

North East Derbyshire District Council

Council

29 January 2024

Treasury Strategy Reports 2024/25 - 2027/28

Report of the Deputy Leader (Portfolio Holder for Finance)

Classification: This report is public

Report By: Jayne Dethick, Director of Finance and Resources (S151 Officer)

Contact Officer: as above

PURPOSE/SUMMARY

The purpose of this report is to provide Council with the necessary information to approve the Council's suite of Treasury Strategies for 2024/25 to 2027/28

RECOMMENDATIONS

1. That Council approve the Treasury Management Strategy at **Appendix 1** and in particular:
 - a) Approve the Borrowing Strategy
 - b) Approve the Investment Strategy
 - c) Approve the use of the external treasury management advisors Counterparty Weekly List (or similar) to determine the latest assessment of the counterparties that meet the Council's Criteria before any investment is undertaken.
 - d) Approve the Prudential Indicators
2. That Council approve the Capital Strategy as set out in **Appendix 2** and in particular:
 - a) Approve the Capital Financing Requirement
 - b) Approve the Minimum Revenue Provision Statement for 2024/25
 - c) Approve the Prudential Indicators for 2024/25, in particular:

Authorised Borrowing Limit £238.4m

Operational Boundary £234.2m

3. That Council approve the Investment Strategy as set out in **Appendix 3**.
4. That Council approve the Flexible Use of Capital Receipts Strategy at **Appendix 4**

Approved by the Portfolio Holder for Finance

IMPLICATIONS

Finance and Risk

Yes ✓ No

These are considered throughout the report.

On Behalf of the Section 151 Officer

Legal including Data Protection

Yes ✓ No

As part of the requirements of the CIPFA Treasury Management Code of Practice the Council is required to produce every year a Treasury Management Strategy and Capital Strategy which requires approval by full Council prior to the commencement of each financial year. This report is prepared in order to comply with these obligations.

There are no Data Protection issues arising directly from this report.

On Behalf of the Solicitor to the Council

Staffing

Yes No ✓

There are no staffing issues arising directly from this report.

On Behalf of the Head of Paid Service

DECISION INFORMATION

<p>Is the decision a Key Decision? A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds:</p> <p>NEDDC: Revenue - £100,000 <input checked="" type="checkbox"/> Capital - £250,000 <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i></p>	<p>No</p>
<p>Is the decision subject to Call-In? (Only Key Decisions are subject to Call-In)</p>	<p>No</p>
<p>District Wards Significantly Affected</p>	<p>None</p>
<p>Consultation:</p>	<p>Yes</p>

Leader / Deputy Leader <input type="checkbox"/> Cabinet <input type="checkbox"/> SMT <input checked="" type="checkbox"/> Relevant Service Manager <input checked="" type="checkbox"/> Members <input checked="" type="checkbox"/> Public <input type="checkbox"/> Other <input type="checkbox"/>	Details: Audit and Corporate Governance Scrutiny Committee 18 January 2023
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Links to Council Plan priorities, including Climate Change, Equalities, and Economics and Health implications.
All

REPORT DETAILS

- 1.1 Treasury risk management at the Council is conducted in compliance with 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.
- 1.2 The CIPFA Code requires that a Capital Strategy be produced alongside the Treasury Management Strategy along with a Flexible Use of Capital Receipts Strategy. In addition, the 2018 Investment Guidance issued by the Department for Levelling Up, Housing and Communities also requires local authorities to produce an Investment Strategy.
- 1.3 The Council's Treasury Management Strategy provides the framework for managing the Council's cash flows, borrowing and investments, and the associated risks for the years 2024/25 to 2027/28. The Strategy also sets out the parameters for all borrowing and lending as well as listing all approved borrowing and investment sources. Prudential indicators aimed at monitoring risk are also included. **(Appendix 1)**.
- 1.4 The Capital Strategy is intended to provide a high level, concise overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of the Council's services. The report provides an overview of the associated risk, its management and the implications for future financial sustainability. The Capital Strategy also sets out the capital expenditure plans for the period and how they will be financed. It includes information of the minimum revenue provision, capital financing requirement and prudential indicators aimed at monitoring risk **(Appendix 2)**.
- 1.5 The Investment Strategy focuses on investments made for service purposes and commercial reasons, rather than those made for treasury management. Investments covered by this strategy include earning income through commercial investments or by supporting local services by lending to or buying shares in other organisations **(Appendix 3)**.
- 1.6 The Flexible Use of Capital Receipts Strategy focuses on the Council's plans to utilise capital receipts for service reform in strict adherence of S15 (1) of the Local Government Act 2003 **(Appendix 4)**.

2 Reasons for Recommendation

2.1 This report outlines the Council’s proposed suite of Treasury Strategies for the period 2024/25 to 2027/28 for consideration and approval by Council. It contains:

- The Treasury Management Strategy which provides the framework for managing the Council’s cash flows, borrowing and investments for the period.
- The Capital Strategy which is intended to provide a high level, concise overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of the Council’s services.
- The Investment Strategy which focuses on investments made for service purposes and commercial reasons, rather than those made for treasury management.
- The Flexible Use of Capital Receipts Strategy which details plans to utilise capital receipts for service reform in strict adherence with S15 (1) of the Local Government Act 2003.

The above strategies provide an approved framework within which the officers undertake the day to day capital and treasury activities.

3 Alternative Options and Reasons for Rejection

3.1 Alternative options are considered throughout the report.

DOCUMENT INFORMATION

Appendix No	Title
1	Treasury Management Strategy 2024/25 – 2027/28
2	Capital Strategy 2024/25 – 2027/28
3	Investment Strategy 2024/25 – 2027/28
4	Flexible Use of Capital Receipts Strategy 2024/25 – 2027/28
Background Papers	



North East Derbyshire District Council

Treasury Management Strategy 2024/25 – 2027/28

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 for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

External Context

- 1.4 **Economic background:** The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the Council's treasury management strategy for 2024/25.
- 1.5 The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level for the rest of 2023. In December, members of the BoE's Monetary Policy Committee voted for by a 6-3 in favour of keeping Bank Rate at 5.25%. The three dissenters wanted to increase rates by another 0.25%.

- 1.6 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.
- 1.7 Office for National Statistics (ONS) figures showed CPI inflation was 3.9% in November 2023, down from a 4.6% rate in the previous month and, in line with the recent trend, lower than expected. The core CPI inflation rate declined to 5.1% from the previous month's 5.7%, again lower than predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling slowly, but taking until early 2025 to reach the 2% target before dropping below target during second half 2025 and into 2026.
- 1.8 ONS figures showed the UK Economy contracted by 0.1% between July and September 2023. The BoE forecasts GDP will likely stagnate through 2024. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.
- 1.9 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 but has showed some signs of easing; regular pay (excluding bonuses) was up 7.3% over the period and total pay (including bonuses) up 7.2%. Adjusted for inflation, regular pay was 1.4% 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.
- 1.10 Having increased its key interest rate to a target range of 5.25-5.50% in August 2023, the US Federal Reserve appears now to have concluded the hiking cycle. It is likely this level represents the peak in US rates following a more dovish meeting outcome in December 2023.
- 1.11 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 the impact from higher rates has started to feed into economic activity and growth will weaken in 2024. Annual CPI inflation was 3.1% in November.
- 1.12 Eurozone inflation has declined steadily since the start of 2023, falling to an annual rate of 2.4% in November 2023. Economic growth has been weak and GDP contracted by 0.1% in the three months to September 2023. In line with other central banks, the European Central Bank has increased rates, taking its deposit facility, fixed rate tender, and marginal lending rates to 3.75%, 4.25% and 4.50% respectively.
- 1.13 **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.

- 1.14 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.
- 1.15 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.
- 1.16 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.
- 1.17 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.
- 1.18 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.
- 1.19 **Interest rate forecast:** Although UK inflation and wage growth remain elevated, the Council's treasury management adviser Arlingclose forecasts that Bank Rate has peaked at 5.25%. The Bank of England's Monetary Policy Committee will start reducing rates in 2024 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.
- 1.20 Arlingclose expects long-term gilt yields to be broadly stable at current levels (amid continued volatility), following the decline in yields towards the end of 2023, which reflects the expected lower medium-term path for Bank Rate. 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.
- 1.21 Yields 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.

1.22 A more detailed economic and interest rate forecast provided by Arlingclose is attached at **Appendix A**.

1.23 For the purpose of setting the budget, it has been assumed that new treasury management investments will be made at an average rate of around 4.50%, and that new long-term loans will be borrowed at an average rate of 4.86%.

Local Context

1.24 On 30th November 2023, the Council held £142.9m of borrowing and £28.0m of 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.

Table 1: Balance sheet summary and forecast

	31/3/23 Actual £m	31/3/24 Estimate £m	31/3/25 Forecast £m	31/3/26 Forecast £m	31/3/27 Forecast £m	31/3/28 Forecast £m
General Fund CFR	20.9	30.2	40.1	36.1	32.0	27.7
HRA CFR	171.4	181.0	189.1	197.7	204.6	205.2
Total CFR	192.3	211.2	229.2	233.8	236.6	232.9
Less: Other debt liabilities *	(0)	(0.3)	(0.8)	(0.6)	(0.4)	(0.2)
Loans CFR	192.3	210.9	228.4	233.2	236.2	232.7
Less: External borrowing **	(147.0)	(150.8)	(157.0)	(156.0)	(155.9)	(155.8)
Internal borrowing	45.3	60.1	71.4	77.2	80.3	76.9
Less: Balance sheet reserves	(71.3)	(77.1)	(81.4)	(87.2)	(90.3)	(86.9)
Investments	26.0	17.0	10.0	10.0	10.0	10.0

* Leases that form part of the Council's total debt.

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

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

1.26 The Council has an increasing CFR due to commitments within the capital programme and also loans for Northwood Group Ltd and Rykneld Homes Ltd. The

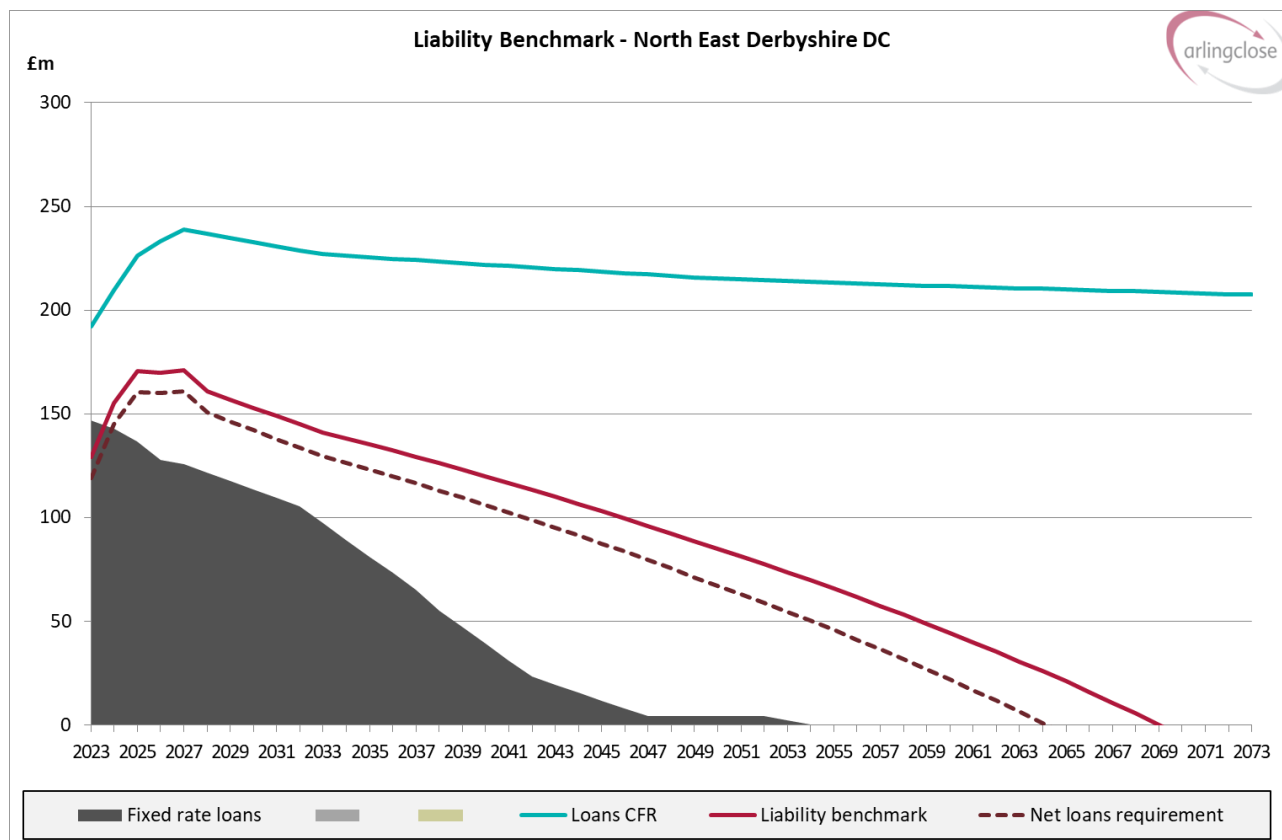
forecast level of reserves means that the majority of borrowing throughout this period is likely to be from internal resources.

- 1.27 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.
- 1.28 **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.
- 1.29 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.

Table 2: Prudential Indicator: Liability benchmark

	31/3/23 Actual £m	31/3/24 Estimate £m	31/3/25 Forecast £m	31/3/26 Forecast £m	31/3/27 Forecast £m	31/3/28 Forecast £m
CFR	192.3	211.2	229.2	233.8	236.6	232.9
Less: Balance sheet reserves	(71.3)	(77.1)	(81.4)	(87.2)	(90.3)	(86.9)
Net loans requirement	121.0	134.1	147.8	146.6	146.3	146.0
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0	10.0
Liability Benchmark	131.0	144.1	157.8	156.6	156.3	156.0

- 1.30 Following on from the medium-term forecasts in table 2 above, the long-term liability benchmark assumes capital expenditure funded by borrowing of £53.075m over the term of the report, minimum revenue provision on new capital expenditure based on a 50 year asset life and income, expenditure and reserves all decreasing slightly over the period of the report. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing:



- 1.31 The minimum requirement is to show forecasts for loans CFR, net loans requirement and liability benchmark against actual borrowing for ten years. CIPFA recommends a longer period covering the current debt maturity profile with borrowing split into fixed rate, variable rate and LOBO.
- 1.32 The liability benchmark is a projection of the amount of loan debt outstanding that the Council needs each year into the future to fund its existing debt liabilities, planned prudential borrowing and other cash flows. The liability benchmark identifies the maturities needed for new borrowing in order to match future liabilities. It therefore avoids borrowing for too long or too short. The liability benchmark acts as a mechanism for preventing future over-borrowing. Once the benchmark has been established, new borrowing decisions that take the level of borrowing over the benchmark, or increase any existing over-benchmark positions, should be considered very carefully.
- 1.33 The graph provided above shows how the CFR remains constant at a level of approximately £210m but the fixed rate loans are reducing once they meet their maturity dates. The graph, however, doesn't take account of any potential reborrowing of the current fixed rate loans as they mature.

Borrowing Strategy

- 1.34 The Council currently holds £142.9m of loans, a decrease of £4.1m on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in **Table 1** shows that the Council expects to borrow in

2024/25. The Council may however, borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £239.1m.

- 1.35 **Objectives:** The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.
- 1.36 **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term interest rates are currently at a 15-year high but are expected to fall in the coming years and it is therefore likely to be more cost effective over the medium-term to either use internal resources, or to borrow short-term loans instead.
- 1.37 By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council 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.
- 1.38 The Council has previously raised all its long-term borrowing from the 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, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council intends to avoid this activity in order to retain its access to PWLB loans.
- 1.39 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.
- 1.40 In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages.
- 1.41 **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 Derbyshire County Council Pension Fund)
- capital market bond investors
- Retail investors via a regulated peer-to-peer platform
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

1.42 **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

1.43 **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 Council.

1.44 **LOBOs:** The Council doesn't hold or intend to hold any LOBO (Lender's Option Borrower's Option) loans.

1.45 **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).

1.46 **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.

Treasury Investment Strategy

- 1.47 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance has ranged between £20.5m and £38.0m, however these levels are predicted to decrease following completion of works at Clay Cross Active.
- 1.48 **Objectives:** The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.
- 1.49 **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.
- 1.50 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.
- 1.51 **ESG policy:** Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's strategy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.
- 1.52 **Business models:** Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The

Council aims to achieve value from its internally managed 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.

- 1.53 **Approved counterparties:** The Council may invest its surplus funds with any of the counterparty types in **Table 3** below, subject to the cash limits (per counterparty) and the time limits shown.

Table 3: Approved investment counterparties and limits

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

- 1.54 * **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 taken into account.

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

- 1.56 **Government:** Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of

insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

- 1.57 **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.
- 1.58 **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.
- 1.59 **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.
- 1.60 **Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.
- 1.61 **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.
- 1.62 **Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer

term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

- 1.63 **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.
- 1.64 **Operational bank accounts:** The Council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept at £5m 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.
- 1.65 **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.
- 1.66 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.
- 1.67 **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.
- 1.68 **Reputational aspects:** The Council 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 taken into account when making investment decisions.

- 1.69 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 via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This may cause investment returns to fall but will protect the principal sum invested.
- 1.70 **Investment limits:** The Council's revenue reserves available to cover investment losses are forecast to be £26.9 million on 31st March 2024 and £26.5 million on 31st March 2025. In order that no more than 18.6% 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.
- 1.71 Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £5 million in operational bank accounts count against the relevant investment limits.
- 1.72 Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Additional Investment limits

	Cash limit
Any group of pooled funds under the same management	£5m per manager
Negotiable instruments held in a broker's nominee account	£5m per broker
Foreign countries	£5m per country

- 1.73 **Liquidity management:** The Council uses its own cash flow forecasting techniques 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.

- 1.74 The Council will spread its liquid cash over a number of 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.

Treasury Management Prudential Indicators

- 1.75 The Council measures and manages its exposures to treasury management risks using the following indicators:

- 1.76 **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	
Portfolio average credit rating	Target <3.0
Current portfolio average credit rating on investments	Actual 1.36

- 1.77 **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	Amount available
Total cash available within 3 months	£21.7m

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

Interest rate risk indicator	Limit each year
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£1.5m
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	(£1.5m)

- 1.79 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.

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

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	20%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	40%	0%
10 years and above	90%	0%

1.81 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.

1.82 **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	2023/24	2024/25	2025/26	No fixed date
Limit on principal invested beyond year end	£20m	£20m	£20m	£20m

Related Matters

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

1.84 **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).

1.85 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.

- 1.86 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.
- 1.87 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.
- 1.88 **Markets in Financial Instruments Directive:** The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.
- 1.89 **Financial Implications:** The General Fund budget for investment income in 2024/25 is £0.176m with the HRA budget for investment income in 2024/25 being £0.324m, based on an average investment portfolio of £12.3m at an average interest rate of 4.08%. The General Fund budget for debt interest paid in 2024/25 is £0.395m with the HRA budget for debt interest paid in 2024/25 being £5.246m, based on an average debt portfolio of £153.9m at an average interest rate of 4.03%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

- 1.90 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted the Portfolio Holder 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 have eased over the past two months fuelling rate cuts expectations. Near-term rate cuts remain unlikely, although downside risks will increase as the UK economy likely slides into recession.
- The MPC's message remains unchanged as the Committee seeks to maintain tighter financial conditions. Monetary policy will remain tight as inflation is expected to moderate to target slowly, although some wage and inflation measures are below the Bank's last forecasts.
- Despite some deterioration in activity data, the UK economy remains resilient in the face of tighter monetary policy. Recent data has been soft but mixed; the more timely PMI figures suggest that the services sector is recovering from a weak Q3. Tighter policy will however bear down on domestic and external activity as interest rates bite.
- Employment demand is easing. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household and business spending will therefore be weak.
- Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. We believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further 'second-round' effects has diminished.
- Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant loosening in the future to boost activity.
- Global bond yields will remain volatile. Markets are currently running with expectations of near-term US rate cuts, fuelled somewhat unexpectedly by US policymakers themselves. Term premia and bond yields have experienced a marked decline. It would not be a surprise to see a reversal if data points do not support the narrative, but the current 10-year yield appears broadly reflective of a lower medium-term level for Bank Rate.
- There is a heightened risk of fiscal policy and/or geo-political events causing substantial volatility in yields.

Forecast:

- The MPC held Bank Rate at 5.25% in December. 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 have become more balanced, due to the weakening UK economy and dampening effects on inflation. This shifts to the downside in the short term as the economy weakens.
- Long-term gilt yields are now substantially lower. Arlingclose expects yields to be flat from here over the short-term reflecting medium term Bank Rate forecasts. Periodic volatility is likely.

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	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	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	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	0.25	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.77	3.75	3.75	3.75	3.70	3.60	3.50	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.25	-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	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.72	3.75	3.80	3.80	3.80	3.80	3.80	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.25	-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	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.16	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.25
Downside risk	0.00	-0.25	-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	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.76	3.80	3.85	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.95	3.95	3.95
Downside risk	0.00	-0.25	-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**

	30/11/23 Actual Portfolio £m	30/11/23 Average Rate %
External borrowing:		
Public Works Loan Board	142.9	3.53
Total external borrowing	142.9	3.53
Total other long-term liabilities:	0	0
Total gross external debt	142.9	3.53
Treasury investments:		
The UK Government	0.0	0.00
Local authorities	10.0	5.78
Banks (unsecured)	0.0	0.00
Money Market Funds	18.0	5.34
Total treasury investments	28.0	5.56
Net debt	114.9	



North East Derbyshire District Council

Capital Strategy 2024/25 – 2027/28

Introduction

- 1.1 This capital strategy report gives a high-level overview of how capital expenditure; capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.
- 1.2 Decisions made this year on capital and treasury management will have financial consequences for the Council for many years into the future. They are therefore subject to both a national regulatory framework and to a local policy framework, summarised in this report.

Capital Expenditure and Financing

- 1.3 Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year.

In 2024/25, the Council is planning capital expenditure of £49.6m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m
General Fund Services	9.0	28.7	21.1	5.2	2.0	1.7
Council Housing (HRA)	20.3	35.0	28.5	24.5	22.9	15.3
TOTAL	29.3	63.7	49.6	29.7	24.9	17.0

- 1.4 The main General Fund capital projects include replacement vehicles, asset refurbishment, ICT replacement, disabled facilities grant funded adaptations, Clay Cross Towns Fund programme and development of Clay Cross Active. Following a change in the Prudential Code, the Council no longer incurs capital expenditure on investments.
- 1.5 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately. The main HRA capital projects involve refurbishment of council dwellings, a new build project at North Wingfield, a regeneration project at Stonebroom, a stock purchase programme and improvement works to the energy efficiency of the Council's non-traditional housing stock.
- 1.7 **Governance:** Projects are included in the capital programme as part of the annual budget review or through ad hoc approval during the year. The capital programme is refreshed each year and the new requirements are presented to Cabinet and Council annually. Full details of the Council's Capital Programme can be seen at **Appendix A** to this report.
- 1.8 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing and leasing). The planned financing of the above expenditure is as follows:

Table 2: Financing of Capital Programme (Appendix A)

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m
External Sources	6.4	21.5	11.5	4.1	0.8	0.8
Capital Receipts	2.7	6.0	3.0	2.0	2.2	1.3
Own Resources	18.4	17.7	16.6	15.0	14.9	14.3
Debt	1.8	18.5	18.5	8.6	7.0	0.6
TOTAL	29.3	63.7	49.6	29.7	24.9	17.0

- 1.9 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). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to repay and/or replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of debt finance

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m
Capital Resources	0	0	0	0	0	0
Minimum Revenue Provision (MRP)	0.1	0.2	0.5	1.0	1.0	1.0
Total	0.1	0.2	0.5	1.0	1.0	1.0

The Council's full minimum revenue provision statement is **Appendix B** to this report.

- 1.10 The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £18.0m during 2024/25. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement

	31/3/2023 Actual £m	31/3/2024* Forecast £m	31/3/2025 Budget £m	31/3/2026 Budget £m	31/3/2027 Budget £m	31/3/2028 Budget £m
General Fund Services	20.9	30.2	40.1	36.1	32.0	27.7
Council Housing (HRA)	171.4	181.0	189.1	197.7	204.6	205.2
TOTAL CFR	192.3	211.2	229.2	233.8	236.6	232.9

*£0.285m of the CFR increase in 2023/24 arises from a change in the accounting for leases.

- 1.11 **Asset management:** The Council's assets require regular maintenance to ensure they remain safe and fit for purpose. It is also important for income generation that assets remain in a good condition and so remain lettable. A planned approach yields savings in running costs and energy efficiency benefits over time as works are completed and asset conditions improve.

- 1.12 **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts “flexibly” on approved service reform projects until 2024/25 under the flexible use of capital receipts strategy. Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive £4.1m of capital receipts in the coming financial year as follows:

Table 5: Capital receipts receivable

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m
Asset Sales	3.59	2.50	4.10	4.00	4.00	4.00
Loans Repaid	0	0	0	0	0	0
TOTAL	3.59	2.50	4.10	4.00	4.00	4.00

Treasury Management

- 1.13 Treasury Management is concerned with keeping sufficient but not excessive cash available to meet the Council’s spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.
- 1.14 Due to decisions taken in the past, the Council currently has £142.9m borrowing at an average interest rate of 3.53% and £28.0m treasury investments at an average rate of 5.17%.
- 1.15 **Borrowing strategy:** The Council’s main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans and long-term fixed rate loans where the future cost is known but higher.
- 1.16 The Council does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.
- 1.17 Projected levels of the Council’s total outstanding debt (which comprises borrowing and leases) are shown below, compared with the capital financing requirement (see above):

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement

	31/3/2023 Actual £m	31/3/2024 Forecast £m	31/3/2025 Budget £m	31/3/2026 Budget £m	31/3/2027 Budget £m	31/3/2028 Budget £m
Debt (incl. leases)	147.0	150.8	157.0	156.0	155.9	155.8
Capital Financing Requirement	192.3	211.2	229.2	233.8	236.6	232.9

1.18 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from **Table 6**, the Council expects to comply with this in the medium term.

1.19 **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:

Table 7: Borrowing and the Liability Benchmark

	31/3/2023 Actual £m	31/3/2024 Forecast £m	31/3/2025 Budget £m	31/3/2026 Budget £m	31/3/2027 Budget £m	31/3/2028 Budget £m
Forecast Borrowing	147.0	150.8	157.0	156.0	155.9	155.8
Liability Benchmark	131.0	144.1	157.8	156.6	156.3	156.0

1.20 The table above shows that the Council expects to remain borrowed above its liability benchmark in the short term but slightly below in the longer term. This is because of the capital investment decisions made to borrow additional sums for the development of Clay Cross Active, the North Wingfield New Build Project and the Stonebroom Regeneration project.

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

Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt

	2023/24 limit £m	2024/25 limit £m	2025/26 limit £m	2026/27 limit £m	2027/28 limit £m
Authorised Limit – Borrowing	220.9	238.4	243.2	246.2	242.6
Authorised Limit – Leases	0.3	0.8	0.6	0.4	0.3
Authorised Limit – Total External Debt	221.2	239.2	243.8	246.6	242.9
Operational Boundary – Borrowing	215.9	233.4	238.2	241.2	237.6
Operational Boundary – Leases	0.3	0.8	0.6	0.4	0.3
Operational Boundary – Total External Debt	216.2	234.2	238.8	241.6	237.9

1.22 **Treasury Investment strategy:** Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

1.23 The Council's policy on treasury investments is to prioritise security and liquidity over yield, which is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Table 9: Treasury Management investments

	31/3/2023 Actual £m	31/3/2024 Forecast £m	31/3/2025 Budget £m	31/3/2026 Budget £m	31/3/2027 Budget £m	31/3/2028 Budget £m
Near-Term Investments	26.0	17.0	10.0	10.0	10.0	10.0
Longer-Term Investments	0	0	0	0	0	0
TOTAL	26.0	17.0	10.0	10.0	10.0	10.0

1.24 **Risk management:** The effective management and control of risk are prime objectives of the Council's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the

risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

- 1.25 **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Chief Finance Officer and staff, who must act in line with the treasury management strategy approved by Council. Quarterly reports on treasury management activity are presented to the Audit and Corporate Governance Scrutiny Committee who are responsible for scrutinising treasury management decisions. Six monthly updates are provided for Council.

Investments for Service Purposes

- 1.26 The Council can make investments to assist local public services, including making loans to local service providers and businesses to promote economic growth.
- 1.27 **Risk Management:** In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to at least break even after all costs. The risk of incurring unexpected losses is managed by the use of estimated credit losses. Provisions for expected credit losses are made to ensure that the Council can finance any sums due to the Council which are deemed to be irrecoverable after all recovery measures have been exhausted. A limit of £13.5m is placed on total investments for service purposes to ensure that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services. This includes loans to Rykneld Homes Ltd to allow development of social housing. Rykneld Homes Ltd is a wholly owned subsidiary of the Council, limited by guarantee.
- 1.28 **Governance:** Decisions on service investments are made by the relevant service manager and submitted to Cabinet then Council in consultation with the Chief Finance Officer and must meet the criteria and limits laid down in the Investment Strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme. The relevant service director is responsible for ensuring that adequate due diligence is carried out before investment is made.

Commercial Activities

- 1.29 With central government financial support for local public services declining, the Council has invested in developing residential property through Northwood Group Ltd. Currently, an investment of £8.039m has been made into Northwood Group Ltd and further future investment of £0.624m is approved to a total investment of £8.663m.
- 1.30 The Council has investment properties generating between £0.466m and £0.513m in net income a year after all costs, before exposing it to normal commercial risks. These

risks are managed by maintaining the properties in good order and advertising vacant properties as soon as possible over a wide area to generate interest in letting the vacant properties.

- 1.31 **Risk Management:** With financial return being the main objective, the Council accepts higher risk on commercial investment than with treasury investments. The principal risk exposures include build cost estimates, sales values estimates and demand. These risks are mitigated by working with experienced builders and professionals who have knowledge of the local market. In order that commercial investments remain proportionate to the size of the Council, and to ensure that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services. Contingency plans are in place should expected yields not materialise.
- 1.32 **Governance:** Decisions on commercial investments are made by Council in line with the criteria and limits approved in the Investment Strategy. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme. The Chief Financial Officer is responsible for ensuring that adequate due diligence is carried out before investment is made.

Table 10 – Prudential Indicator: Net income from commercials & service investments to net revenue scheme.

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m
Net income from commercial investments	0.513	0.473	0.468	0.468	0.467	0.466
Net income from service investments	0.629	0.648	0.654	0.557	0.344	0.262
Total net income from service and commercial investments	1.142	1.121	1.122	1.025	0.811	0.728
Proportion of net revenue stream	7.61%	6.53%	6.20%	5.50%	4.22%	3.68%
Proportion of usable revenue reserves	4.22%	4.16%	4.23%	3.91%	3.11%	2.95%

Other Liabilities

- 1.33 In addition to debt of £142.9m detailed above, the Council is committed to making future payments to cover its net pension fund deficit (valued at £6.4m). It has also set aside £0.8m to cover risks of business rates appeals and £1.1m to cover risks of water claims.
- 1.34 **Governance:** Decisions on incurring new discretionary liabilities are taken to Council for approval. The risk of liabilities occurring and requiring payment are monitored as part of the year-end process.

Revenue Budget Implications

- 1.35 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. 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 general government grants.

Table 11: Prudential Indicator: Proportion of financing costs to net revenue stream

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m
Financing Costs	(0.355)	(0.520)	(0.030)	0.575	0.813	0.914
Proportion of Net Revenue Stream	(2.37%)	(3.03%)	(0.16%)	3.08%	4.23%	4.63%

1.36 **Sustainability:** Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Chief Finance Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable because all borrowing is repaid via the Revenue Account over the standard lives of the assets purchased.

Knowledge and Skills

1.37 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. Suitably qualified and experienced officers are employed throughout the Council to perform such functions.

1.38 Where Council officers 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. 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.

1.39 Members receive individual training and development through the Member Development Programme and are periodically required to attend seminars held by the external treasury management advisers.

Treasury Management Operations

1.40 As mentioned above the Council uses external treasury management advisers. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of Member reports;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;

- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;
- A number of places at training events offered on a regular basis.
- Credit ratings/market information service comprising the three main credit rating agencies;

-

- 1.41 Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the Council. This service is subject to regular review. It should be noted that the Council has Arlingclose Ltd as external treasury management advisors, for a period of up to 3 years commencing October 2022.

Banking Contract

- 1.42 The contract with the Councils banking provider Lloyds Bank was extended on the 10th February 2022 for a period of up to 7 years.

Business Continuity Arrangements

- 1.43 As part of the Councils business continuity arrangements officers have sought to set up and provide alternative banking arrangements for the Council should they be required at short notice. These arrangements effectively mean a separate bank account is in place with the required security controls and appropriate officer access to undertake transactions. This account is with Barclays Bank and will only be utilised should a business continuity need or similar issue arise. Officers will continue to review this arrangement.

Appendix A

Capital Programme 2023-2028

Capital Expenditure	Revised Budget 2023/24 £	Original Budget 2024/25 £	Original Budget 2025/26 £	Original Budget 2026/27 £	Original Budget 2027/28 £
Housing Revenue Account					
HRA Capital Works	11,594,100	11,385,100	11,500,000	11,500,000	11,500,000
HRA Capital Works - Non Traditional Properties	9,743,000	9,743,000	500,000	500,000	500,000
Green Homes EWI - Mickley	0	0	0	0	0
Pine View, Danesmoor	110,000	0	0	0	0
Stock Purchase Programme (1-4-1)	4,964,000	1,000,000	3,000,000	3,000,000	3,000,000
Acquisitions and Disposals (RHL)	0	0	0	0	0
North Wingfield New Build Project	7,402,000	5,555,000	0	0	0
Stonebroom Regeneration	0	502,000	9,203,000	7,544,000	0
Garage Demolitions	83,000	23,000	23,000	23,000	23,000
Concrete Balconies	0	0	0	0	0
Parking Solutions	703,000	288,000	288,000	288,000	288,000
LADS3 Project	437,000	0	0	0	0
HRA - Capital Expenditure	35,036,100	28,496,100	24,514,000	22,855,000	15,311,000
General Fund					
Private Sector Housing Grants (DFG's)	820,000	820,000	820,000	820,000	820,000
ICT Schemes	518,700	80,000	133,000	248,000	248,000
Clay Cross Football Pitch	9,000	0	0	0	0
Asset Refurbishment - General	566,000	500,000	500,000	500,000	500,000
Asset Refurbishment - Mill Lane	870,000	450,000	0	0	0
Roller Shutter Doors	1,000	0	0	0	0
Eckington Pool Carbon Efficiencies Programme	4,000	0	0	0	0
Dronfield Sports Centre Carbon Efficiencies Programme	98,000	0	0	0	0
Coney Green Telephony System	36,000	80,000	65,000	0	15,000
Replacement of Vehicles	3,786,450	2,684,500	456,000	460,000	161,000
Contaminated Land	42,000	0	0	0	0
Killamarsh Leisure Centre	36,000	0	0	0	0
Sharley Park 3G pitch	0	1,000,000	0	0	0
CX Town Market Street Regeneration	5,871,000	6,000,000	3,000,000	0	0
CX Town Sharley Park Active Community Hub	12,655,000	8,605,000	0	0	0
CX Town Low Carbon Housing Challenge Fund	1,300,000	650,000	0	0	0
CX Town Rail Station Feasibility	150,000	0	0	0	0
CX Town Programme Management	423,000	241,000	241,000	0	0
UK SPF Grants	1,534,000	0	0	0	0
General Fund Capital Expenditure	28,720,150	21,110,500	5,215,000	2,028,000	1,744,000
Total Capital Expenditure	63,756,250	49,606,600	29,729,000	24,883,000	17,055,000

Capital Financing	2023/24	2024/25	2025/26	2026/27	2027/28
Housing Revenue Account					
Major Repairs Reserve	(15,974,100)	(15,755,100)	(12,000,000)	(12,000,000)	(12,000,000)
Prudential Borrowing - HRA	(9,628,400)	(8,095,000)	(8,603,000)	(6,944,000)	(600,000)
Development Reserve	(886,000)	(311,000)	(2,911,000)	(2,911,000)	(2,311,000)
External Grant - SHDF	(5,195,000)	(3,005,000)	0	0	0
External Grant - LADS3	(437,000)	0	0	0	0
1-4-1 Receipts	(2,915,600)	(1,330,000)	(1,000,000)	(1,000,000)	(400,000)
HRA Capital Financing	(35,036,100)	(28,496,100)	(24,514,000)	(22,855,000)	(15,311,000)
General Fund					
Disabled Facilities Grant	(820,000)	(820,000)	(820,000)	(820,000)	(820,000)
External Grant - Lottery Funded Schemes	(9,000)	0	0	0	0
External Grant - Contaminated Land	(42,000)	0	0	0	0
External Grant - Clay Cross Towns Fund	(12,154,000)	(6,891,000)	(3,241,000)	0	0
External Grant - Sharley Park Rebuild (Sport E)	(1,500,000)	0	0	0	0
External Grant - Sharley Park 3G pitch	0	(750,000)	0	0	0
External Grant - UKSPF	(1,389,000)	0	0	0	0
Prudential Borrowing - Vehicle Replacement	(2,065,000)	(1,504,000)	0	0	0
Prudential Borrowing - Killamarsh Leisure Centre	(36,000)	0	0	0	0
Prudential Borrowing - Sharley Park Leisure Centre	(6,745,000)	(8,605,000)	0	0	0
Prudential Borrowing - Sharley Park Leisure Centre 3G pitch	0	(250,000)	0	0	0
RCCO - Killamarsh Skate Park	(14,150)	0	0	0	0
RCCO - Mill Lane Refurbishment	(657,000)	(450,000)	0	0	0
RCCO - Coney Green Telephony System	(36,000)	(80,000)	(65,000)	0	(15,000)
RCCO - Roller Shutter Doors	(1,000)	0	0	0	0
RCCO - UK SPF (Skate Park)	(95,000)	0	0	0	0
RCCO - Roller Shutter Doors	0	0	0	0	0
Useable Capital Receipts	(3,157,000)	(1,760,500)	(1,089,000)	(1,208,000)	(909,000)
General Fund Capital Financing	(28,720,150)	(21,110,500)	(5,215,000)	(2,028,000)	(1,744,000)
HRA Development Reserve					
Opening Balance	(892,067)	(6,067)	(44,154)	(789,098)	(1,437,558)
Amount due in year	0	(349,087)	(3,655,944)	(3,559,460)	(3,366,267)
Amount used in year	886,000	311,000	2,911,000	2,911,000	2,311,000
Closing Balance	(6,067)	(44,154)	(789,098)	(1,437,558)	(2,492,825)
Major Repairs Reserve					
Opening Balance	(970,498)	(851,498)	(851,498)	(851,498)	(851,498)
Amount due in year	(15,855,100)	(15,755,100)	(12,000,000)	(12,000,000)	(12,000,000)
Amount used in year	15,974,100	15,755,100	12,000,000	12,000,000	12,000,000
Closing Balance	(851,498)	(851,498)	(851,498)	(851,498)	(851,498)
Capital Receipts Reserve					
Opening Balance	(1,680,236)	(23,236)	(262,736)	(1,173,736)	(1,965,736)
Income expected in year	(1,500,000)	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)
Allowable Debt/Pooling Expenses	0	1,000,000	1,000,000	1,000,000	1,000,000
Amount used in year	3,157,000	1,760,500	1,089,000	1,208,000	909,000
Closing Balance	(23,236)	(262,736)	(1,173,736)	(1,965,736)	(3,056,736)
Capital Receipts Reserve 1-4-1 receipts					
Opening Balance	(2,183,065)	(267,465)	(37,465)	(37,465)	(37,465)
Income expected in year	(1,000,000)	(1,100,000)	(1,000,000)	(1,000,000)	(1,000,000)
Amount used in year	2,915,600	1,330,000	1,000,000	1,000,000	400,000
Closing Balance	(267,465)	(37,465)	(37,465)	(37,465)	(637,465)
Total Capital Financing	(63,756,250)	(49,606,600)	(29,729,000)	(24,883,000)	(17,055,000)

Appendix B

Annual Minimum Revenue Provision Statement 2024/25

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

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.

The MHCLG Guidance requires the Council, to approve an Annual MRP Statement each year, and includes recommendations for calculating a prudent amount of MRP. In line with this guidance the Council has adopted the following approach:

- For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments, starting in the year after the asset becomes operational. MRP on 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 assets acquired by leases, 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 due to the adoption of the *IFRS 16 Leases* accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.
- For capital expenditure loans to third parties, the Council will make nil MRP unless (a) the loan is an investment from commercial purposes and no repayment was received in year or (b) an expected credit loss was recognised or increase in-year, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment on loans that are investments for commercial purposes, MRP will be

charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. Sufficient MRP will be charged to ensure that the outstanding capital financing requirement (CFR) on the loan is no higher than the principal amount outstanding less the expected credit loss. This option was proposed by the Government in its recent MRP consultation and in the Council's view is consistent with the current regulations.

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

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

Based on the Council's latest estimate of its Capital Financing Requirement on 31st March 2024, the budget for MRP has been set as follows:

	31/03/24 Estimated CFR £m	2024/25 Estimated MRP £m
Supported Capital Expenditure after 31.03.2008	0	0
Unsupported Capital Expenditure after 31.03.2008	29.927	0.418
Leases	0.285	0.072
Total General Fund	30.212	0.490
Assets in the Housing Revenue Account	53.885	0
HRA Subsidy Reform Payment	127.090	0
Total Housing Revenue Account	180.975	0
Total	211.187	0.490

Revenue Account (HRA)

Following the budget on 30 October 2018, the legislation that capped the amount of HRA debt a local housing authority could hold was revoked with immediate effect. The capital financing requirements relating to the HRA will remain the same so there will still be no requirement for an MRP and levels of debt will be managed through prudential borrowing limits controlled by the Treasury Management Strategy.

Removing the debt cap and not having a statutory requirement to make a provision to repay debt presents a significant risk to the HRA. Very careful treasury management is needed to

ensure that the Council's HRA borrowing remains affordable, prudent and reasonable and that the HRA remains sustainable over the long term.



**North East
Derbyshire**
District Council

North East Derbyshire District Council

Non-Treasury Investment Strategy 2024/25 – 2027/28

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).
- 1.2 This investment strategy meets the requirements of the statutory guidance issued by the Government in January 2018, and focuses on the second and third of these categories.
- 1.3 The statutory guidance defines investments as “all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios.” The Council interprets this to exclude (a) trade receivables which meet the accounting definition of financial assets but are not investments in the everyday sense of the word and (b) property held partially to generate a profit but primarily for the provision of local public services. This aligns the Council’s definition of an investment with that in the 2021 edition of the CIPFA Prudential Code, a more recent piece of statutory guidance.

Treasury Management Investments

- 1.3 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 £10.0m and £19.0m during the 2024/25 financial year.

- 1.4 **Contribution:** The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.
- 1.5 **Further details:** Full details of the Council's policies and its plan for 2024/25 for treasury management investments are covered in the Treasury Management Strategy.

Service Investments: Loans

- 1.6 **Contribution:** The Council lends money to assist local public services, including making loans to local service providers and businesses to stimulate local economic growth. This includes loans to Rykneld Homes Ltd to allow development of social housing. Rykneld Homes Ltd is a wholly owned subsidiary of the Council, limited by guarantee. It also includes a loan to Northwood Group Ltd for a mixed tenure housing development scheme in the district.
- 1.7 **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

Category of borrower	31/3/2023 actual			2024/25
	Balance owing £m	Loss allowance £m	Net figure in accounts £m	Approved limit £m
Rykneld Homes Ltd	6.765	0	6.765	13.500
Northwood Group Ltd	8.039	0	8.039	8.663
Total	14.803	0	14.803	22.163

- 1.8 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.
- 1.9 **Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding service loans by requiring a fully costed business case in all instances

that includes any investment/loan requirements and financial/risk implications. A significant amount of due diligence work is undertaken in each case to ensure the business case is robust. The strength of the partnership between Rykneld Homes company and the Council and Northwood group Ltd and the Council helps to mitigate any risk associated with non-payment.

Service Investments: Shares

- 1.10 **Contribution:** The Council had invested £0.150m in the shares of Northwood Group Ltd to support local public services and stimulate local economic growth by delivering housing developments whilst generating income for the Council. During 2023/24 the Council's interest in Northwood ceased following the sale of the company.
- 1.11 **Security:** One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Table 2: Shares held for service purposes

Category of company	31/3/2023 actual			2024/25
	Amounts invested £m	Gains or (losses) £m	Value in accounts £m	Approved Limit £m
Northwood Group Ltd	0.150	(0.022)	0.128	0.000
TOTAL	0.150	(0.022)	0.128	0.000

- 1.12 **Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding shares by working with experienced professionals who have extensive knowledge of the projects and the local markets. In order that commercial investments remain proportionate to the size of the Council, these are subject to overall maximum investment limits and contingency plans are in place should expected yields not materialise.
- 1.13 **Liquidity:** the viability models for each project the Council considers take account of the maximum periods for which funds may prudently be committed and states what those maximum periods are within approved contracts. This will assist the Council to stay within its stated investment limits.
- 1.14 **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 Council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

Commercial Investments: Property

- 1.15 MHCLG defines property to be an investment if it is held primarily or partially to generate a profit.
- 1.16 **Contribution:** The Council invests in local, commercial and residential property with the intention of making a profit that will be spent on local public services. These are mainly industrial units owned across the district.

Table 3: Property held for investment purposes

Property	Actual	31/3/2023 actual		31/3/2024 expected	
	Purchase cost £m	Gains or (losses) £m	Value in accounts £m	Gains or (losses) £m	Value in accounts £m
Industrial Units	4.7	5.5	10.2	0	10.2
Land	1.6	7.4	9.0	0	9.0
Commercial Properties	1.1	0.1	1.2	0	1.2
Shared Ownership Properties	1.0	0.4	1.4	0	1.4
TOTAL	8.4	13.4	21.8	0	21.8

- 1.17 **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.
- 1.18 A fair value assessment of the Council's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2023/24 year end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to full council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.
- 1.19 Where value in the accounts is below purchase cost, the fair value of the Council's investment property portfolio would no longer be sufficient to provide security against loss, and the Council would therefore need to take mitigating actions to protect the capital invested. These actions could include maintaining the investment properties to a required standard and once vacant, advertising any empty investment properties quickly and with professional advertising agencies.
- 1.20 **Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding property investments by working with experienced professionals who have extensive knowledge of the projects, properties and local markets. In order that commercial investments remain proportionate to the size of the Council, these are

subject to overall maximum investment limits and contingency plans are in place should expected yields not materialise.

- 1.21 **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. The Council's Treasury Management Strategy provides assurances through limits on long-term investments to ensure that the invested funds or suitable alternatives can be accessed when they are needed, for example to repay capital borrowed.

Loan Commitments and Financial Guarantees

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

Proportionality

- 1.23 The Council is to some extent dependent on income generating investment activity to achieve a balanced revenue budget. Table 4 below shows the extent to which the expenditure planned to meet the service delivery objectives is dependent on achieving the expected net profit from investments over the lifecycle of the Medium-Term Financial Plan. Should it fail to achieve the expected net profit, the Council's contingency plans for continuing to provide these services are to meet the shortfalls from other efficiencies generated within the general fund revenue budget or utilise reserves set aside for this purpose.

Table 4: Proportionality of investments

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m
Net Service Expenditure	12.377	14.837	15.591	16.020	16.372	16.837
Net Investment Income	0.513	0.473	0.468	0.468	0.467	0.466
Proportion	4.1%	3.2%	3.0%	2.9%	2.9%	2.8%

Borrowing in Advance of Need

- 1.24 Government guidance is that local authorities must not borrow more than or in advance of their needs purely to profit from the investment of the extra sums borrowed.

Capacity, Skills and Culture

- 1.25 **Elected members and statutory officers:** The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. Suitably qualified and experienced officers are employed throughout the Council to perform such functions.
- 1.26 Where Council officers 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. 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.
- 1.27 Members receive individual training and development through the Member Development Programme and are periodically required to attend seminars held by the external treasury management advisors.
- 1.28 **Commercial deals:** All Officers involved in negotiating such arrangements are aware of the core principles of the prudential framework and of the regulatory regime within which local authorities operate and considerable due diligence is undertaken in all instances.
- 1.29 **Corporate governance:** All decisions regards new loans or investments of this nature are considered by the Council's Cabinet before being recommended for approval at Council. Any presentation to members will have been through a fully costed business case that includes any investment/loan requirements and financial/risk implications. A significant amount of due diligence work is undertaken in each case to ensure the business case is robust before reporting to Cabinet.

Investment Indicators

- 1.30 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.
- 1.31 **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

Total investment exposure	31/03/2023 Actual £m	31/03/2024 Forecast £m	31/03/2025 Forecast £m
Treasury management investments	26.00	17.00	10.00
Service investments: Loans – Rykneld Homes Ltd	6.77	6.50	6.24
Service investments: Loans – Northwood Group Ltd	8.04	8.22	7.52
Service investments: Shares – Northwood Group Ltd	0.15	0.00	0.00
Commercial investments: Property	21.80	21.80	21.80
TOTAL INVESTMENTS	62.76	53.52	45.56
Commitments to lend	7.36	7.44	8.40
TOTAL EXPOSURE	70.12	60.96	53.96

- 1.32 **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. To date these investments have been funded by usable reserves and income received in advance of expenditure.

Table 6: Investments funded by borrowing

Investments funded by borrowing	31/03/2023 Actual £m	31/03/2024 Forecast £m	31/03/2025 Forecast £m
Treasury management investments	0	0	0
Service investments: Loans – Rykneld Homes Ltd	6.77	6.50	6.24
Service investments: Loans – Northwood Group Ltd	8.04	8.22	7.52
Service investments: Shares – Northwood Group Ltd	0	0	0
Commercial investments: Property	0	0	0
TOTAL FUNDED BY BORROWING	14.81	14.72	13.76

- 1.33 **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 £m	2023/24 Forecast £m	2024/25 Forecast £m
Treasury management investments	1.89%	3.89%	4.08%
Service investments: Loans – Rykneld Homes Ltd	3.53%	3.52%	3.51%
Service investments: Loans – Northwood Group Ltd	5.09%	5.09%	5.09%
Service investments: Shares – Northwood Group Ltd	0.00%	0.00%	0.00%
Commercial investments: Property	2.35%	2.17%	2.15%

- 1.34 The indicators used to report on the risks and opportunities associated with investment decisions will be kept under review as the Council's Investment Strategy and activities evolve over time.



North East Derbyshire District Council

Flexible Use of Capital Receipts Strategy 2024/25

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.

The Guidance

- 1.2 The guidance issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003 specified 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 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 to improve the quality of service delivery 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.

- 1.3 The Council is also required to prepare a “Flexible use of capital receipts strategy” before the start of the year to be approved by Council which can be part of the budget report to Council. This Strategy therefore applies to the financial year 2024/25.

Examples of qualifying expenditure

- 1.4 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 (e.g. through selling services to others);
- Integrating public facing services across two or more public sector bodies (e.g. children’s social care, trading standards) to generate savings or to transform service delivery.

The Council's Proposals

- 1.5 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 public sector delivery partners. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility."
- 1.6 The Government's use of flexible capital receipts directive has been extended until 31st March 2025.
- 1.7 The Council currently has no plans to utilise the use of flexible capital receipts during the period of the Medium Term Financial Plan 2024/25.

Impact on Prudential Indicators

- 1.8 The guidance requires that the impact on the Council's Prudential Indicators should be considered when preparing a Flexible Use of Capital Receipts Strategy. The Council's current capital programme does not utilise the capital receipts that will be generated to fund the above proposal. Therefore, there will be no change to the Council's Prudential Indicators that are contained in the Treasury Management Strategy Statement.
- 1.9 This strategy has been produced to fulfil the requirements of the DELTA return for the flexible use of capital receipts. As the Council is not utilising the flexible use of capital receipts within its current medium term financial plan this strategy was not needed and not taken through the usual Council committee, it will, in future be added to the normal Treasury Management Strategy Statement approval process