NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

CABINET – TUESDAY, 9 JANUARY 2024

Title of Report	**DRAFT CAPITAL STRATEGY, TREASURY STRATEGY AND PRUDENTIAL INDICATORS**	
Presented by	Councillor Nick Rushton Corporate Portfolio Holder PH Briefed Y	
Background Papers	Capital Strategy, Treasury Management Strategy and Prudential Indicators – Council 23 February 2023	**Public Report:** Yes **Key Decision:** Yes
Financial Implications	The report sets out the annual update of the core strategies which underpin the council's approach to managing its capital investment. **Signed off by the Section 151 Officer**: Yes	
Legal Implications	There are no direct implications arising from this report. **Signed off by the Monitoring Officer**: Yes	
Staffing and Corporate Implications	There are no staffing and corporate implications arising from this report. **Signed off by the Head of Paid Service:** Yes	
Purpose of Report	For Cabinet to approve the draft 2024/25 Capital Strategy, Treasury Management Strategy and Prudential Indicators for statutory consultation.	
Reason for Decision	Required as part of the 2024/25 budget setting process.	
Recommendations	**CABINET IS RECOMMENDED TO APPROVE THE DRAFT 2024/25 CAPITAL STRATEGY, TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION (MRP) STRATEGY AND NON-INVESTMENT STRATEGY AS SET OUT IN APPENDICES 1-4 FOR STATUTORY CONSULTATION.**	

1.0 BACKGROUND

1.1 The Local Government Act 2002 and supporting regulations require the Council to 'have regard to' the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and the Treasury Management Code of Practice and to prepare, set and publish prudential indicators and treasury indicators that ensure the Council's capital expenditure plans are affordable, prudent and sustainable in the long- term.

1.2 The prudential indicators consider the affordability and impact of capital expenditure plans and set out the Council's overall capital framework. The prudential indicators summarise expected treasury activity, introduce limits upon that activity and reflect the underlying capital programme. As a consequence, a Treasury Management Strategy is prepared which considers the effective funding of the capital expenditure decisions and complements the prudential indicators.

1.3 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return. The Council is required to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby charges to revenue remain affordable within the projected income of the Council for the foreseeable future. These increased charges may arise from:

- increases in interest charges and debt repayment caused by increased borrowing to finance additional capital expenditure; and
- any increases in operational running costs from new capital projects.

1.4 Treasury Management is, therefore, an important part of the overall financial management of the Council's affairs and is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risk associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.5 Specific treasury indicators are prepared and included in the Treasury Management Strategy which requires Member approval. These are detailed in Section 2.

1.6 The Council's treasury activities are strictly regulated by statutory requirements and guidance, including:

- CIPFA Prudential Code for Capital Finance in Local Government
- CIPFA Treasury Management Code of Practice
- Department for Levelling Up, Housing and Communities (DLUHC) Investment Guidance
- DLUHC Minimum Revenue Provision (MRP) Guidance.

1.7 The Council's Constitution (via the Financial Procedure Rules) requires full Council to approve the Treasury Management Policy statement for the forthcoming year at or before the start of the financial year. The statement is proposed to the full Council by the Cabinet. The Council's Section 151 Officer has delegated responsibility for implementing and monitoring the statement. The Section 151 Officer is responsible for reporting annually to the Cabinet on the activities of the treasury management operation and on the exercise of his or her delegated treasury management powers. Reports on treasury management are also required to be adequately scrutinised and this role is undertaken by the Audit and Governance Committee.

2.0 CAPITAL AND TREASURY MANAGEMENT STRATEGIES

2.1 The following strategies are attached as appendices for Cabinet to approve for statutory consultation:

- Appendix 1 - Draft Capital Strategy 2024/25;

- Appendix 2 - Draft Treasury Management Strategy Statement 2024/25;
- Appendix 3 - Draft Minimum Revenue Provision (MRP) Statement 2024/25; and
- Appendix 4 - Draft Non-Treasury Investment Strategy 2024/25.

2.2 There are no major changes to the 2023/24 version of the strategies, other than the updating of the financial values.

2.3 The strategies are based on draft versions of the capital programmes and will be updated once the capital programmes have been finalised.

2.4 The above strategies are due to be considered by Corporate Scrutiny on the 4 January 2024. As this report has been published before the meeting of Corporate Scrutiny, the draft minutes will be issued to Cabinet separately.

3.0 PRUDENTIAL INDICATORS

3.1 The CIPFA codes require a prescribed set of prudential indicators to be produced annually and monitored throughout the year and the Council also has the option to add locally set indicators, these are detailed shown below with further explanation to their meanings:

1(a). External Debt - Operational Boundary (Treasury Strategy – Appendix 2)
The most likely, prudent view of the level of gross external indebtedness. External debt includes both borrowing and long-term liabilities (e.g. finance leases). It encompasses all borrowing, whether for capital or revenue purposes. This indicator will be subject to the level and timing of borrowing decisions and so the actual level of borrowing can, therefore, be below or above this initial estimate. However, what cannot be breached without a further report to Council is the authorised borrowing limit.

1(b). External Debt - The Authorised Limit (Treasury Strategy – Appendix 2)
The upper limit on the level of gross external indebtedness, which must not be breached without Council approval. It is the worst-case scenario. It reflects the level of borrowing which, while not desired, could be afforded but may not be sustainable. Any breach must be reported to the executive decision-making body, indicating the reason for the breach and the corrective action undertaken or required to be taken. This limit is a statutory limit required to be set by the Council under Section 3(1) of the Local Government Act 2003.

1(c). External Debt - Actual External Debt (Treasury Strategy – Appendix 2)
The indicator for actual external debt will not be directly comparable to the operational boundary and authorised limit since the actual external debt will reflect the actual position at one point in time.

2. Capital Financing Requirement (CFR) (Treasury Strategy – Appendix 2)
The Capital Financing Requirement (CFR) replaced the 'Credit Ceiling' measure of the Local Government and Housing Act 1989. It measures an authority's underlying need to borrow or use other long-term liabilities, to pay for capital expenditure.

3. Capital Expenditure (Capital Strategy – Appendix 1)
The level of capital expenditure incurred and likely to be incurred in future years. This is to be based on an accruals basis and on the definition of capital expenditure.

4. Gross External Borrowing and the Capital Financing Requirement (Treasury Strategy – Appendix 2)

The level of external borrowing is required to be compared to the Capital Financing Requirement which represents the underlying need to borrow. Requires that borrowing in the medium term can only be for capital purposes.

5. Maturity Structure of Borrowing (Treasury Strategy – Appendix 2)
Local Authority debt portfolios consist of a number of loans with differing maturities. Setting limits assists in ensuring any new borrowing in particular when combined with existing borrowing does not result in large concentrations of borrowing maturing in a short period of time.

6. Principal sums invested for greater than one year (Treasury Strategy – Appendix 2)
This indicator measures the exposure of a local authority to investing for periods of greater than one year.

7. Ratio of Financing Costs to Net Revenue Stream (Capital Strategy – Appendix 1)
This indicator is a measure of affordability of historic and future capital investment plans. It identifies the trend in the cost of capital financing which include:

- interest payable on borrowing
- penalties or any benefits receivable on early repayment of debt
- prudent revenue budget provision for repayment of capital expenditure paid for by borrowing

This is calculated for the General Fund and Housing Revenue Account (HRA). For the General Fund, the net revenue stream is the amount to be met from non-specific Government grants and Council Tax, whilst for the HRA it is the amount to be met from rent payers. An increasing ratio indicates that a greater proportion of the Council's budget is required for capital financing costs over the planned Capital Programme period.

It should be noted that these figures include a number of assumptions such as:

- no new approvals of additional borrowing apart from that currently proposed over the period of the programme
- estimated interest rates
- the level of internal borrowing and timing of external borrowing decisions and capital expenditure.

4.0 EXEMPTION FROM CALL IN

4.1 The approval of the Chairman of the Council has been given to the exemption of the Council's Scrutiny Procedure rules in relation to the call-in of the decision on this item, since any call-in would prejudice the ability of the Council to commence the statutory consultation period commencing 10 January 2024. The Chairman has considered the timetable for the consultation period and agrees that the matter before Cabinet is urgent for this reason.

Policies and other considerations, as appropriate	
Council Priorities:	The Capital Strategy and Treasury Management Strategy Statement help the Council achieve all its priorities:
Policy Considerations:	None
Safeguarding:	Not applicable

Equalities/Diversity:	Not applicable
Customer Impact:	Not applicable
Economic and Social Impact:	Not applicable
Environment, Climate Change and Zero Carbon:	The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing. Where practical, when making investment decisions ESG will be considered and counterparties with integrated ESG policies and commitments to carbon.
Consultation/Community/Tenant Engagement:	Corporate Scrutiny Committee – 04/01/24 Public consultation will begin 10 January to 23 January 2024
Risks:	Borrowing and investment both carry an element of risk. This risk is moderated through the adoption of Treasury and Investment Strategies, compliance with the CIPFA Code of Treasury Management and the retention of Treasury Management advisors (Arlingclose) to offer expert advice
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Appendix 1

Draft Capital Strategy 2024/25

1. Background and Scope

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to produce a Capital Strategy to demonstrate how capital expenditure, capital financing and treasury management activity contribute to the provision of desired outcomes and take account of stewardship, value for money, prudence, sustainability, and affordability. The Prudential Code has been significantly updated to incorporate changes which restrict councils using borrowing to finance commercial property solely for generating yield. The Capital Strategy reflects the new requirements and compliance to them.

1.2 The Capital Strategy forms part of the framework for financial planning and is integral to both the Medium-Term Financial Plan (MTFP) and the Treasury Management Strategy Statement (TMSS). It sets out how capital investment will play its part in delivering the long-term strategic objectives of the Council, how associated risk is managed and the implications for future financial sustainability.

1.3 The Capital Strategy maintains a strong and current link to the Council's Priorities and to other key strategy documents as shown below:

- Corporate Plan
- HRA Business Plan
- Asset Management Strategy

1.4 All capital expenditure and capital investments decisions are covered by this strategy. Decisions made this year on capital and treasury management will have financial consequences for the Council for many years into the future. It is refreshed annually in line with the MTFP and TMSS to ensure it remains fit for purpose and enables the Council to make investments necessary to deliver its strategic aims and objectives.

1.5 The Capital Strategy is considered by the Council as one of the foundations of good financial management and reflects the requirements under the CIPFA Financial Management Code.

2. Economic

2.1 The national economic position has been influenced by a number of factors in recent years including the Covid-19 pandemic, Brexit, Russian invasion of Ukraine and the cost-of-living crisis. The government has provided unprecedented support through these events. The key economic challenges faced by the Council are inflation, lower economic growth and a potential recession.

3. Capital Expenditure

3.1 In contrast to revenue expenditure which is spending on the day to day running costs of the services such as employee costs and services, capital expenditure seeks to provide long-term solutions to Council priorities and operational requirements. Capital expenditure is technically described as: expenditure on the acquisition, creation, or enhancement of 'non-current assets' i.e., items of land, property and plant which has a useful life of more than one year. Expenditure for capital purposes therefore gives rise to new assets, increases the value or useful life of existing assets or generates economic and social value and an income stream to the Council via non-treasury investments.

3.2 The five aims of the Capital Strategy are:

i. To take a **long-term perspective of capital investment** and to ensure this contributes to the achievement of the Council's Delivery Plan, emerging Local Plan and key strategies such as the Corporate Strategy.
ii. To ensure investment is **prudent, affordable, and sustainable** over the medium term and adheres to the prudential code, Treasury Management Code and other regulatory conditions.
iii. To maintain the **arrangements and governance for investment decision-making** through established governance boards.
iv. To make the **most effective and appropriate use of the funds available** in long term planning and using the most optimal annual financing solutions.
v. To establish **a clear methodology to prioritise capital proposals**.

3.3 The MTFP sets out the key principles and this strategy will support the achievement of the right blend of investment in key priority areas to enable the following:

- Financial Stability and Sustainability
- Resources focused on priorities
- Maximising Income Streams
- Risk Management.

3.4 In 2024/25, the Council is planning capital expenditure of £27.4 million as summarised in the table below and future years are shown in Appendix A.

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2022/23 actual	**2023/24 forecast***	**2024/25 budget**
General Fund services	5.8	9.4	11.9
Council housing (HRA)	6.7	10.2	15.5
TOTAL	**12.5**	**19.6**	**27.4**

* 2023/24 forecast is based on the draft outturn position and may be subject to change

4. Principles for Capital Planning

4.1 Like most public sector bodies the Council has experienced delays on the physical progress of projects against the approved profile and cost over runs. This can be directly linked to the size of the programme, capacity to deliver and over optimism on the project in terms of cost, time and external factors outside the project sponsor's control.

4.2 When capital schemes are approved their inclusion into the capital programme is based on best estimates and slippage is measured against the approved profile at the end of the financial year. The Council will need to significantly improve its performance to ensure that all projects being proposed for inclusion can be delivered within the timeframe and budget stated prior to programme entry. Resource capacity and size of the programme will need to be assessed annually as part of the budget setting process and a range of optimism bias tolls that are available should be utilised in business case assessments of delivery of major projects, as well as at a programme level.

4.3 Delivery of the programme will be overseen by the established governance boards as outlined in Section 6. The Council will operate a clear and transparent corporate approach to the prioritisation of capital spending. The investment principles are set out below:

a) **Invest to improve and maintain Council assets**
The Council will improve and maintain the condition of its core assets to extend their life where appropriate.

b) **Investing for sustainable, inclusive, economic growth**
The Council will expand its capacity to grow the economy in an inclusive manner, whilst delivering whole system solutions to demographic, social and environmental challenges sustainably

c) **Invest to save and to generate income**
The Council will invest in projects which will:
- Reduce running costs
- Avoid costs (capital or revenue) that would otherwise arise
- Generate a financial return

d) **Risk awareness**
The risks of the project have been fully assessed, consulted, communicated and are at an acceptable level.

4.4 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and central government grants. In developing subsequent capital schemes, it will be with a view to ensuring the capital financing costs are less than 15% as a proportion of General Fund net revenue budget over the medium and long term. Table 2 shows the proportion of financing costs to net revenue stream, future years are available in Appendix A.

Table 2: Prudential Indicator: Proportion of financing costs to net revenue stream

	2022/23 actual	**2023/23 forecast**	**2024/25 budget**
General Fund			
Financing costs (£m)	1.8	1.8	2.2
Proportion of net revenue stream	11%	10%	12%
Housing Revenue Account			
Financing costs (£m)	1.2	1.2	1.2
Proportion of net revenue stream	7%	6%	6%

5. Financing the Capital Investment Programme

5.1 The Council's capital programme is approved as part of the annual budget setting process. The capital programme is scrutinised by the Corporate Scrutiny Committee, recommended to Council by Cabinet, and then approved by Council. The capital programme is funded from a range of sources, principally:
- Grants
- Developer Contributions

- Capital Receipts
- Revenue and Reserves
- Prudential Borrowing

5.2 The first call on available capital resources will always be the financing of spending on live projects, including those carried forward from previous years.

5.3 For the General Fund, in the medium term, for 2024/25 onwards there will be no new borrowing to fund capital investments that are not yet in the live approved capital programme. This is due to the budget pressures facing the Council in future years and the repayment of debt whether internal or external have a revenue implication. For a capital investment to move from the Development Pool to the 'Active' capital programme, a funding source other than borrowing will need to be identified. This is to ensure the Council does not create additional revenue pressures in the future arising from interest and capital repayment costs.

5.4 The planned financing of the capital expenditure in Table 1 is summarised in the table below and full details are available in Appendix B:

Table 3: Capital Financing in £ millions

	2022/23 actual	**2023/24* forecast**	**2024/25 budget**
External sources	0.9	1.3	3.7
Capital receipts	1.1	3.1	6.2
Revenue resources	5.4	11.0	11.6
Debt	5.1	4.2	5.8
TOTAL	**12.5**	**19.6**	**27.4**

* 2023/24 forecast is based on the draft outturn position and may be subject to change

Grants

5.5 The Council receives grants from government, partners, and other organisations to finance capital investment. Grants can be split into two categories:
- Un-ringfenced – resources which are delivered through grant that can be utilised on any project (albeit that there may be an expectation of use for a specific purpose).
- Ring-fenced – resources which are ringfenced to a particular service area and therefore have restricted uses.

Developer/External Contributions

5.6 Significant developments across the district are often liable for contributions to the Council in the form of S106 contributions. If contributions reduce the funding, timing of the planned programme will need reviewing. Following achievement of the targeted contributions, the Council can consider further projects with which to utilise this funding stream.

Capital Receipts

5.7 Capital receipts come from the sale of Council's assets. The Council will adhere to statutory guidance in relation to capital receipts. In considering asset disposals, the Council will comply with its Asset Management Strategy and Disposals Policy.

5.8 If the disposal is within the Housing Revenue Account (HRA) land or property, then not all of the receipt is available to support the capital programme as a percentage has to be paid over to the Department of Levelling Up, Housing and Communities (DLUHC).

5.9 The current strategy is for the assumed receipts from sale/disposal of assets to be taken into consideration when assessing the total value of receipts targeted to fund the overarching capital programme and planned flexible use of receipts (Appendix B).

5.10 Where the asset has been temporarily funded from prudential borrowing a review will be undertaken to determine whether the most cost-effective option is to utilise the receipt to repay the debt, considering the balance sheet position of the Council.

5.11 Where the sale of an asset leads to a requirement to repay grant the capital receipt will be utilised for this purpose. Once the liability has been established and provided for, the residual capital receipt will be available to support the capital programme as a corporate resource.

5.12 Appropriations of land between the General Fund and HRA will be considered on a site-by-site basis. The HRA 'pays for the land through an increase in the HRA Capital Financing Requirement (CFR). The General Fund benefits from a corresponding decrease in its CFR. The CFR adjustments should be based on the market value of land but taking into account of the intended use for social or other sub market housing. The Council has the discretion whether to appropriate land on this basis or sell it on the open market. More information on the Council's CFR is available in the Treasury Management Strategy Statement 2024/25.

Revenue and Reserves

5.13 The Council may choose to utilise revenue contributions to capital and finance its capital investment. This would be through contributions from the Council's revenue budget or from reserves.

5.14 Two reserves will be available to finance the capital programme:

a) MTFP Reserve - will be used for managing risks over the medium term, investing in projects to make the Council more efficient, reducing its operating costs (e.g. making our building more energy efficient to reduce on going costs), generating more income and funding the capacity for the Council to deliver its financial plans.
b) Business Rates Reserve –The Business Rates Reserve includes the additional business rates revenues from growth in the district (including contributions from Business Rates Pool and Freeport) in excess of that included in the revenue budget to fund on-going services. This additional growth will be prioritised to fund the capital programme and projects. The reserve will also be used to manage the cashflow implications between the timing of payments received into the collection fund and government grants for business rates relief announced HM Treasury in recent years to support businesses through Covid-19 and cost of living crisis. The growth in business rates will not be used to fund the capital programme until the growth has materialised.

Prudential Borrowing

5.15 Table 3 above sets out how the Council will finance its capital expenditure (Table1). 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 long or short-term loans, or using cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

5.16 In planning for long term capital investment it is essential the long-term revenue financing cost is affordable. Any long-term investment is paid over the life of the asset. It is essential the Council is able to meet the costs of borrowing and minimum revenue provision (MRP) over the life of the asset.

5.17 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). More information is available in the Council's Minimum Revenue Provision Strategy. Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows and future years are available in Appendix C.

Table 4: Replacement of prior years' debt finance in £ millions

	2022/23 Actual	**2023/24 Forecast**	**2024/25 Actual**
Minimum revenue provision (MRP) – General Fund	1.8	1.8	2.2
Minimum revenue provision (MRP) – HRA	1.2	1.2	1.3
Capital receipts	0.0	0.0	0.0
TOTAL	**3.0**	**3.0**	**3.5**

5.18 In taking out new external borrowing, the Council will consider a range of different options such as Public Works Loan Board (PWLB), Market Loans, Private Placement and Bonds (Public, Pooled, Community Municipal Investment and Retail). More information is available in the Council's Borrowing Strategy which is included within the Treasury Management Strategy Statement 2024/25.

5.19 Any borrowing taken out is secured against the Council as an entity rather than against specific assets for which it is borrowed for. The Council is required to demonstrate to the PWLB in advance of borrowing that is affordable.

Housing Revenue Account (HRA)

5.20 The HRA Capital and Revenue Investment Programme is entirely funded from the ring-fenced Housing Revenue Account. The investment programme is driven by the 30-year HRA Business Plan. Key areas of housing include planned and cyclical works, zero carbon works and new supply. The programme also includes development and special projects. The HRA capital programme is funded from:

- HRA Self-Financing (the Major Repairs Reserve)
- Capital Receipts (HRA – Right to Buy and other asset sales)
- Revenue and Reserves (HRA contributions from revenue)

- Capital grants from government and other bodies
- Borrowing

5.21 Prior to 2018 the HRA had a limit to how much it was allowed to borrow, known as the HRA borrowing cap, which is tighter than the value of their assets, in order to control public borrowing levels. The HRA borrowing cap was abolished in late 2018. Further borrowing may be undertaken within the HRA subject to overall affordability and requisite business cases which should consider all risks including loss through right to buy.

5.22 The Council can use one for one element of Right to Buy (RTB) receipts to fund up to 40% of building new homes, the receipt must be used within five years. If not, the receipt is paid to DLUHC with interest. The removal of the cap means additional borrowing can be used to meet the remaining 60% of new home building.

5.23 Generally capital expenditure would be funded from capital sources however in exception revenue resources are able to be used to fund capital. The main exception is the use of housing rents to fund capital expenditure within the HRA.

6. Governance of the Capital Strategy

Approval of Capital Strategy and Capital Programme

6.1 The Capital Strategy is agreed annually alongside the TMSS. The Capital Programme is agreed annually by Full Council as part of the budget setting process. Variations to the Capital Programme or in-year additions, subject to delegation by Full Council, will be agreed by Cabinet including moving schemes from the Development Pool to the Approved Programme as long as the scheme is within the budget approved by Council and there are sufficient reserves available. Quarterly monitoring of the Capital Programme will be presented to Corporate Scrutiny and Cabinet.

Strategic Oversight and Delivery

6.2 The Capital Strategy Group leads on the development and maintenance of the Capital Strategy that is consistent with the relevant code of practice, Corporate Strategy and core regulatory functions, Medium Term Financial Plan and Treasury Management Strategy.

6.3 The Capital Strategy Group has an oversight and stewardship role for the development and delivery of the Council's capital expenditure within affordable limits, which will include both the Capital Programme and capital investments; as well as providing strategic direction to the programme and projects where necessary.

Capital Programme and Project Delivery

6.5 The delivery of individual capital projects and programmes are managed through project boards in each directorate and for services which do not have a specific projects board delivery is managed through the Capital Strategy Group. The Project Boards are responsible for developing, managing and progressing capital projects; as well as reporting into the Capital Strategy Group.

Scrutiny

6.6 The formal scrutiny process will be used to ensure effective challenge via the quarterly Performance Report. The Corporate Scrutiny Committee is also engaged when setting the Capital programme prior to its consideration by Cabinet and approval by Full Council. It should be noted business cases seeking Cabinet approval will follow the standard decision pathway and as such can be subject to Scrutiny as part of that process.

Managing Schemes Through Their Capital Lifecycle

6.7 The management of capital schemes through their lifecycle is an important aspect of delivering a successful capital investment programme. The approach should balance cost/funding certainty, risk, clarity of commitment to scheme, robust governance and transparent decision making.

6.8 An important aspect of the Council's capital governance framework is at which point schemes are in their development stage and when they are sufficiently developed to enter the approved capital programme. The capital programme is split into three broad components:

- Mandate. The initial concept and need for a capital scheme. Schemes will require prioritisation to ensure strategic fit and there are sufficient resources/capacity/capability to deliver the scheme.
- Development Pool. A priority capital scheme in its early/developmental stages, typically outline business case (OBC) and full business case (FBC). At this stage costs/funding/risks are uncertain, gaining certainty as more in-depth work is undertaken.
- Approved Capital Programme. This refers to a capital scheme which has been through OBC and FBC stages and is developed to an acceptable level of certainty to be formally approved in the programme for delivery/implementation.

Key Decision-Making Considerations

6.9 All capital investment decisions will be underpinned by a robust business case that sets out any expected financial return alongside the broader outcomes/impacts, including economic, environmental and social benefits.

6.10 Throughout the decision-making process the risks and rewards for each project are reviewed and revised and form part of the monitoring of the capital programme. The Capital Strategy and Investment Board receives monthly updates detailing financial forecasts and risks.

6.11 There may be occasions when the nature of a particular proposal requires additional support in the production of the business case or for example in performing of a value for money or due diligence review. In these circumstances the Council may seek external advice.

6.12 The capital programme is reported to Cabinet and Council as part of the annual budget setting process which will take into consideration any material changes to the programme and the investment. The in-year position is monitored monthly, with quarterly budget monitoring reports to Cabinet with capital reports incorporated. Within that monitoring report minor new investment proposals will be included and variations such as slippage and need for acceleration. Major new capital investment decisions will be subject to an individual report to Cabinet.

6.13 The Chief Finance Officer (Director of Resources) should report explicitly on the affordability and risk associated with the capital strategy. Where appropriate the Chief Finance Officer will have access to specialised advice to enable them to reach their conclusions and ensure sufficiency of reserves should risk or liabilities be realised.

7. Risk Management

7.1 One of the Council's key investment principles is that all investment risks should be understood with appropriate strategies to manage those risks. Major capital projects require careful management to mitigate the potential risks which can arise. The effective monitoring, management and mitigation of these risks is a key part of managing the capital strategy. All projects are required to maintain a risk register and align reporting to the Council's reporting framework.

7.2 In managing the overall programme of investment there are inherent risks associated such as changes in interest rates or credit risk of counter parties.

7.3 Accordingly, the Council will ensure that robust due diligence procedures cover all external capital investment. Where possible contingency plans will be identified at the outset and enacted when appropriate.

7.4 No project or investment will be approved where the level of risk - determined by the Cabinet or Chief Financial Officer as appropriate - is unacceptable.

8. Skills and Knowledge

8.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Corporate Director of Resources (Section 151 Officer) and Head of Finance (Deputy Section 151 Officer) are both qualified accountants and the Head of Property Services and Economic Regeneration is a qualified surveyor. The Council pays for junior staff to study towards relevant professional qualifications including Chartered Institute of Public Finance and Accountancy (CIPFA), Association of Accounting Technicians (AAT) and Royal Institute of Chartered Surveyors (RICS).

8.2 Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers, and Wilks, Head and Eve as valuation consultants. 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.

8.3 Appropriate training will be provided to all charged with investment responsibilities. This includes all those involved in making investment decisions such as members of Capital Strategy and Investment Board as well as those charged for scrutiny and governance such as relevant scrutiny committees and the audit committee. Training will be provided either as part of meetings or by separate ad hoc arrangements.

8.4 When considering complex and 'commercial' investments, the Council will ensure that appropriate specialist advice is taken. If this is not available internally it will be commissioned externally to inform decision making and appropriate use will be made of the Council's Treasury Management advisers.

Appendix A

Capital Strategy Prudential Indicators

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2022/23 actual	2023/24 forecast*	2024/25 budget	2025/26 budget	2026/27 budget	2027/28 budget	2028/29 budget
General Fund services	5.8	9.4	11.9	5.5	2.9	1.0	0.7
Council housing (HRA)	6.7	10.2	15.5	14.3	11.1	9.7	13.2
TOTAL	**12.5**	**19.6**	**27.4**	**19.8**	**14.0**	**10.7**	**13.9**

* 2023/24 forecast is based on the draft outturn position and may be subject to change

Table 2: Prudential Indicator: Proportion of financing costs to net revenue stream

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget	2027/28 budget	2028/29 budget
General Fund							
Financing costs (£m)	1.8	1.8	2.2	2.2	2.2	2.2	2.1
Proportion of net revenue stream	11%	10%	12%	13%	13%	13%	13%
Housing Revenue Account							
Financing costs (£m)	1.2	1.2	1.3	1.3	1.3	0.6	0.6
Proportion of net revenue stream	7%	6%	6%	6%	6%	2%	2%

Appendix B

Capital financing in £ millions

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget	2027/28 budget	2028/29 budget
General Fund							
External sources	0.6	1.3	3.7	0.7	0.7	0.7	0.7
Capital receipts	0.0	0.1	0.1	0.0	0.0	0.0	0.0
Revenue resources	0.1	3.8	5.0	3.6	2.2	0.3	0.0
Debt	5.1	4.2	3.1	1.2	0.0	0.0	0.0
TOTAL	**5.8**	**9.4**	**11.9**	**5.5**	**2.9**	**1.0**	**0.7**
Housing Revenue Account							
External sources	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Capital receipts	1.1	3.0	6.2	3.0	2.5	2.0	3.4
Revenue resources	5.3	7.2	6.6	3.6	3.2	3.0	2.2
Debt	0.0	0.0	2.7	7.7	5.4	4.7	7.6
TOTAL	**6.7**	**10.2**	**15.5**	**14.3**	**11.1**	**9.7**	**13.2**
Total							
External sources	0.9	1.3	3.7	0.7	0.7	0.7	0.7
Capital receipts	1.1	3.1	6.3	3.0	2.5	2.0	3.4
Revenue resources	5.4	11.0	11.6	7.2	5.4	3.3	2.2
Debt	5.1	4.2	5.8	8.9	5.4	4.7	7.6
TOTAL	**12.5**	**19.6**	**27.4**	**19.8**	**14.0**	**10.7**	**13.9**

Replacement of prior years' debt finance in £ millions

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget	2027/28 budget	2028/29 budget
Minimum revenue provision (MRP) – General Fund	1.8	1.8	2.2	2.2	2.2	2.2	2.1
Minimum revenue provision (MRP) – HRA	1.2	1.2	1.3	1.3	1.3	0.6	0.6
Capital receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	**3.0**	**3.0**	**3.5**	**3.5**	**3.5**	**2.8**	**2.7**

Appendix D

Flexible Use of Capital Receipts Strategy 2024/25

1. Introduction

1.1 As part of the November 2015 Spending Review, the Government announced that it would introduce flexibility for the period of the Spending Review for local authorities to use capital receipts from the sale of assets to fund the revenue costs of service reform and transformation. Guidance on the use of this flexibility was issued in March 2016 which applied to the financial years 2016/17 through to 2019/20.

1.2 In December 2017, the Secretary of State announced that this flexibility would be extended for a further three years (until 2021-2022) and in February 2021 an additional extension of three years was announced. The latest extension focused on the use of capital receipts to fund transformation or other projects that produce long term savings or reduce the costs of service delivery.

2. The Guidance

2.1 Local Government Act 2003 specifies that;

- Local authorities will only be able to use capital receipts from the sale of property, plant and equipment received in the years in which this flexibility is offered. They may not use their existing stock of capital receipts to finance the revenue costs of reform.

- Local authorities cannot borrow to finance the revenue costs of the service reforms.

- The expenditure for which the flexibility can be applied (known as ‘Qualifying Expenditure’) should be the up-front (set up or implementation) costs that will generate future ongoing savings and/or transform service delivery to reduce costs or the demand for services in future years. The ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure.

- The key determining criteria to use when deciding whether expenditure can be funded by the new capital receipts flexibility is that it is forecast to generate ongoing savings to an authority’s net service expenditure.

- In using the flexibility, the Council will have due regard to the requirements of the Prudential Code, the CIPFA Local Authority Accounting Code of Practice and the current edition of the Treasury Management in Public Services Code of Practice.

2.2 To make use of this flexibility, the Council is required to prepare a “Flexible use of capital receipts strategy” before the start of the year, to be approved by Full Council. This can form part of the budget report to Council. This Strategy therefore applies to the financial year 2024/25, which commences on 1 April 2024.

3. Examples of qualifying expenditure

3.1 There are a wide range of projects that could generate qualifying expenditure and the list below is not prescriptive. Examples of projects include:

- Sharing back-office and administrative services with one or more other council or public sector bodies;

- Investment in service reform feasibility work, e.g. setting up pilot schemes;

- Collaboration between local authorities and central government departments to free up land for economic use;

- Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation;

- Sharing Chief-Executives, management teams or staffing structures;

- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible;

- Aggregating procurement on common goods and services where possible, either as part of local arrangements or using Crown Commercial Services or regional procurement hubs or Professional Buying Organisations;

- Improving systems and processes to tackle fraud and corruption in line with the Local Government Fraud and Corruption Strategy – this could include an element of staff training;

- Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue (for example, through selling services to others);

- Integrating public facing services across two or more public sector bodies to generate savings or to transform service delivery.

4. The Council's 2024/25 Budget Proposal

4.1 The Government has provided a definition of expenditure which qualifies to be funded from capital receipts. This is: "Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility."

4.2 The 2024/25 budget proposal does not include any proposal to utilise the flexible use of capital receipts. However, if during the year projects are identified that satisfy the definition above these will be considered by Cabinet and approval for the use of capital receipts will be requested through the relevant channels in line with the Council's Budget and Policy Framework Rules.

5. Impact on Prudential Indicators

5.1 The guidance requires that the impact on the Council's Prudential Indicators should be considered when preparing a Flexible Use of Capital Receipts Strategy. Capital receipts which are allocated to fund the Council's capital programme have been allocated, will be monitored throughout the year and will not be subsequently used to fund qualifying expenditure. Therefore, there will be no change to the council's Prudential Indicators that are contained in the Treasury Management Strategy Statement.

Appendix 2

North West Leicestershire District Council

Draft Treasury Management Strategy Statement 2024/25

1 Introduction

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

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

1.3 Investments held locally for service purposes, local regeneration, local investment and profit to be spent on local public services are considered in a different document, the Non-Treasury Investment Strategy.

2 External Context (Provided by Arlingclose, Treasury Management Advisors)

2.1 **Economic background:** The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the Authority's treasury management strategy for 2024/25.

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

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

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

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

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

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

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

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

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

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

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

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

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

2.15 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.

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

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

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

2.19 A more detailed economic and interest rate forecast provided by Arlingclose is in Appendix A.

2.20 For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate/yield of 3.61%, and that new long-term loans will be borrowed at an average rate of 5.35%.

3 <u>Local Context</u>

3.1 On 1 December 2023, the Council held £60.4 million of borrowing and £56.4 million of treasury investments. This is set out in further detail at Appendix B. Forecast changes in these sums are shown in the balance sheet analysis in Table 1 below. Please note that due to not having the 2021/22 accounts finalised this forecast uses financial data from the draft 2021/22 Statement of Accounts. Where available these figures have been updated with current positions, but the overall position is still subject to some change.

Table 1: Balance sheet summary and forecast.

	31.3.23 Actual £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m
Capital financing requirement	97.1	97.6	100.6	106.6	109.2
Less: External borrowing **	62.6	59.8	58.6	57.3	56.0
Internal borrowing	34.6	37.7	42.0	49.3	53.2
Less: Balance sheet resources	81.2	70.0	67.0	68.0	69.3
Treasury investments	46.6	32.3	25.0	18.6	16.1

3.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. In other words, the CFR is the total historic outstanding capital expenditure which has not yet been paid for. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

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

3.4 **Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 1 above, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk. This also allows the Council to maintain its professional investor status (known as MIFID) which allows for higher levels of advice from its treasury advisors and investment in a more diverse range of sources.

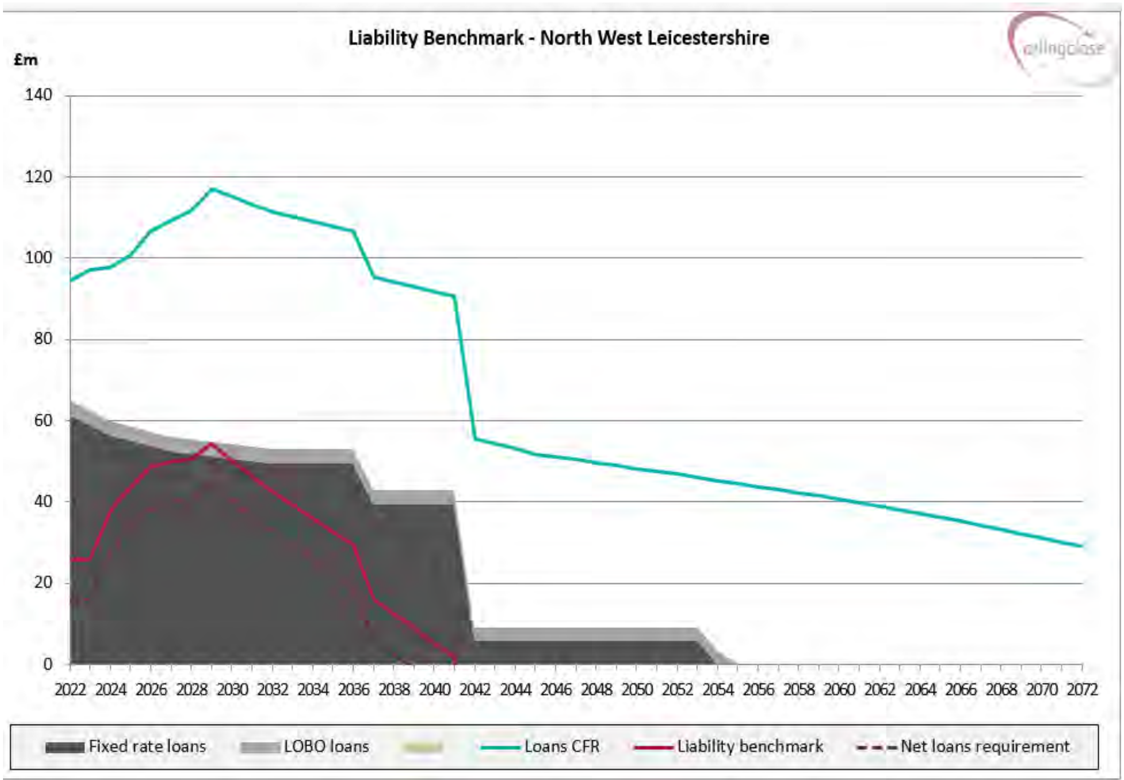
3.5 The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external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

3.6 Please note that the balance sheet resources figures are based on the 2021/22 unaudited accounts. Therefore, it is subject to change.

Table 2: Prudential Indicator: Liability benchmark

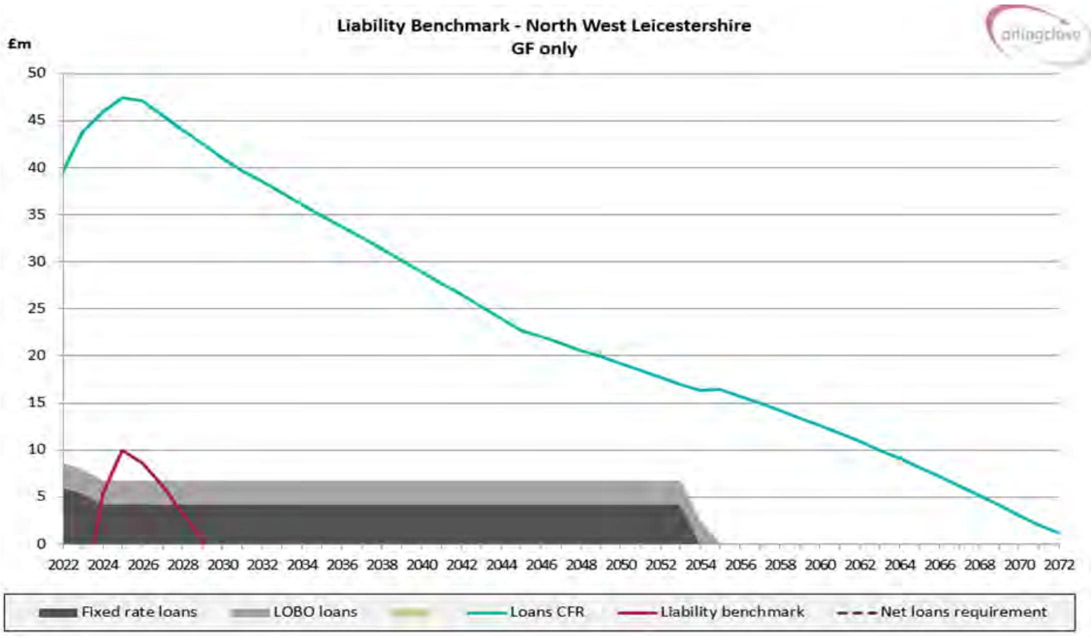
	31.3.23 Actual £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m
Loans CFR	97.1	97.6	100.6	106.6	109.2
Less: Balance sheet resources	62.6	59.8	58.6	57.3	56.0
Net loans requirement	34.6	37.7	42.0	49.3	53.2
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0
Liability benchmark	44.6	47.7	52.0	59.3	63.2

3.7 Following on from the medium-term forecasts in Table 2 above, the long-term liability benchmark assumes capital expenditure funded by borrowing only for the HRA, minimum revenue provision on new capital expenditure based on local decisions on asset life and income, expenditure and reserves all increasing by inflation of 2.5% a year. This measure is shown in the charts below initially for the Council as a whole and then split into the General Fund and HRA together with the maturity profile of the Council's existing borrowing. Please note that as with the above graph these figures are in part using the 2021/21 unaudited accounts and may be subject to change:

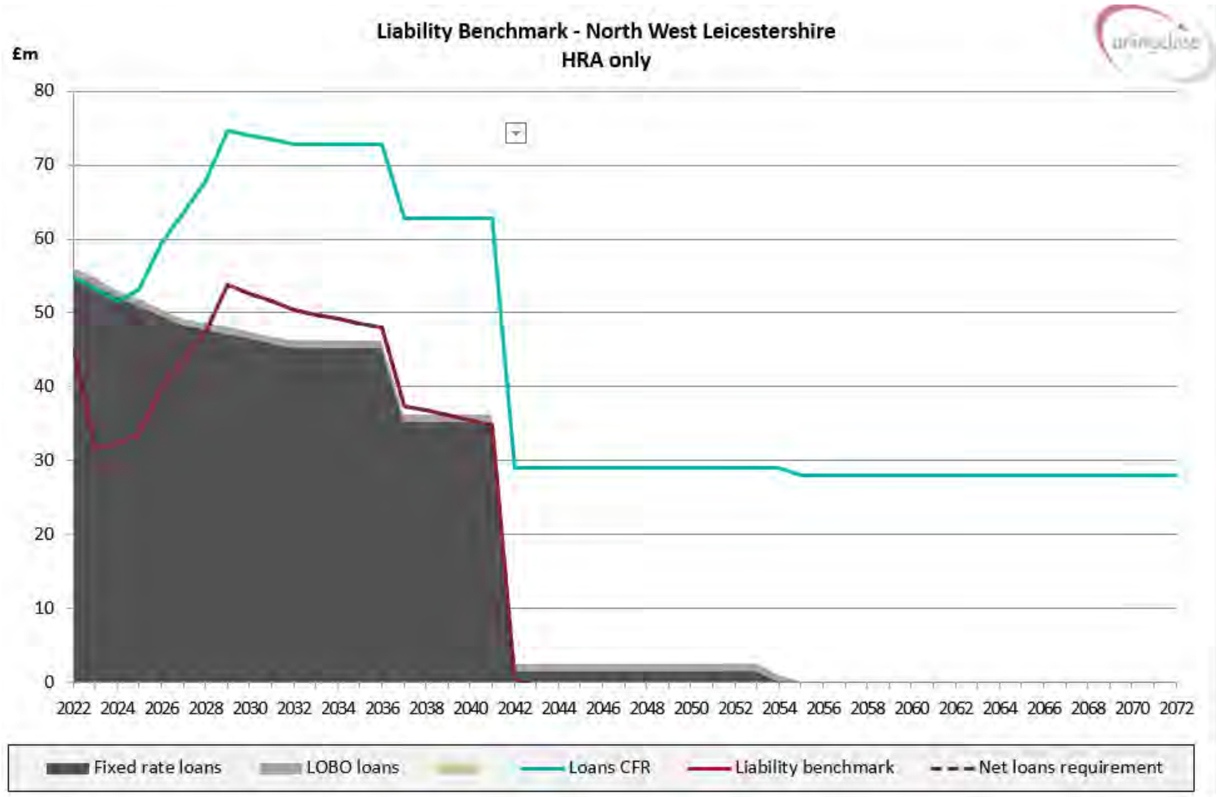


3.8 The above graph demonstrates the Council's overall forecasted borrowing requirement and anticipated underlying need to borrow. It shows that the Council is funding its CFR through a mixture of both internal and external borrowing.

3.9 The following graph shows the Liability Benchmark position for the general fund only. This graph demonstrates that the general fund may need to borrow in the short term. This could be funded through borrowing from the HRA. This situation is subject to change due to a variety of internal and external circumstances.



3.10 The following graph shows the Liability Benchmark position for the HRA. This shows that the HRA will likely require borrowing from 2024/25 to fund the capital programme. As discussed previously this is subject to change and reflects the forecasted position.



4. Borrowing Strategy

4.1 As at 1 December 2023, the Council holds £60.4 million of loans, a decrease of £2.1million compared to the start of the financial year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in Table 1 shows that the Council's CFR is due to increase by around £3 million in 2024/25, this increase will need to be financed through internal or external borrowing. The Council may borrow additional sums to pre-fund future years' requirements, providing this does not exceed the forecast CFR plus any cashflow requirements. This is represented with the authorised limit for borrowing of £110.6 million as outlined below.

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

4.3 Leases limits will come into effect in the 2024/25 financial year with the implementation of IFRS16.

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

	31.3.23 Limit	31.3.24 Limit	31.3.25 Limit	31.3.26 Limit	31.3.27 Limit
Authorised limit - borrowing	107.1	107.6	110.6	116.6	119.2
Authorised limit - PFI and leases	0.0	0.0	TBC	TBC	TBC
Authorised limit - total external debt	107.1	107.6	110.6	116.6	119.2
Operational boundary - borrowing	97.1	97.6	100.6	106.6	109.2
Operational boundary - PFI and leases	0.0	0.0	TBC	TBC	TBC
Operational boundary - total external debt	97.1	97.6	100.6	106.6	109.2

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

4.5 **Strategy:** Given the significant cuts to public expenditure and to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead**.** Due to the uncertain economic scenario any decisions on this will be made following an internal review and consultation with our treasury advisors.

4.6 The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2024/25 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

4.7 The Council has previously raised most of its long-term borrowing from the Public Works Loan Board (PWLB) but will consider long-term loans from other sources including banks, pensions, and local authorities, and will investigate the possibility of issuing bonds and similar instruments, to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council intends to avoid this activity to retain its access to PWLB loans.

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

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

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

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- UK Infrastructure Bank ltd
- Any institution approved for investments (see below)
- Any other bank or building society authorised to operate in the UK.
- Any other UK public sector body
- UK public and private sector pension funds (except Leicestershire County Council Pension Fund)
- Capital market bond investors.
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

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

- Leasing
- Hire purchase
- Private Finance Initiative
- Sale and leaseback
- Similar asset-based finance.

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

4.13 **Lender's Option Borrower's Option (LOBOs):** The Council holds £3.5 million of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £3.5 million of these LOBOs have options during 2024/25, and with interest rates having risen recently, there is now a reasonable chance that lenders will exercise their options. If they do, the Council will take the option to repay LOBO loans to reduce refinancing risk in later years. Total borrowing via LOBO loans will be limited to £3.5 million.

4.14 **Short-term and variable rate loans**: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

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

5 Treasury Investment Strategy

5.1 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. Since 31 March 2023, the Council's treasury investment balance has ranged between £68.2 million and £43.3 million. These levels are expected to gradually reduce over the coming year due to planned capital expenditure, use of reserves and repayment of debt.

5.2 **Objectives:** The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, to maintain the spending power of the sum invested. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

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

5.4 The CIPFA Code does not permit local authorities to both borrow and invest long-term for cash flow management. But the Council may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by adding diversification to the strategic pooled fund portfolio.

5.5 **ESG policy:** Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Authority's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the 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

5.6 Where practical when making investment decisions ESG will be considered and counterparties with integrated ESG policies and commitments to carbon net zero by 2050 will be favoured by the council.

5.7 **Business models:** Under the IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority 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.

5.8 **Approved counterparties:** The Council may invest its surplus funds with any of the counterparty types in Table 4 below, subject to the limits shown.

Table 4: Treasury investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	5 years	£60m	n/a
Local authorities & other government entities	5 years	£5m	£60m
Secured investments *	5 years	£5m	£60m
Banks (unsecured) *	13 months	£2.5m	£60m
Building societies (unsecured) *	13 months	£2.5m	£5m
Registered providers (unsecured) *	5 years	£2.5m	£12.5m
Money market funds *	n/a	£5m	£60m
Strategic pooled funds	n/a	£5m	£25m
Real estate investment trusts	n/a	£5m	£12.5m
Other investments *	5 years	£2.5m	£5m

This table must be read in conjunction with the notes below:

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

5.10 For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £5 million per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

5.11 **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 5 years.

5.12 **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.

5.13 **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.

5.14 **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.

5.15 **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. A £60 million 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.

5.16 **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.

5.17 **Real estate investment trusts (REIT):** 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.

5.18 **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.

5.19 **Operational bank accounts:** The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £2.5 million per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

5.20 **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- No new investments will be made,
- Any existing investments that can be recalled or sold at no cost will be, and
- Full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

5.21 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

5.22 **Other information on the security of investments**: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

5.23 **Reputational aspects**: The Authority is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be considered when making investment decisions.

5.24 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

5.25 **Investment limits**: The Council's revenue reserves available to cover investment losses are forecast to be £16.5 million on 31 March 2024 and £16.5 million on 31 March 2025. In order that no more than 50% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

5.26 Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £2.5 million in operational bank accounts count against the relevant investment limits.

5.27 Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as detailed in the table below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 5: Additional investment limits

	Cash limit
Any group of pooled funds under the same management	£12.5m per manager
Negotiable instruments held in a broker's nominee Account	£12.5m per broker

5.28 **Liquidity management**: The Council forecasts its cashflow using an excel spreadsheet to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

5.29 The Council will spread its liquid cash over at least three providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

6 Treasury Management Prudential Indicators

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

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

Credit risk indicator	**Target**
Portfolio average credit rating	A-

6.3 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Liquidity risk indicator	Target
Total cash available within 3 months	£2.5m

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

Interest rate risk indicator	External Borrowing Limit	Internal Borrowing Limit
Upper limit on one-year revenue impact per a 1% rise in interest rates	£550,000	£400,000
Upper limit on one-year revenue impact per a 1% fall in interest rates	£550,000	£400,000

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

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

Refinancing rate risk indicator	Lower limit	Upper Limit	Position as at 01/04/2023
Under 12 months	0%	70%	38%
12 months and within 24 months	0%	30%	1%
24 months and within 5 years	0%	30%	3%
5 years and within 10 years	0%	30%	3%
10 years and within 20 years	0%	90%	45%
20 years and above	0%	30%	9%

**includes internal borrowing*

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

6.8 The figures above include internal borrowing. The assumption is made that internal borrowing matures in one working day so the full amount of £34.6 million is all represented in the 'under 12 months' row.

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

Price risk indicator	2024/25	2025/26	2026/27	No fixed date
Limit on principal invested beyond year end	£60m	£10m	£10m	£10m

6.10 The section named ‘no fixed date’ refers to longer dated investments which have no set maturity point but are anticipated to be held for a period longer than a year e.g., strategic property funds.

7 Related Matters

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

7.2 **Financial derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities’ use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

7.3 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.

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

7.5 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.

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

7.7 **External Funds:** The Council manages S106 funds. These funds contribute towards the investment balances. Therefore, interest earnt on S106 balances are repaid to the S106 fund. The value of the S106 funds as at 31 December 2023 equals £6.9 million. Reducing our overall interest earnt forecast by an estimated £130,000.

7.8 Additionally, the Council holds funds for the Chairman's Charity which is gathered throughout the year and apportioned out to selected charities. These amounts are negligible.

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

8 Financial Implications

8.1 The risk adjusted budget for investment income in 2024/25 is £981,300, based on an average investment portfolio of £55.8 million at an interest rate of 3.61%. Deductions largely consisting of S106 Balances will reduce this by £189,300 leaving a total forecasted interest income of £792,000.

8.2 The allocations of interest to the General Fund and HRA will be worked out based on the average notional investment balances of both funds throughout the financial year the percentage of which will be applied to the overall interest received after deductions. The forecasted notional balances of each fund throughout the year result in a split of 42% for the general fund totalling £335,500 and 58% for the HRA totalling £456,500.

8.3 This interest forecast is subject to a great deal of change as it is impacted by cashflow timings, delivery of capital programmes and their subsequent forecasts, grant payments, grant repayments and growth in council tax, business rates and social housing rents. It is also dependent on our base rate forecast being accurate (shown in appendix A and paragraph 2.14) which in turn is impacted by economic factors such as inflation which are notoriously difficult to predict. Therefore, this forecast is likely to evolve throughout the year and can change on a daily basis. As a result of the changeable nature of investment return the above interest income forecast is risk adjusted to be reduced by 20% of actual projections to reduce the risk to the Councils budget of the possible changes.

8.4 The budget for debt interest paid in 2024/25 is £2.2 million. Of this £520,000 refers to the General Fund and £1.7 million to the HRA. This is based on a debt portfolio of £62.6 million at an average interest rate of 3.6%. £51.9 million of this forecast is HRA Borrowing and £10.7 million is General Fund.

8.5 If actual levels of investments and borrowing, or actual interest rates, differ from those forecasts, performance against budget will be correspondingly different.

8.6 Where investment income exceeds budget, e.g., from higher risk investments including pooled funds, or debt interest paid falls below budget, e.g., from cheap short-term borrowing, then 50% of the revenue savings will be transferred to a treasury management reserve to cover the risk of capital losses or higher interest rates payable in future years. This option will be at the discretion of the Chief Financial Officer and will not be taken in periods of outstanding financial pressures or uncertainties.

9 Other Options Considered

9.1 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Head of Finance, having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less Certain

Appendix A

Arlingclose Economic & Interest Rate Forecast – November 2023

Underlying assumptions:

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

Forecast:

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

yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply.

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

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

Appendix B

Existing Investment & Debt Portfolio Position - 01 December 2023

	01/12/2023 Actual portfolio £m	01/12/2023 Average rate %
External borrowing:		
Public Works Loan Board	53.0	3.2%
LOBO loans from banks	3.5	4.8%
Other loans	3.9	4.7%
Total external borrowing	**60.4**	**3.4%**
Treasury investments:		
The UK Government	21.0	5.3%
Local authorities	15.0	5.1%
Banks (unsecured)	2.0	4.8%
Money market funds	17.5	5.3%
Total treasury investments	**55.5**	**5.2%**

Appendix 3

North West Leicestershire District Council

Draft Minimum Revenue Provision Statement 2024/25

1. Annual Minimum Revenue Provision Statement 2024/25

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

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

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

- Capital expenditure funded by borrowing incurred before 1 April 2008 MRP will be determined in accordance with the former regulations that applied on 31 March 2008, incorporating an "Adjustment A" of £606k.

- For capital expenditure funded by borrowing incurred between 1 April 2008 and 31 March 2019, MRP will be determined as 4% of the capital financing requirement in respect of that expenditure. This will be charged on a straight-line basis over 25 years.

- For capital expenditure funded by borrowing incurred after 31 March 2019, MRP will be determined by charging the expenditure over the expected life of the relevant asset as the principal repayment on an annuity equal to the average relevant PWLB rate for year of expenditure, stating in the year after the asset becomes operational. MRP in purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

- For transferred debt from Hinckley and Bosworth Borough Council, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

- Where former operating leases have been brought onto the balance sheet on 1 April 2024 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.

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

- No MRP will be charged in respect of assets held within the Housing Revenue Account but depreciation on those assets will be charged instead in line with regulations.

- MRP in respect of the £80 million payment made in 2012 to exit the Housing Revenue Account subsidy system will be determined as being equal to the principal amount repaid on the loans borrowed to finance that payment.

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

1.5 MRP will only be charged once the asset is fully operational and will not be charged whilst the asset is under construction. The MRP charge will commence the year after the asset becomes operational.

1.6 Based on the Council's latest estimate of its capital financing requirement (CFR) on 31 March 2024, the budget for MRP has been set as follows:

	31.03.2024 Estimated CFR £m	2024/25 Estimated MRP £m
Capital expenditure funded by borrowing before 01.04.2008	7.7	0.3
Capital expenditure funded by borrowing between 01.04.2008 and 31.03.2019	4.1	0.2
Unsupported capital expenditure after 31.03.2019	34.1	1.4
Transferred debt	0.1	0.0
Total General Fund	**45.9**	**1.8**
Assets in the Housing Revenue Account	3.3	0.0
HRA subsidy reform payment	48.4	1.3
Total Housing Revenue Account	**51.7**	**1.3**
Total	**97.6**	**3.2**

Appendix 4

North West Leicestershire District Council

Draft Non-Treasury Investment Strategy Report 2024/25

1. Introduction

1.1 The Council 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). It is important to stress that the primary goal of the commercial investments held by the Council and discussed in this report is not generation of profit but instead supporting local growth, local regeneration and the efficient use of local assets. Investment income is a secondary objective which is reinvested in local services.

1.2 Although not classed as a category of investment the Council also invests its own funds to finance capital expenditure funded through borrowing. This is known as internal borrowing.

1.3 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.

1.4 The statutory guidance defines investments as “all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios.” The 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. This aligns the Authority’s definition of an investment with that in the 2021 edition of the CIPFA Prudential Code, a more recent piece of statutory guidance.

2. Treasury Management Investments

2.1 The Council typically receives its income in cash (e.g., from taxes and grants) before it pays for its expenditure in cash (e.g., through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £43.3 million and £68.2 million during the 2024/25 financial year.

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

2.3 **Further details:** Full details of the Council's policies and its plan for 2024/25 for treasury management investments are covered in a separate document, the Treasury Management Strategy Statement 2024/25.

3. Service Investments: Loans

3.1 **Contribution:** The Council does not currently, but may in the future, lend money to various organisations including its subsidiaries or trading companies, suppliers, local businesses, local charities, housing associations, local residents and its employees to support local public services and stimulate local economic growth.

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

Table 1: Loans for service purposes in £ millions

Category of borrower	31.3.2023 actual			2024/25
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries	Nil	Nil	Nil	Nil
Suppliers	Nil	Nil	Nil	Nil
Parish councils	Nil	Nil	Nil	Nil
Local businesses	Nil	Nil	Nil	Nil
Local charities	Nil	Nil	Nil	Nil
Housing associations	Nil	Nil	Nil	Nil
TOTAL	**Nil**	**Nil**	**Nil**	**Nil**

3.3 Loans made for service purposes will be undertaken on a case-by-case basis and require approval by Full Council. Therefore, there is no approved limit for these loans outlined in the above table, but the option is available following a proper risk and benefit review.

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

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

- Requesting a business case to support the service loan and reviewing the business case for validity and robustness;
- Completing a financial appraisal of the business case;
- Seeking external advice where necessary to ensure compliance with for example state aid/subsidy law and creditworthiness of the counterparty seeking a service loan;
- Monitoring and undertaking regular reviews of counterparties for credit risk.

4. Service Investments: Shares

4.1 **Contribution:** The Council does not currently, but may in the future, invest in the shares of its subsidiaries or trading companies, its suppliers, and local businesses to support local public services and stimulate local economic growth.

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. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Table 2: Shares held for service purposes in £ millions

Category of company	**31.3.2023 actual**			**2024/25**
	Amounts invested	**Gains or losses**	**Value in accounts**	**Approved Limit**
Subsidiaries	Nil	Nil	Nil	Nil
Suppliers	Nil	Nil	Nil	Nil
Local businesses	Nil	Nil	Nil	Nil
TOTAL	Nil	Nil	Nil	Nil
	Nil	**Nil**	**Nil**	**Nil**

4.3 As in Table 1 there are no approved limits for investments of this kind. Applications will be dealt with on a case-by-case basis and require approval by Full Council following a comprehensive review.

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

- Requesting a business case to support the investment and reviewing the business case for validity and robustness;
- Completing a financial appraisal of the investment;
- Seeking external advice where necessary to ensure the creditworthiness of the counterparty; and
- Monitoring and maintain regular review of counterparties for credit risk.

4.5 **Liquidity:** To maintain liquidity, the council determines the maximum period for which funds may be prudently committed through financial planning in the Medium-Term Financial Strategy and the Treasury Management Strategy Statement. The Council's cash flow is monitored and reviewed to inform these strategies.

4.6 **Non-specified Investments:** Shares are the only investment type that the Council has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Council's upper limits on non-specified investments. The Council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

5. Commercial Investments: Property

5.1 **Contribution:** The Council invests in local commercial property with the primary aim of supporting local growth, regeneration and efficient use of local assets. The secondary aim is investment income that will be spent on local public services. Currently the Council only holds commercial investments within the district boundaries in line with these aims.

Table 3: Property held for investment purposes in £ millions

Property	31.3.2022 actual		31.3.2023 actual	
	Gains or (losses)	**Value in accounts**	**Gains or (losses)**	**Value in accounts**
Industrial Units	-5.19	7.72	-0.32	7.4
Market Hall	0.26	0.45	0	0.45
Whitwick Business Centre	-0.01	1.82	-1.15	0.67
Land	0	0.26	0.08	0.34
TOTAL	**-4.94**	**10.25**	**-1.39**	**8.86**

5.2 **Security:** In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs. An assessment of the council's investment property portfolio is undertaken each year in the Final Accounts year-end process.

- Where the value in the accounts is at or above purchase cost: the property investment is deemed to be secure as the property could be sold to cover the purchase cost.
- Where the value in the accounts is below the purchase cost: the investment property portfolio is no longer sufficient to provide security against loss.

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

- Assessment of the business case on a case by case basis, reviewing for validity and robustness;
- Financial appraisal of the business case;
- Seeking external expertise and advice where necessary; and
- Assessing the market competition including barriers to entry or exit; market needs; nature and level of competition; ongoing investments required;

- The council will also take into consideration any impact on local businesses before entering into new investments. This is to protect local business's interest in the local market.

5.4 **Liquidity:** Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Council has minimised this risk by holding a minimal investment portfolio.

6. Proportionality

6.1 The Council generates income from 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 Council is dependent on achieving the expected net profit from investments over the lifecycle of the Medium-Term Financial Plan.

6.2 The below table outlines the investment income from commercial investments against the net service expenditure. A more appropriate measure would be the gross service expenditure as that figure would not already be adjusted for income and show a truer reflection of the extent to which income from these commercial investments support the Council's overall revenue expenditure. The gross expenditure figures are not currently available for this report. The below uses net service expenditure to give the reader an idea of the overall scale.

Table 4: Proportionality of Investments £'000

	2022/23 Actual	2023/24 Forecast	2024/25 Budget	2025/26 Budget	2026/27 Budget
Investment income	709	651	651	651	651
Net service expenditure	17,030	17,087	17,358	17,465	17,216
Proportion	4%	4%	4%	4%	4%

7. Borrowing in Advance of Need

7.1 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 does not have any plans to borrowing in advance of need in 2024/25.

8. Capacity, Skills and Culture

8.1 **Elected members and statutory officers**: The Council recognises the importance of ensuring that all Elected Members and Officers involved in investment decisions are fully equipped to undertake the duties and responsibilities allocated to them and have the appropriate capacity, skills and information to enable them to make informed decisions e.g. as to whether to enter into a specific investment. There is a requirement to understand:

- The context of the Council's corporate objectives;
- The Council's risk appetite and risk assessment framework;
- The Prudential Framework;
- The regulatory regime within local authorities operations.

8.2 The Council will, therefore, seek to appoint individuals who are both capable and experienced and provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The following measures are in place:

- Identification of officer training needs on commercial investment related issues through the reflection process;
- Attendance at relevant training events, seminars and workshops; and
- Support from the Council's treasury management advisors, Arlingclose.

8.3 Elected members' training needs are assessed through the Member Development Group. The Council will also specifically address this important issue by:

- Periodically facilitating workshops or other training for members on commercial investment issues; and
- Interim reporting and advice to members.

8.4 Where necessary the Council will engage external advisers for investment advice, property surveys and due diligence checks. The cost of any such advice will be taken into account when developing business cases and when assessing the overall viability of projects.

8.5 **Commercial deals:** The Council has a decision-making framework which is aligned to the requirements of the Statutory Guidance relating to Local Authority Investments. A Commercial Board would be constituted if the requirement arises. The Commercial Board will consider any future commercial opportunities. The guiding principles that will be used will require future commercial projects to:

- Meet the Council's corporate priorities;
- Deliver community benefit
- Require minimum investment for maximum return;
- Be primarily within the District boundaries, consideration will be given to opportunities outside these boundaries if the benefit to the Council or North West Leicestershire is significant;
- Grow the business base;
- Deliver a diversified portfolio of projects that balance risk and return.

8.6 The Commercial Board will assess future commercial investment against the Investment Strategy. All investments will be subject to rigorous scrutiny and successful schemes will result in the provision of a report to Council for approval. Schemes will be considered for investment against the following criteria;

- Economic Impact – in particular; jobs, business growth and new housing;
- Impact on Market Towns – in terms of vibrancy, footfall and heritage;
- Financial Implications – value for money, affordability and return of investment; and
- Deliverability – the ability to deliver the proposals and the associated risks.

8.7 **Corporate governance:** It is important that the Council has sound arrangements in place to ensure accountability, responsibility and authority for decision making on investment activities within the context of the Council's values. In terms of governance, the Commercial Board will consider all new commercial investment proposals. The Commercial Board may determine an application under delegated powers or may recommend a project to Council for approval. Full Council is responsible for the approval of the Investment Strategy and for monitoring performance against it.

8.8 The Council's values include transparency in decision-making. To facilitate that, the following arrangements are in place:

- This Corporate Investment Strategy will be made available on the Council's website;
- Meetings of the Full Council will be open to the public and the agendas and minutes from such meetings will be shown on the Council's website.

9. Investment Indicators

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

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

Table 5: Total investment exposure in £ millions

Total investment exposure	**01.12.2023 Actual £m**	**31.03.2024 Forecast £m**	**31.03.2025 Forecast £m**
Treasury management investments	55.5	35.9	31.6
Commercial investments: Property	10.0	8.5	8.5
TOTAL INVESTMENTS	**65.5**	**44.4**	**40.1**
Commitments to lend	0	0	0
Guarantees issued on loans	0	0	0
TOTAL EXPOSURE	**65.5**	**44.4**	**40.1**

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

9.4 These figures have been worked out by using the actual and forecast percentage of the overall capital financing requirement (CFR) that is funded by external borrowing and applying that to the value of the investments in Table 5.

Table 6: Investments funded by borrowing in £ millions

Investments funded by borrowing	31.03.2023 Actual £m	31.03.2024 Forecast £m	31.03.2025 Forecast £m
Treasury management investments	4.9	2.9	2.7
Service investments: Loans	0	0	0
Service investments: Shares	0	0	0
Commercial investments: Property	1.8	1.1	1.0
Total Funded by Borrowing	**6.7**	**4.0**	**3.7**

9.5 **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	2022/23 Actual	2023/34 Forecast	2024/25 Forecast
Treasury management investments	2%	4%	4%
Commercial investments: Property	4%	4%	4%