

Appendix 8

Treasury Management Strategy 2024/25

February 2024



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1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA define treasury management as:

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

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities. A schedule of these investments is reported in section 2.2.

As part of wider plans to return the council to financial and operational stability this report contains details of progress made against the Voluntary Debt Reduction Policy which was adopted in March 2021. This strategy aims to reduce the Council's future requirement to borrow, known as the Capital Financing Requirement (CFR) and to reduce the level of debt held by the Council. The CFR was originally forecast to reduce by £66.2m by the end of 2023/24 but the latest forecast is for the CFR to reduce by £38.7m at the end of 2023/24. This is due to reprofiling of CFR changes. Further details can be found on the progress of the Debt Reduction Plan in section 3.4.

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report, which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this capital strategy is to ensure that all elected councillors on the Full Council fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

The Capital Strategy is reported individually, but alongside the Treasury Management Strategy Statement at Audit Committee, Executive Board and Full Council. The Capital Strategy will show:

- The corporate governance arrangements for these types of activities;
- The service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

If any existing non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the Capital Strategy.

1.2.2 Treasury Management reporting

The Council (delegated to Executive Board except the approval of a new strategy) is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

- a. Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
 - the capital plans, (including prudential indicators);
 - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
 - the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
 - an Annual Investment Strategy, (the parameters on how investments are to be managed).
- b. A mid-year treasury management report** – This is primarily a progress report and will update councillors on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, this Authority will receive quarterly update reports.

- c. **An annual treasury report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Executive Board and/or Full Council. The mid-year report and the annual report are taken to Executive Board and the Treasury Strategy report is taken to Executive Board and Full Council. This scrutiny role is undertaken by the Audit Committee.

Quarterly reports – In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June/end of December) is also required. However, these additional reports do not have to be reported to Full Council/Board but do require to be adequately scrutinised. This role is undertaken by the Audit Committee. (The reports, specifically, comprise updated Treasury/Prudential Indicators.)

1.3 Treasury Management Strategy for 2024/25

The strategy for 2024/25 covers two main areas:

Capital issues

- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

- the current treasury position;
- treasury indicators which place limits on the risk and scope of treasury activities;
- prospects for interest rates;
- the borrowing strategy including debt management;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, DLUHC Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

1.4 Training

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to councillors responsible for scrutiny.

Furthermore, pages 47 and 48 of the Code state that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

The scale and nature of this will depend on the size and complexity of the organisation's treasury management needs. Organisations should consider how to assess whether treasury management staff and board/ council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/council members.
- Require treasury management officers and board/council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis."

In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management', which is available from the CIPFA website to download.

The training needs of treasury management officers are periodically reviewed.

A formal record of the training received by officers central to the Treasury function will be maintained by Technical Finance. Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained by Technical Finance.

1.5 Treasury Management Consultants

The Council uses Link Group, Link Treasury Services Limited as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and ensures that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

2 The Capital Prudential Indicators 2023/24 – 2027/28

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist councillors' overview and confirm capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Capital Expenditure £m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
General Fund	187.2	249.1	45.5	16.7	5.9
General Fund EFS	25.0	40.0	0.0	0.0	0.0
HRA	50.0	69.6	51.6	48.7	48.1

The above capital expenditure figures reflect the 2024/25 Capital Strategy, which seeks to use effective prioritisation to deliver an affordable capital program by limiting expenditure and increasing capital receipts to align the capital plans to the financial context of the Council.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of Capital Expenditure £m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Capital Receipts	48.3	47.8	5.5	3.5	3.8
Capital Grants & Contributions	164.6	234.1	38.5	11.6	3.5
Capital Reserves (MRR)	26.7	38.2	44.2	43.8	41.2
Revenue Resources	4.7	14.3	7.6	6.6	5.3
Capital expenditure to be financed by borrowing	14.2	9.4	1.4	0.0	0.0
EFS financed by borrowing	3.7	14.8			
TOTAL	262.3	358.7	97.1	65.6	53.9

As explained in the Capital Strategy the General Fund has forecast expenditure financed by borrowing relating to existing residual commitments in 2023/24 and beyond, with the balance of borrowing attributed to Housing capital expenditure as shown in the table below.

Split of Capital expenditure to be financed by borrowing £m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
General Fund	2.5	2.1	1.4	0.0	0.0
HRA	11.7	7.3	0.0	0.0	0.0
TOTAL	14.2	9.4	1.4	0.0	0.0

2.2 Non-Treasury Investments

The principles within this Treasury Management Strategy prohibit the Council from including any schemes that meet the Commercial Investment definition within its Capital Strategy in accordance with the Debt to Yield guidance published in November 2020.

Nottingham City Council has previously invested in both Service and Commercial Investments the differential between these investments is defined as follows:

Commercial Investment – CIPFA defines commercial investments as assets held solely to earn income and/or for capital appreciation Examples of commercial investments held by the Council are as follows:

Holding property for a financial return and/or appreciation.

Service Investments – Are investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Examples of service investments held by the Council are as follows:

loans to external organisations that are delivering the Council’s strategic objectives

shareholding in companies that support service provision

Further details of these investments are contained within Nottingham City Council’s Non-Treasury Investment Strategy which is enclosed in Annex C of the Capital Strategy

The Council is continuously reviewing its investments to identify opportunities of divestment with a view to accelerate the reduction of the Councils debt exposure and achieve its VDR policy. As part of the VDR policy the council is not allowing any additional non-treasury investment above what was included within the Capital Programme at the time the VDR was incepted.

Commercial Investments

The most significant commercial Investments that the Council has undertaken to date are in relation to property acquisitions. A summary of the position is detailed below, further details are contained within Annex C of the Capital Strategy

Register of Commercial Investments					
	Purchase Price	Capital Value as at 31st March 22	Balance Sheet Gain / Loss in Carrying Value	Net Return (after MRP and other attributable costs)	Yield on Return
	£m	£m	£m	£m	
Disposed in 2023/24					
2 Castlebridge	1.487	1.500		(0.067)	
Disposed in 2023/24 - Subtotal	1.487	1.500		(0.067)	
Project Connect	9.228	10.110	0.882	(0.515)	5.58%
Project 118	10.724	10.130	(0.594)	(0.505)	4.71%
Project Duke	14.486	9.290	(5.196)	(0.940)	6.49%
Project Minster	6.200	6.230	0.030	(0.312)	5.03%

Register of Commercial Investments					
	Purchase Price	Capital Value as at 31st March 22	Balance Sheet Gain / Loss in Carrying Value	Net Return (after MRP and other attributable costs)	Yield on Return
	£m	£m	£m	£m	
Project Castle	5.838	5.100	(0.738)	(0.362)	6.20%
Heron House	3.223	2.950	(0.273)	(0.131)	4.06%
Flying Horse Walk	6.403	3.790	(2.613)	(0.210)	3.28%
Project Fothergill	10.615	8.900	(1.715)	(0.313)	2.95%
Project Boot	5.566	7.500	1.934	(0.343)	6.16%
Project Abbey	19.102	15.650	(3.452)	(1.547)	8.10%
Project Highland	11.105	10.010	(1.095)	(0.627)	5.65%
Project Albert	10.083	4.490	(5.593)	(0.215)	2.13%
Project Doncaster	23.641	13.460	(10.181)	(0.488)	2.06%
Project Mulberry	22.182	15.650	(6.532)	(0.759)	3.42%
Project Willow	9.926	9.810	(0.116)	(0.480)	4.84%
Project Green	14.160	12.270	(1.890)	(0.649)	4.58%
Project Donnington	11.793	8.950	(2.843)	0.098	-0.83%
Project Brookfield	8.352	8.260	(0.092)	(0.444)	5.32%
Project Aston	5.504	6.090	0.586	(0.295)	5.36%
Other Commercial Investments under £5.0m	23.909	19.965	(3.944)	(1.448)	6.06%
Commercial Investments Held	232.040	188.605	(43.435)	(10.485)	4.52%
Capital Programme Funding					
Prudential Borrowing	(227.040)				
Capital Receipts	(5.000)				
Total Funding	(232.040)				

Service Investments

Nottingham City Council has made loans and investments to third parties based on further delivery of the Council's strategic objectives and any benefits from the investment will be received by the Council and its residents in the short, medium, or long term. The Council also hold shares in companies that support service provision. A summary of this position is included below with further detailed contained within Annex C of the Capital Strategy.

Table 3– Summary of Service Investments				
	31 March 23 Balance	Movements to P9	30 December 23 Balance	Forecast Balance 31 March 24
	£m	£m	£m	£m
Shares /Equity Held	13.463	1.206	14.669	14.669
Loans	118.478	(4.170)	114.308	111.816
Total	131.941	(2.964)	128.977	126.485
Net Income (forecast net of MRP)				(2.770)
Yield on Service Investments (%)				2.19%

2.3 The Council's financing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge, which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI/lease provider and so the Council is not required to separately borrow for these schemes. The Council has £146.2m of such schemes within the CFR as at 31 March 2024.

The CFR projections are shown below:

	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Capital Financing Requirement (£m)					
CFR – General Fund	975.9	939.1	858.4	799.1	764.1
CFR – HRA	301.3	301.7	294.3	287.0	280.0
Total CFR	1277.2	1240.8	1152.7	1086.1	1044.1
Movement in CFR	-38.8	-36.4	-88.1	-66.6	-42.0

Movement in CFR represented by (£m)					
Net financing need for the year (above)	18.0	24.3	1.4	-	-
Less MRP/VRP and other financing movements	-56.8	-60.7	-89.5	-66.6	-42.0
Movement in CFR	-38.8	-36.4	-88.1	-66.6	-42.0

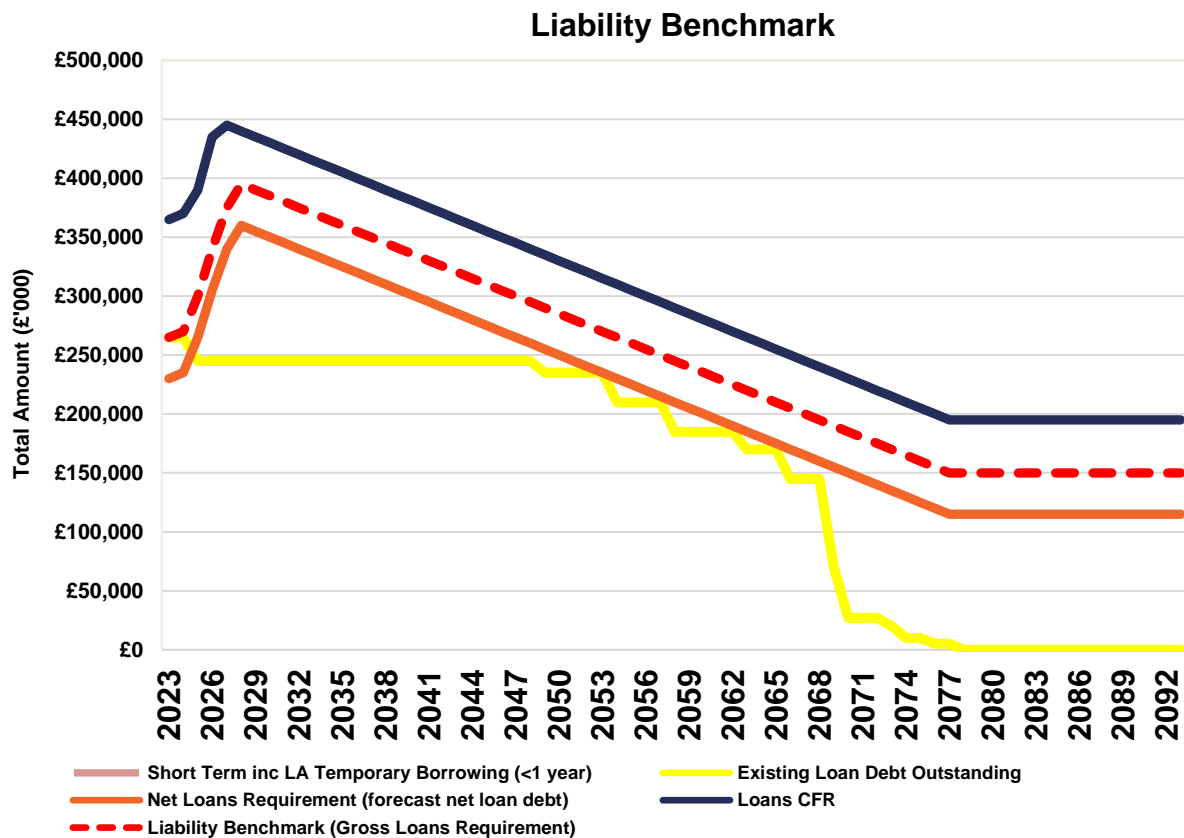
Note: the MRP / VRP will include PFI / finance lease annual principal payments and a known increase of £4.7m in MRP from 2024/25 as part of a previous decision to change the MRP Policy.

The capital programme and the 2024/25 Capital Strategy support the objectives in the Council's *Together for Nottingham* plan including limiting expenditure financed by borrowing and the increase in capital receipts to reduce the Council's forecast requirement to borrow. This has resulted in a reduction in debt levels and will support achieving long-term financial stability. There is a forecast £211.85m overall reduction in the Council's requirement to borrow, known as the CFR, from 2023/24 to 2027/28 which is the sum of the 'Movement in CFR' for those years in the table above and reflects decisions made to date towards the debt reduction objectives within the Debt Policy shown in section 3.4.

2.4 Liability Benchmark

The Authority is required to estimate and measure the Liability Benchmark (LB) for the forthcoming financial year and the following two financial years, as a minimum. There are four components to the LB: -

1. **Existing loan debt outstanding:** the Authority’s existing loans that are still outstanding in future years.
2. **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. **Net loans requirement:** this will show the Authority’s gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance.



2.5 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for resources and anticipated day-to-day cash flow balances.

Year End Resources £m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Total core funds inc reserves, capital receipts & provisions	469.4	465.4	470.4	494.6	499.5
Working capital*	180.0	160.0	160.0	60.0	60.0
Under/(over) borrowing	(346.8)	(350.6)	(295.0)	(266.8)	(262.4)
Expected investments	302.6	274.8	335.4	287.8	297.1

*Working capital balances shown are estimated year-end; these may be higher mid-year and balances include Government Grants received in advance and so balances held will reduce as expenditure occurs.

3 Borrowing

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

The Council's policy on borrowing is to limit planned expenditure financed by borrowing and to seek to reduce the level of debt held by the Council in line with the objectives in the published Together for Nottingham plan. This is known as the voluntary debt reduction policy and details of that, along with the approach to potentially borrowing for exceptional financial support, can be found in section 3.4.

3.1 Current portfolio position

The overall treasury management portfolio as at 31 March 2023 and for the position as at 31 December 2023 are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
	actual 31.3.23	actual 31.3.23	current 31.12.23	current 31.12.23
	£000	%	£000	%
Treasury investments				
Banks	95,000	31%	50,000	15%
Local authorities	41,000	13%	15,000	4%
Gilts	0	0%	13,200	4%
Money Market Funds	112,200	36%	36,000	11%
Certificates of Deposit	0	0%	209,493	63%
DMO/Other	59,874	19%	9,992	3%
Total treasury investments	308,074	NA	333,685	NA
Treasury external borrowing				
Local Authorities	0	0%		0%
PWLB	824,674	94%	807,293	94%
Fixed Rate Market Loans	14,000	2%	14,000	2%
LOBOs	35,000	4%	35,000	4%
Total external borrowing	873,674	100%	856,293	100%
Net treasury investments / (borrowing)	-565,600	NA	-522,608	NA

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt and other long-term liabilities (PFI & lease liabilities) against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

It should be noted that the forecast under borrowing position is supported by the Council balance sheet i.e. reserves and working capital balances, as these balances reduce further borrowing will be required and additional costs of financing will be incurred. This should be

seen in context of the Council's overall budget position and current level of budget flexibility.

£m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
External Debt at 1 April	878.0	784.2	756.9	738	711.7
Expected change in Debt	-93.8	-27.3	-18.9	-26.3	-25.8
Other long-term liabilities inc PFI	158.3	146.1	133.4	119.8	107.8
Expected change in OLTL *	-12.0	-12.8	-13.5	-12.2	-11.75
Gross debt at 31 March	930.5	890.2	857.7	819.3	781.7
Capital Financing Requirement (CFR)	1,277.3	1240.8	1,152.7	1,086.2	1,044.2
Under / (over) borrowing	346.8	350.6	295	266.8	262.4

* (OLTL) – Other Long Term Liabilities

Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Council complied with this prudential indicator in the current year and expects to remain compliant against the future estimates below. This view takes into account current commitments, existing plans, and the proposals in this report and the Capital Strategy for 2023/24.

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary £m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Debt	804.2	776.8	757.8	731.5	705.6
Other long-term liabilities (Inc PFI)	146.2	133.4	119.8	107.8	96.0
Total	950.4	910.2	877.6	839.3	801.6

The authorised limit for external debt. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It

reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Authorised limit £m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Debt	834.2	806.8	787.9	761.5	735.6
Other long-term liabilities (Inc PFI)	146.2	133.4	119.8	107.8	96.1
Total	980.4	940.2	907.7	869.3	831.7

The upper limit on variable interest rate exposure. – This is a local indicator to control the Council's exposure to interest rate risk including LOBO loans with a call option in the next 12 months. The upper limits on variable rate interest rate exposures, expressed as the amount of principal borrowed for the next five financial years. A high level of variable rate debt presents a risk from increases in interest rates. This figure represents the maximum permitted exposure to such debt.

£m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Variable rate debt	200.0	200.0	200.0	200.0	200.0

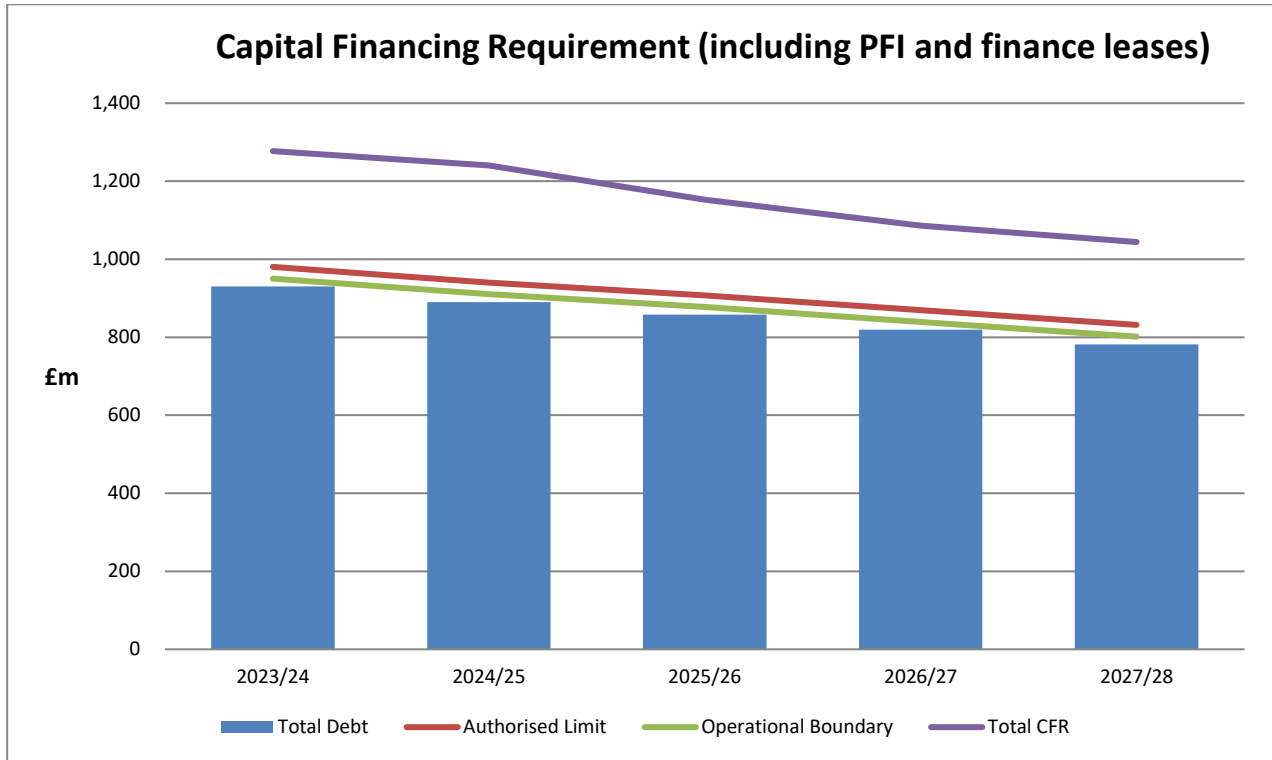
The level of variable rate debt as at 31 December 2023 was £49m. Subsequent to this reporting date £8m of variable rate loans were repaid.

Debt limits against the CFR: - The following table and graph discloses how the indicators on the limits to borrowing compare to actual external debt and the forecast capital financing requirement (CFR). The difference between the CFR and the forecast total debt represents the level of under borrowing expected over the forecast period which is cost efficient, but does increase the Council's exposure to interest rates.

CAPITAL FINANCING REQUIREMENT including PFI and finance leases					
	Est 2023/24 £m	Est 2024/25 £m	Est 2025/26 £m	Est 2026/27 £m	Est 2027/28 £m
HRA CFR	301.3	301.7	294.4	287.1	280.1
GF CFR	975.9	939.2	858.4	799.1	764.1
Total CFR	1277.2	1240.9	1152.8	1086.2	1044.2
External Borrowing	784.2	756.8	737.9	711.5	685.6
Other long term liabilities	146.3	133.4	119.8	107.8	96.1
Total Debt	930.5	890.2	857.7	819.3	781.7

CAPITAL FINANCING REQUIREMENT including PFI and finance leases

Authorised Limit	980.4	940.2	907.7	869.3	831.7
Operational Boundary	950.4	910.2	877.6	839.3	801.6



3.3 Prospects for interest rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 8th January 2024. These are forecasts for certainty rates, gilt yields plus 80 bps. The Interest rate forecast below should be considered alongside the detailed economic background and forecast commentary provided in section 5.4.

Link Group Interest Rate View 08.01.24													
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

The above forecasts for 3-12 month average earnings previously had been referenced to the London Inter-Bank Offered Rates (LIBOR), however LIBOR and LIBID rates ceased from the end of 2021 and replaced with a rate linked to the Sterling Overnight Index Average (SONIA). The forecasts are now based on expected average earnings by local authorities for 3 to 12 months.

Investment and borrowing rates (Commentary provided by Link 8/1/24)

- Our central forecast for interest rates was previously updated on 8th January 2024 and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and when there is a likelihood of the overall economy enduring at least a slowdown or mild recession over the coming months (although most recent GDP releases have surprised with their on-going robustness).
- Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.
- In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

PWLB RATES

- The short and medium part of the gilt curve has rallied since the start of November as markets price in a quicker reduction in Bank Rate through 2024 and 2025 than held sway back then. This reflects market confidence in inflation falling back in a similar manner to that already seen in the US and the Euro-zone. At the time of writing there is c70 basis points difference between the 5 and 50 year parts of the curve.

Please see section 5.4 for further economic commentary.

3.4 Borrowing strategy including debt management

The Council's policy on borrowing is to limit planned expenditure financed by borrowing and to seek to reduce the level of debt held by the Council in line with the objectives in the published Together for Nottingham plan.

The Capital Strategy includes the Voluntary Debt Reduction Policy Statement (Appendix B) including a debt policy in respect of new capital expenditure. The debt policy section is shown below:

- 2021/22 - **To restrict new borrowing to no more than the level of the annual debt being repaid.** (i.e. No new schemes financed by borrowing). The Capital Programme has been reduced to existing commitments and no schemes added funded by borrowing.
- 2022/23 - 2026/27 - **Nil new borrowing throughout the period.** No new schemes financed by borrowing to be added to the Capital Programme, unless the scheme is required to enable compliance with legal or statutory duties (e.g. Health and Safety). Whereby any borrowing will be capped by the forecast headroom as indicated (including updates reported as necessary) within the CFR / external as shown below, this headroom will be restricted to measurement with the least headroom. This applies both to general fund and public sector housing debt.
- **2022/23 – 2026/27 - Borrowing allowable in exceptional financial circumstances.** It is allowable for the council to engage in borrowing when this is part of the response to exceptional financial circumstances. These exceptions will typically, but not exclusively, take the form of borrowing that arises from a capitalisation direction. This is a temporary funding mechanism that is put in place in order to allow time for sustainable funding solutions to be put in place. Exceptional borrowing will therefore be of short-term duration only.

The policy also states that “Nothing in this policy shall prevent the Council from exercising normal day-to-day management of its borrowings through Treasury Management activities and/or the use of internal borrowing.”

Borrowing Strategy: The Council is currently maintaining an under-borrowed position and does not expect to require new borrowing for the General Fund in the forecast period.

This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing rates of inflation fall back to the Bank of England's target. That is, Bank Rate is expected to fall over the coming years. See section 3.3:

Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. Interest rates are closely monitored in financial markets and a pragmatic approach to changing circumstances will be taken:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.*

- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

The Councils longer-term requirement for borrowing, known as the CFR will be a key consideration before taking on new or replacement borrowing, where cash flow permits debt upon maturity will be repaid without replacement to bring the overall level of debt down and reduce the Council's cost of financing.

However, to manage interest rate risk this strategy includes the option to fund future years' borrowing requirements including maturing loans or to reduce the level of internal borrowing providing this does not exceed the authorised limit for borrowing.

Any borrowing will be subject to the Council's borrowing limits, maturity limits and the limits on the exposure to variable interest rates shown in section 3.2 to comply with the Prudential Indicators in section 5, and will be reported to the Executive Board and Audit Committee at the next available opportunity following its action.

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

- Public Works Loan Board (PWLB) and its successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Nottinghamshire County Council Pension Fund)
- Insurance and Assurance companies
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

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

- finance leases
- Private Finance Initiative
- sale and leaseback

3.5 Policy on borrowing in advance of need

The Authority will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds.

3.6 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. Rescheduling of current borrowing in our debt portfolio is considered while premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.

Private market 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 reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile).

All rescheduling will be reported to the Executive Board and Audit Committee, at the earliest meeting following its action.

3.7 New financial institutions as a source of borrowing and / or types of borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both General Fund borrowing and for HRA borrowing that is gilts + 60 basis points. Although significant new borrowing is very unlikely in the forecast period, consideration may still need to be given to alternative funding sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years)
- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time)

With support from our treasury management advisors, we will keep informed as to the relative merits of each of these alternative funding sources.

4 Annual Treasury Investment Strategy

4.1 Treasury Management Investment policy – management of risk

The Department for Levelling Up, Housing and Communities (DLUHC) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

The Council’s investment policy has regard to the following: -

- DLUHC’s Guidance on Local Government Investments (“the Guidance”)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 (“the Code”)
- CIPFA Treasury Management Guidance Notes 2021

The Council’s investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council aims to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council’s risk appetite.

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider “laddering” investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.
2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as “**credit default swaps**” and overlay that information on top of the credit ratings.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This Council has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two categories of investment: ‘specified’ and ‘non-specified’.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.
 - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by councillors and officers before being authorised for use.
5. Non-specified investments limit. are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. The Council has determined that it will limit the maximum total exposure to non-specified investments (see table 2 in section 4.4).
 6. **Approved Counterparties and limits**, (amounts and maturity), for each type of counterparty will be set through applying the matrix table 1 in section 4.4.
 7. **Investment limits** are set for each type of investment in table 3 in section 4.5.
 8. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, shown in table 4 in section 4.6.
 9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see section 4.4 – specified investments).
 10. This authority has engaged **external consultants**, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
 11. All investments will be denominated in **sterling**.
 12. As a result of the change in accounting standards for 2022/23 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23.

This authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.7). Regular monitoring of investment performance will be carried out during the year.

4.2 Investment strategy

Objectives: Both the CIPFA Code and the DLUHC Guidance require the Council to invest its 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 receiving unsuitably low investment income. For liquidity purposes investment balances are expected to be maintained above £30m.

Strategy: Investments will be made with reference to the forecast core cash balances, cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate peaking in the first half of 2023 and possibly reducing as early as the latter part of 2023 so an agile investment strategy would be appropriate to optimise returns.

Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

The current forecast shown in paragraph 3.3, includes a forecast for Bank Rate to have peaked at it's current rate of 5.25%.

The suggested investment earnings rates for returns on new investments placed for periods up to about three months during each financial year are as follows:

Average % for new investments in each year	
2023/24	5.30%
2024/25	4.55%
2025/26	3.10%
Long term later years	3.25%

4.3 Approved Counterparties

The Council may invest its surplus funds with any of the counterparty types in table 1 below, subject to the cash limits (per counterparty) and the time limits shown.

Credit Rating	Banks Unsecured	Banks Secured	Government
UK Govt	n/a	n/a	£ Unlimited 50 years
AAA	£30m 12 months	£30m 10 years	£30m 10 years
AA+	£30m 12 months	£30m 5 years	£30m 10 years
AA	£30m 12 months	£30m 5 years	£30m 10 years
AA-	£30m 12 months	£30m 2 years	£30m 5 years
A+	£30m 12 months	£30m 2 years	£30m 5 years

A	£30m 12 months	£30m 2 years	£30m 5 years
A-	£20m 6 months	£30m 1 year	£30m 5 years
None	n/a	n/a	£30m * 5 years
Money Market Funds (AAA or equivalent)	£40m per fund		
Strategic pooled funds (AAA or equivalent)	£20m per fund		

** Includes other UK Local Authorities – limit per Authority
This table must be read in conjunction with the notes below: -*

Lloyds Bank: The Council's current provider of banking services, will be subject to the limits in table 1 for investment balances, but also accommodate necessary short-term cash management balances within its bank accounts for periods of up to 4 days with no maximum sum.

Credit Rating: Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. 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 not made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks 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.

Banks Secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they 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 highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Debt Management Office deposits, loans, bonds and bills issued or guaranteed by national governments, regional and local authorities, supranational banks and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Money Market Funds: A highly rated, highly diversified pooled investment vehicle whose assets mainly comprise of short-term instruments and offer same-day or short notice liquidity and very low or no price volatility. The Money Market Fund definition and limit includes CNAV, LVNAV and VNAV Cash and Cash-plus funds. All are highly regulated and have to operate within minimum credit quality and diversification requirements as set out by rating agencies to

maintain an AAA money market fund rating. These are used as an alternative to short term deposits and instant access bank accounts.

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

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. 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.

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

Environmental, Social and Governance Investment Policy:

The Treasury investment classes detailed in this Strategy are short term in nature, and therefore establishing investment criteria for environmental, social and governance (ESG) factors is challenging.

There are several approaches to ESG investing, but they all focus on investments which will have a positive return and a long-term impact in people, the environment, and how business is conducted. This is particularly important when the investment takes the form of equity, and therefore the investor can use their influence in corporate matters.

None of the investment classes contained within this Strategy provide that level of influence. Instead, the treasury management team will continue to make sure that institutions demonstrate a significant level of commitment to ESG matters and will not invest if there are concerns.

For short term investments with counterparties, this Authority utilises the ratings provided by Fitch, Moody's and Standard & Poor's to assess creditworthiness, which do include analysis of ESG factors when assigning ratings.

Specified Investments: The DLUHC Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months,

- not defined as capital expenditure by legislation, and
- invested with one of:
 - the UK Government,
 - a UK local authority, parish council or community council, or
 - a body or investment scheme of “high credit quality”.

The Council defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of AAA from at least one of the main credit rating agencies.

Non-specified Investments: Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any financial investments (treasury management investments) denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified treasury investments will therefore be limited to long-term investments, i.e. those that are due to mature in 12 months or longer. The limits for non-specified investments are shown in **table 2** below.

Table 2: Non-Specified Investment Limit	
	Cash limit
Unsecured Bank Investments > 365 days *	£0m
Secured Bank Investments > 365 days *	£40m
Government Investments > 365 days (inc Local Authorities) *	£100m
Total non-specified investments	£100m

* The table above shows the non-specified investment limits by the investment type. The investment limits in Table 1 & 3 also apply.

Investment Limits

In order to limit the amount of available reserves put at risk in the case of a single default, the maximum that will be lent unsecured to any one organisation (other than the UK Government and Money Market Funds) will be £20 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on Money Market Funds, foreign countries and industry sectors as below. Investments in Money Market Funds & Strategic 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 3: Investment Limits	Cash limit
Any single organisation, except the UK Central Government and Money Market Funds	£30m each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£30m per group
Foreign countries	£60m per country

Money Market Funds (AAA or equivalent *)	£40m per fund & £120m in total
Strategic Pooled Funds (AAA or equivalent *)	£20m per fund & £40m in total

* Money market fund “fund” ratings are different to individual counterparty ratings, coming under either specific “MMF” or “Bond Fund” rating criteria.

4.4 Investment treasury indicators

The Council measures and manages its exposures to treasury management risks using the following indicators. These voluntary indicators are a guide to risk levels and they may be breached from time to time, depending on movements in interest rates and counterparty criteria. These will be reported against, in the mid-year or Annual Report.

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.

- Target portfolio average credit rating = A

Liquidity

The Council balances not keeping excessive amounts of cash in call accounts to reduce the cost of carrying excess cash against the liquidity risk of not having cash available to meet unexpected payments. To mitigate the liquidity risk the Council has access to borrow additional, same day, cash from other local authorities and seeks to maintain:

- Liquid short term deposits of at least £30m available within a week’s notice.
- Bank overdraft - £0m

Yield

The Council has adopted a voluntary measure of yield against industry benchmark rates

- Average Investment return against the 7-day SONIA rate

Interest Rate Exposures

The purpose of this indicator is to control the Council’s exposure to the risk of incurring losses by seeking early repayment of its investments. The limits reflect the forecast cash balances after each year-end plus headroom to accelerate borrowing to manage interest rate risk as detailed in section 3.4. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Table 4: Upper limit for principal sums invested for longer than 365 days
--

£m	2023/24	2024/25	2025/26	2026/27
Principal sums invested for longer than 365 days	£100m	£100m	£100m	£100m
Current investments as at 31.12.22 in excess of 1 year maturing in each year	£20.0m	£0m	£0m	£0m

Other Items

There are additional items that the Council is obliged to include in its Treasury Management Strategy in line with CIPFA or DLUHC guidance.

4.5 Liquidity Management:

The Council uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments.

4.5 End of Year Investment Report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

4.7.1 Policy on Use of 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).

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.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

4.7.2 Policy on Apportioning Interest to the HRA:

On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for

investment) will result in a notional cash balance which may be positive or negative. This balance will be measured and interest transferred between the General Fund and HRA at the average interest rate achieved by the Council's investment portfolio in the year.

4.7.3 Policy on Council Subsidiary Deposit Facility:

The Council has a number of subsidiary companies within the group organisation, as such the it may provide a safe haven deposit facility for surplus cash balances held by these companies. These funds are available on request subject to minimum notice period and balances would attract interest at a rate agreed at the time of the request.

4.7.4 Management of treasury risk:

Risk management plays a fundamental role in treasury activities, due to the value and nature of transactions involved. Details of the specific risks identified in respect of treasury management within the Council are adopted to form a Risk Management Action Plan. This Plan is reviewed at regular intervals at meetings of the Treasury Management Panel and an overview is reported to Audit Committee as part of the Treasury Management reporting.

5 Appendices

5.1 The Capital Prudential and Treasury Indicators

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist councillors' overview and confirm capital expenditure plans.

5.1.1 Capital expenditure & the Capital Financing Requirement

See paragraphs 2.1 & 2.2

5.1.2 The Authorised limit for external debt and the operational boundary

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary £m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Debt	804.2	776.8	757.8	731.5	705.6
Other long-term liabilities (Inc PFI)	146.2	133.4	119.8	107.8	96.0
Total	950.4	910.2	877.6	839.3	801.6

The authorised limit for external debt. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not

desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Authorised limit £m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Debt	834.2	806.8	787.9	761.5	735.6
Other long-term liabilities (Inc PFI)	146.2	133.4	119.8	107.8	96.1
Total	980.4	940.2	907.7	869.3	831.7

5.1.3 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

These indicators reflect decisions on future capital plans and policies detailed in the Capital & Strategy with the objective to reduce the forecast cost of financing and support the Council returning to financial and operational stability.

a. Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream. The GF indicator in 2023/24 reflects the benefit of higher interest rates which is expected to ease throughout 2024/25 and beyond.

%	2023/24	2024/25	2025/26	2026/27	2027/28
	Estimate	Estimate	Estimate	Estimate	Estimate
General Fund	0.59%	1.83%	3.04%	2.98%	2.74%
HRA	11%	9%	9%	9%	8%

The estimates of financing costs include current commitments and the proposals in this report. The net revenue stream is shown as the total sum to be raised from government grants, business rates, council and other taxes (General Fund) and rent income (HRA). From 1 April 2012, the General fund income figure includes ring-fenced NET (tram) government grant and revenue raised from the Workplace Parking Levy.

b. HRA ratios

The first of two local HRA indicators below shows the ratio debt to revenue showing the sustainability of the debt load over the forecast period.

	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
HRA debt £m	235.4	229.0	228.4	219.4	211.4
HRA debt cap £m (abolished)	319.8	319.8	319.8	319.8	319.8
HRA revenues £m	124.9	128.5	132.3	136.2	140.2
Ratio of debt to revenues %	188%	178%	172%	161%	150%

The second indicator shows the HRA debt per dwelling based on the forecast debt level.

	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
HRA debt £m	235.4	229.0	228.4	219.4	211.4
Number of HRA dwellings	24,546	24376	24136	23896	23656
Debt per dwelling £m's	0.0123	0.0124	0.0122	0.0120	0.0119

5.1.4 Maturity structure of borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Maturity structure of fixed interest rate borrowing 2024/25			
	Lower	Upper	Actual at 31.12.2023
Under 12 months	0%	25%	1%
12 months to 2 years	0%	25%	3%
2 years to 5 years	0%	25%	9%
5 years to 10 years	0%	25%	17%
10 years to 25 years	0%	50%	7%
25 years to 40 years	0%	50%	32%
40 years and above	0%	50%	31%

Please note that the maturity date is deemed to be the next call date.

5.1.5 Control of interest rate exposure

Please see paragraphs 3.2.

The upper limit on variable interest rate exposure. – This is a local indicator to control the Council’s exposure to interest rate risk including LOBO loans with a call option in the next 12 months. The upper limits on variable rate interest rate exposures, expressed as the amount of principal borrowed for the next three financial years. A high level of variable rate debt presents a risk from increases in interest rates. This figure represents the maximum permitted exposure to such debt.

£m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Variable rate debt	200.0	200.0	200.0	200.0	200.0

The level of variable rate debt as at 31 December 2023 was £49m. Subsequent to this £8m of variable rate debt was repaid in January 2024.

5.2 Annual Minimum Revenue Provision Statement 2024/25

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

MHCLG (now DLUHC) regulations were issued on 2 February 2018 which require the Council to approve an MRP statement in advance of each year.

The following statement only incorporates options recommended in the Guidance as well as locally determined prudent methods.

- For capital expenditure incurred before 2007/08, and for supported capital expenditure (defined as a borrowing allocation financed by Government grant) incurred on or after that date, the MRP policy will be to charge an amount per Schedule A below. This charge is based on the principle of repaying the outstanding balance as 31 March 2016 over a 50 year period (2066/67) as per profile approved in 2017/18.
- For unsupported capital expenditure incurred after 2007/08, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets in equal instalments *or* as the principal repayment on an annuity, 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. (*Option 3 in the guidance*)
- For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability, to reflect accounting changes under IFRS16. The Section 151 Officer will determine the appropriate treatment, having regard to the MRP Guidance, in complex cases.
- Where loans are made to other bodies for their capital expenditure, No MRP will be charged, but instead will apply the capital receipts arising from principal repayments to reduce the outstanding debt in the capital financing requirement. The principal repayment profile is as shown in 3rd party loan agreements and where principal repayments are not broadly spread over the life of the loan or there is an anticipated expected loss on the loan, the Section 151 Officer may determine that MRP be made for reasons of prudence.
- No MRP will be charged in respect of assets held within the Housing Revenue Account.
- Voluntary MRP may be made at the discretion of the Section 151 Officer.
- Capital receipts maybe voluntarily set-aside to clear debt or reduce the CFR.
- The S151 officer is currently considering the appointment of external consultants to review the charge. If and when this occurs then the relevant committees will be informed of the outcome.

MRP Overpayments - A change introduced by the revised DLUHC MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

5.3 Nottingham City Council Treasury Management Policy Statement

The following treasury management policy statement is required to be adopted annually by Full Council as part the Treasury Management Strategy.

1 Introduction and Background

1.1 *The Council has adopted in full the recommendations of CIPFA's Treasury Management in the Public Services (as issued in 2017): Code of Practice (the Code), as described in Section 5 of the Code.*

1.2 *Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-*

- *A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities*
- *Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.*
- *investment management practices (IMPs) for investments that are not for treasury management purposes. These are grouped with TMPs into one document.*

1.3 *The content of the policy statement, TMPs and IMPs will follow the recommendations contained in Sections 6, 7 and 8 of the TM Code, subject only to amendment where necessary to reflect the particular circumstances of this organization. Such amendments will not result in the organization materially deviating from the TM Code's key principles.*

1.4 *The Council via Full Council, will receive reports on its treasury management policies, practices, activities and the annual treasury management strategy in advance of the year in the form prescribed in its TMPs and IMPs.*

1.5 *The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Executive Board. Executive Board will receive reports as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.*

1.5 *The Council delegates responsibility for the execution and administration of treasury management decisions to the Chief Financial Officer (Section 151 Officer), who will act in*

accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.6 The Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2 Policies and Objectives of Treasury Management Activities

2.1 The Council defines its treasury management activities as:

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

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

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

2.4 The Council's borrowing will be affordable, sustainable, prudent and proportionate with its financial resources and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

2.5 The Council's objectives, in relation to financial investments, in order of importance, remains

- a. the preservation (security) of capital value*
- b. The liquidity or accessibility of the Council's financial investments*
- c. the yield earned on these investments*

5.4 Economic background and forecast commentary (from Link, Treasury advisors)

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is even.

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).
- **The Bank of England** has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.
- **Geopolitical risks**, for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- Despite the tightening in Bank Rate to 5.25%, the **Bank of England allows inflationary pressures to remain elevated** for a long period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.
- **The pound weakens** because of a lack of confidence in the UK Government's pre-election fiscal policies, which may prove inflationary, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Projected **gilt issuance, inclusive of natural maturities and QT**, could be too much for the markets to comfortably digest without higher yields compensating.

LINK GROUP FORECASTS

We expect the MPC will keep Bank Rate at 5.25% until the second half of 2024, to combat ongoing inflationary and wage pressures, even if they have dampened somewhat of late. We do not think that the MPC will increase Bank Rate above 5.25%.

Gilt yields and PWLB rates

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, as inflation continues to fall through 2024.

Our target borrowing rates are set **two years forward** (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below: -

PWLB debt	Current borrowing rate as at 08.01.24 p.m.	Target borrowing rate now (end of Q4 2025)	Target borrowing rate previous (end of Q3 2025)
5 years	4.53%	3.70%	3.80%
10 years	4.67%	3.90%	3.80%
25 years	5.19%	4.20%	4.20%
50 years	4.97%	4.00%	4.00%

Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate remains at 3% and reflects Capital Economics' research that suggests AI and general improvements in productivity will be supportive of a higher neutral interest rate. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to factor in Bank Rate reductions for 2024 and later.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are set out below.

Average earnings in each year	Now	Previously
2023/24 (residual)	5.30%	5.30%
2024/25	4.55%	4.70%
2025/26	3.10%	3.20%
2026/27	3.00%	3.00%
2027/28	3.25%	3.25%
2028/29	3.25%	3.25%
Years 6 to 10	3.25%	3.25%
Years 10+	3.25%	3.25%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

5.5 The Treasury Management Role of the Section 151 Officer

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to councillors of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that councillors are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following : -
 - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
 - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*
 - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that*

appropriate professional due diligence is carried out to support decision making;

- *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*
- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*