£13m

## **8. TREASURY MANAGEMENT REVENUE BUDGET**

**8.1** The budget for investment income in 2024/25 is £1.223m, based on an average investment portfolio of £27.5m at an interest rate of 4.75%.

**8.2** The Council aims to maintain its portfolio of long term investments in strategic funds at £12.5m. This is forecast to return £0.464m.

**8.3** Investments in liquid assets such as bank deposits and money market funds are expected to return 4.45% and generate a yield of £0.759m.

- 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** MiFFID 2 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.

## **APPENDIX I-A**

### **Arlingclose Economic and Interest Rate Forecast (December 2023)**

UK inflation and wage growth remain elevated but have eased over the past two months fuelling rate cuts expectations. Near-term rate cuts remain unlikely although downside risks will increase as the UK economy likely slides into recession.

The Monetary Policy Committee's (MPC's) message remains unchanged as the Committee seeks to maintain tighter financial conditions. Monetary policy will remain tight as inflation is expected to moderate to target slowly, although some wage and inflation measures are below the Bank's last forecast.

Despite some deterioration in activity data, the UK economy remains resilient in the face of tighter monetary policy. Recent data has been soft but mixed; the more timely Purchasing Managing Index (PMI) figures suggest that the services sector is recovering from a weak Q3. Tighter policy will however bear down on domestic and external activity as interest rates bite.

Employment demand is easing. 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 and business spending will therefore be weak.

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 have diminished.

Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant loosening in the future to boost activity.

Global bond yields will remain volatile. Markets are currently running with expectations of near-term US rate cuts, fuelled somewhat unexpectedly by US policymakers themselves. Term premia and bond yields have experienced a marked decline. It would not be a surprise to see a reversal if data points do not support the narrative, but the current 10-year yield appears broadly reflective of a lower medium-term level for Bank Rate.

There is a heightened risk of fiscal policy and/or geo-political events causing substantial volatility in yields.

### Forecast:

The MPC held Bank Rate at 5.25% in December, Arlingclose believes this is the peak.

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 have become more balanced, due to the weakening UK economy and dampening effects on inflation. This shifts to the downside in the short term as the economy weakens.

Long-term gilt yields are now substantially lower. Arlingclose expects yields to be flat from here over the short-term reflecting medium term Bank Rate forecasts. Periodic volatility is likely.

	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
<b>Official Bank Rate</b>													
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
<b>3-month money market rate</b>													
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
<b>5yr gilt yield</b>													
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
<b>10yr gilt yield</b>													
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
<b>20yr gilt yield</b>													
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
<b>50yr gilt yield</b>													
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 (Maturity Loans) = Gilt yield + 1.00%

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

UK Infrastructure Bank Rate = Gilt yield + 0.40%

## APPENDIX I-B

### 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 Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

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

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

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

**Operational bank accounts:** The Council 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 2024/25

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

## Appendix 2

# ANNUAL NON-TREASURY INVESTMENT 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.
- 1.3 The statutory guidance defines investments as “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 Authority 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.

## 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 £27.5m and £19.5m during the 2024/25 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. During 2023/24 the Council has provided a loan facility of up to £1.8557m short term and has committed to provide a facility of £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	31.3.2023 actual			2024/25
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Local charities	358,473	0	358,473	450,000
Housing associations	31,500	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)	96,967	0	96,967	130,000
Employees (car loans )	2,283	0	2,283	10,000
<b>TOTAL</b>	<b>489,222</b>	<b>0</b>	<b>489,222</b>	<b>4,590,000</b>

- 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 £*

	31.3.2023 actual			2024/25
Category of Company	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Local Authority owned company	1	-	1	1
<b>TOTAL</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>1</b>

- 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 undertake any borrowing.

***Table 3: Property held for investment purposes in £***

Property Type	01-Apr	31.3.2023 actual		31.3.2024 expected	
	2022	Gains or (losses)	Value in accounts	Gains or (losses)	Value in accounts
	Value in accounts				
Investment Property within Cotswold District	1,222,000	60,000	1,282,000	0	1,282,000
Investment Property inside of Cotswold District 27A Dyer Street	1,420,000	-65,000	1,355,000	0	1,355,000
Investment Property outside of Cotswold District: Superdrug, Worcester	720,000	-95,000	625,000	0	625,000
Investment Property outside of Cotswold District: Tesco, Seaford	1,130,000	-45,000	1,085,000	0	1,085,000
Investment Property outside of Cotswold District: Wilkinsons, West Bromwich	1,455,000	-425,000	1,030,000	0	1,030,000
<b>TOTAL</b>	<b>5,947,000</b>	<b>-570,000</b>	<b>5,377,000</b>	<b>0</b>	<b>5,377,000</b>



- 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 2022/23 reflecting the valuer's assumption of the reductions in rental income expected in 2023/24 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 2022/23 which are a direct result of the valuation undertaken as at 31st March 2023. The losses in respect of Wilkinsons, West Bromich will not be recognised unless the Council decides to dispose of the asset. 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.
- 6.3 The Council is contractually committed to provide a loan facility of £3.753m) to Cottsway 2 Ltd (a subsidiary of Cottsway Housing Association) to enable the provision of new dwellings incorporating low carbon technology at Davies Road, Moreton-in-Marsh. £1.855m of the facility is a short-term arrangement which will be repaid in full on receipt of grant funding from Homes England. The remainder of the £1.898m is a long term- term secured loan facility to be repaid within 50 years of the first drawdown date. To the extent that the loan facility is used, interest is payable to Cotswold District Council based on a rate of 3.25% per annum. During 2023/24, £2.155m has been drawdown to date and £1.247m repaid. Leaving a balance at 31/12/23 of £0.908m. The long term secured loan facility is expected to be drawn down during 2024/25.

## **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 (£)**

	<b>2022/23 Actual</b>	<b>2023/24 Forecast</b>	<b>2024/25 Budget</b>	<b>2025/26 Budget</b>	<b>2026/27 Budget</b>
Treasury Investment income	1,082,363	1,542,365	1,222,700	783,500	500,000
Loans income	11,376	11,115	61,558	61,106	60,640
Share dividend	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Investment Property income	475,939	431,277	370,027	377,428	384,976
<b>Investment income</b>	<b>1,569,678</b>	<b>1,984,757</b>	<b>1,654,285</b>	<b>1,222,034</b>	<b>945,617</b>
Gross service expenditure	26,725,057	27,562,988	26,399,830	26,449,990	27,679,914
Proportion	5.87%	7.20%	6.27%	4.62%	3.42%

## **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



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- 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 2023/24 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 Public 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 Public Finance Director are all aware of the core principles of the Prudential Framework and of the regulatory regime within which local authorities operate.
- 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.

Corporate governance:

- 9.13** The Council will need to consider the best approach for the consideration and scrutiny of business cases for future investment to consider their contribution to the delivery of Council

Priorities and impact upon the overall risk to the Council prior to recommendation for approval of expenditure by Cabinet or Council. 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 quarterly to the Council's Overview and Scrutiny Committee, 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 £***

<b>Total investment exposure</b>	<b>31.03.2023 Actual</b>	<b>31.03.2024 Forecast</b>	<b>31.03.2025 Forecast</b>
Treasury management investments	27,971,544	22,899,000	18,595,000
Service investments: Loans	489,222	2,052,545	2,088,655
Service investments: Shares	1	1	1



Commercial investments: Property	5,377,000	5,377,000	5,849,189
<b>TOTAL INVESTMENTS</b>	<b>33,837,767</b>	<b>30,328,546</b>	<b>26,532,845</b>
Commitments to lend	1,855,000	0	0
Guarantees issued on loans	0	0	0
<b>TOTAL EXPOSURE</b>	<b>35,692,767</b>	<b>30,328,546</b>	<b>26,532,845</b>

**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 6: Investment rate of return (net of all costs)**

<b>Investments net rate of return</b>	<b>2022/23 Actual</b>	<b>2023/24</b>	<b>2024/25 Forecast</b>
Treasury management investments	2.60%	5.06%	4.45%
Charities Loans*	2.23%	2.03%	0.00%
Housing Association Loans	0.00%	0.00%	3.25%
Local residents (equity loans)	0.00%	0.00%	0.00%
Employees (car loans)	2.00%	2.00%	0.00%
Service investments: Shares	0.00%	0.00%	0.00%
Commercial investments: Property**	7.18%	6.76%	5.36%

*\*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).*



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