Rushcliffe Borough Council	**Governance Scrutiny Group** **Thursday, 20 February 2025** **Capital and Investment Strategy – Quarter Report 3 2024/25**

Report of the Executive Manager - Finance and Corporate Services

1. Purpose of report

1.1. The purpose of this report is to summarise the Capital and investment activities of the Council for the period 1 April to 31 December 2024.

1.2. The Capital and Investment Strategy for 2024/25, approved by Council on 7 March 2024, outlines the Council's capital and investment priorities as follows:

- Security of capital
- Liquidity of investments; and
- Optimising yield earned on investments (cash and property).

1.3. The strategy includes indicators that help ensure that the Council's capital investment plans are affordable, prudent, and sustainable. Setting an integrated Capital and Investment Strategy is a requirement of the CIPFA Code of Practice.

2. Recommendations

It is recommended that the Group considers the Capital and Investment Strategy update position as of 31 December 2024.

3. Reasons for Recommendation

3.1. CIPFA's Code of Practice for Treasury Management (2021) recommends that Councillors should be informed of Treasury Management activities quarterly. This report, therefore, ensures this Council is embracing best practice for the scrutiny of capital and investment activity in accordance with the CIPFA Code of Practice.

4. Supporting Information

Economic Forecast

4.1. Inflation (CPI) rose by 2.5% in the 12 months to December 2024, slightly lower than expected. However, it is expected to rise again later in the year as service price inflation and wage growth impact. The Monetary Policy Committee (MPC) expects CPI inflation to reach 2.75% by the summer 2025.

4.2. The Bank of England (BoE) reduced the base rate to 4.75% at its meeting in November 2024, down 25 basis points from 5%. This is the second cut since August and had been expected by Arlingclose, the Council's treasury advisors, who maintained its central view that interest rates would most likely be cut again later in the second half of 2024. They forecast further cuts taking the Bank Rate to 3.75% by March 2026, when the Bank Rate will plateau.

4.3. The unemployment rate in the UK rose slightly from 4% in October to 4.3% November 2024. The BoE Monetary Policy Report (November) showed the unemployment rate is expected to increase modestly, rising to around 4.5%, the assumed medium term unemployment level.

4.4. The UK economy has expanded slightly with gross domestic product having increased by 0.1% in quarter 3 (July to September 2024), a 1% increase compared with the same quarter a year ago (minus 0.1% Q3 2023).

Investment Income

4.5. Based on the Arlingclose interest rate forecast at the time (4.5%), the Council budgeted to receive £1,043,200 in investment income in 2024/25 (compared with £1,359,300 in 2023/24). Actual interest earned to 31 December 2024 totalled £1,652,790 with total receipts for the year expected to be approximately £2,020,460 (£1,887,576 in 2023/24). Interest receipts are higher than estimated due to larger S106 balances, slippage in the capital programme and higher interest rates. All investments have been made in accordance with the Council's Capital and Investment Strategy. The Council achieved an average interest rate of 4.69% in quarter 3.

4.6. The average level of funds available for investment purposes during the quarter was £76.75m. These funds were available on a temporary basis and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme. The Council holds £14.038m core cash balances for investment purposes (i.e., funds available for more than one year). To maintain returns and mitigate risks, the Council has continued to diversify its investments mix. As a result, the Council is currently placing deposits in Money Market Funds (MMFs), Call Accounts, CCLA Property Fund, UK Local Authorities and Diversified Funds. The Council also currently holds two ESG (Environmental, Social and Governance) accounts totalling £7.42m. A full list of investments at 31 December can be found at **Appendix A**.

4.7. The Council continues to assess options for investing in high quality Bonds which have low risk of default and would help with diversification of monies currently invested in MMFs. This was reported in the quarter 2 report which also contained a more in-depth explanation of bonds.

4.8. The Council continues to internally borrow to fund capital expenditure. It ensures investments are secure and that liquidity is achieved whilst at the same time it is proactively looking to maximise its rate of return.

4.9. It has previously been reported that the Council's diversified funds have been subject to fluctuations in fair value. The current position can be seen in **Appendix B**. Funds are still volatile but loss in capital value largely experienced in previous years, is reversing and has been mitigated by appropriations to the Treasury Capital Depreciation Reserve which has a current balance of £1.173m. Currently there is a statutory override preventing any accounting adjustments impacting on the revenue accounts. This is due to end 31st March 2025. Whilst the value of this type of investment can fluctuate, the revenue returns make up a healthy proportion of the overall returns on investment (the fair value of these investments accounted for 19% of average investment balances in 2023/24 but generated 34% interest). The Council will continue to monitor the position on these investments and take advice from the treasury advisors.

Capital Expenditure and Financing

4.10. The original Capital Programme for 2024/25 was £11.079m, with £3.405m carry forwards and other adjustments of £3.254m and slippage approved in Quarters 1 and 2 of £5.191m, giving a current budget of £12.547m. The projected outturn at Quarter 3 is £8.107m, resulting in an estimated underspend of £4.440m. It has been requested (Cabinet 11 February 2025) that £0.556m is rephased to 2025/26.

4.11. The remaining £3.88m underspend is mainly due to £1.5m Land Acquisition Carbon Offsetting. Options are currently being explored, and any underspend will be requested to be carried forward at year end. £0.856m Cotgrave and Keyworth Leisure Centre Enhancements, works due to complete early 2025/26 any underspend will be required to be carried forward. Rushcliffe Oaks Crematorium (£0.369m) - £0.550m was budgeted for post opening enhancement works and potential VAT liability if partial exemption calculation is breached. Drainage and paving works have taken place and the VAT liability is not expected and therefore £150k of this underspend will be released as a saving. There is potential for additional underspend to be released at year end.

4.12. The Council undertakes capital expenditure on both its own long-term assets and on grants that can be capitalised under statute (capital payments to third parties). These activities may either be financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.) which has no resulting impact upon the Council's borrowing need; or if insufficient financing is available or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

4.13. The actual capital expenditure forms one of the required prudential indicators. Table 1 below shows the actual capital expenditure and how this is financed.

Table 1

Capital Programme	2024/25 Estimate £'000	2024/25 Projection £'000	Projected Variance £'000
Capital Expenditure	12,547	8,107	-4,440
Less Financed by:			
Capital Receipts	-2,541	-999	1,542
Capital Grants	-6,439	-5,926	513
Reserves	-3,567	-1,182	2,385
Increase in borrowing need	0	0	0

4.14. The Council's underlying need to borrow for capital expenditure is called the Capital Financing Requirement (CFR). The CFR represents the net capital expenditure in 2024/25 and prior years that has not yet been paid for by revenue or other resources. It is a Key Prudential Indicator and can be seen in **Appendix C.** No new borrowing is envisaged over the Medium-Term, so the CFR balance continues to reduce after deducting MRP repayments and capital receipts as seen in Table 2.

Table 2

Capital Financing Requirement (CFR)	2024/25 Projection £'000
Opening Balance	9,889
Add: unfinanced capital expenditure	0
Less MRP/VRP	-1,200
Less applied Capital Receipts and S106	-1,000
Closing Balance	7,689

4.15. The new accounting standard IFRS16 came into force on 1st April 2024. IFRS 16 affects how leases are measured, recognised, and presented in the accounts and essentially means that some leases may have to be classified as capital expenditure. The full impact of this change is to be determined but it is thought that it is unlikely to impact significantly on the CFR.

Treasury Management and Prudential Indicators

4.16. As part of the Capital and Investment Strategy, the Council established a range of Prudential Indicators (which also accords with professional practice) to monitor both Treasury and Capital as the two are intrinsically linked. Details of the performance against the Prudential Indicators can be found at **Appendix C**.

4.17. During the quarter ended 31 December 2024, the Council has operated within treasury management indicators set, and it is not envisaged that there will be any difficulties in the current or future years in complying with these indicators.

4.18. All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

4.19. No external borrowing was undertaken during the quarter ended 31 December 2024 and the Council does not anticipate a need to externally borrow in this financial year or over the Medium Term.

4.20. The Asset (or Liability) Benchmark reflects the real need to borrow. The Council is reporting a credit balance (asset) which shows that the Council has no need to borrow over the medium term. The projected position is healthier than originally estimated due larger investment balances due to reprofiling of the Capital Programme and S106 balances. This has a knock-on effect on the upper limit for principal sums invested over one year and this is set at a maximum of 50% of investment balances.

4.21. The ratio of Financing Costs to Net Revenue Streams is a key Prudential Indicator of affordability and compares net financing costs (MRP, borrowing costs, including interest foregone from the use of cash balances less investment income) to net revenue income (see table 3). This indicator shows the proportion of net income used to pay for financing costs. The projected actual at quarter 3 is -5.00%, the minus indicating that interest receipts exceed financing costs and interest receipts are considerably higher than estimated as mentioned at paragraph 4.5 above.

Table 3

Ratio of Financing costs to net revenue stream	2024/25 Estimate £'000	2024/25 Projection £'000
Net Financing Costs	135	-842
Net Revenue Stream	16,267	16,848
Ratio	0.83%	-5.00%

4.22. Net Income from Commercial and Service Investments to Net Revenue Streams reflects the Council's dependence on investments (see table 4). The projected figure is marginally lower than originally estimated due to slightly higher surplus from the business rates pool.

Table 4

Net Income to Net Revenue Stream	2024/25 Estimate £'000	2024/25 Projection £'000
Net Income from commercial and service investments	1,822	1,864
Net Revenue Stream	16,267	16,848
Ratio	11.2%	11.1%

Commercial Investments

4.23. The Council must disclose its dependence on commercial income and the contribution non-core investments make towards core functions. This covers assets purchased through the Council's Asset Investment Strategy, as well as pre-existing commercial investments.

4.24. The projected position for total contribution of non-core investments towards core functions is 12.5% compared with the estimated figure of 13.4%. Despite rent increases, offset by inflationary increases on service maintenance contracts and legal costs in connection with the disposal of Candleby Lane, this figure is lower than estimated due to total income being considerably higher than estimated primarily due to interest receipts as mentioned in paragraph 4.5. (see Table 5 below).

Table 5

Commercial Investments	2024/25 Full Year Budget £'000	2024/25 Actual Qtr 3 £'000	YTD Budget Qtr 3 £'000	24-25 Full Year Projection £'000
Commercial Property Income	(1,902)	(1,624)	(1,426)	(1,956)
Running Costs	458	302	333	470
Net contribution to core functions	**(1,444)**	**(1,322)**	**(1,093)**	**(1,486)**
Interest from Commercial Loans	(63)	(47)	(47)	(66)
Total Contribution	**(1,507)**	**(1,369)**	**(1,140)**	**(1,552)**
Total Income	(11,231)	(10,464)	(8,661)	(12,442)
Total Contribution/Total income	**13.4%**	**13.1%**	**13.2%**	**12.5%**
Sensitivity +/- 10%	(190)	(162)	(143)	(196)

5. Conclusion

5.1. Officers can confirm that the approved limits within the Capital and Investment Strategy were not breached during the quarter ended 31 December 2024.

5.2. Treasury Management is affected by global activities the most recent being the inauguration of President Trump. Some of his policy decisions such as tariffs and protectionism may have an inflationary effect globally. Interest rates may go up but more likely they will stay higher for longer and these predictions have already fed into interest rate projections. Higher interest rates will have a positive effect on returns that can be achieved from investments. Another Trump policy surrounds energy and increasing fossil fuel supply in the US. This could reduce fuel costs in the short term but could also see a retreat from green investments and Global ESG with fewer products being available in this market. Renewable energy products such as wind zones could suffer, and ethical investments could shrink. Officers will continue to monitor the environment and report any significant issues to the Governance Scrutiny Group.

6. Risk and Uncertainties

6.1. The report covers both counterparty, interest rate and property related risks.

7. Implications

7.1. Financial Implications

Financial Implications are covered in the body of the report.

7.2. Legal Implications

There are no specific legal implications identified in this report. The report demonstrates the Councils good practice in following CIPFA's Code of Practice for Treasury Management (2021) recommends by informing Councillors of

Treasury Management activities quarterly. Adoption of the best practice ensures scrutiny of capital and investment activity undertaken during the relevant period.

7.3. **Equalities Implications**

There are no equalities implications identified for this report

7.4. **Section 17 of the Crime and Disorder Act 1998 Implications**

None

7.5. **Biodiversity Net Gain Implications**

None

8. Link to Corporate Priorities

Quality of Life	No direct impact on quality of life
Efficient Services	Responsible income generation and maximising returns
Sustainable Growth	No direct impact on sustainable growth
The Environment	Helping to protect the environment by consideration of carbon footprint and fossil-based investments as part of the Capital and Investment Strategy

9. Recommendations

10. It is recommended that the Group considers the Capital and Investment Strategy update position as of 31 December 2024.

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Background papers available for inspection	Capital and Investment Strategy 2024/25 Capital and Investment Update Q1 and Q2
List of Appendices:	Appendix A – Investments at 31 December 2024 Appendix B – Pooled Funds Appendix C – Prudential and Treasury Indicators for 2024/25 at 31 December 2024

APPENDIX A

Investment Balances at 31 December 2024

Type	Financial Institution	Amount £	Length of Investment	Interest
Pooled Fund	Royal London Cash Plus Fund	1,005,085	On-going	3.96%
Pooled Fund	CCLA Property Fund	1,970,157	On-going	4.36%
Pooled Fund	CCLA Better World Cautious Fund	1,929,604	On-going	3.25%
Pooled Fund	Aegon Diversified Income fund	4,597,766	On-going	6.80%
Pooled Fund	Ninety One Diversified Income Fund	4,535,612	On-going	6.20%
MMF	AVIVA INVESTORS	233	Call	4.65%
MMF	BLACKROCK	3,900,860	Call	4.74%
MMF	CCLA - PSDF	3,692,728	Call	4.74%
MMF	FEDERATED INVESTORS (UK)	4,298,742	Call	4.78%
MMF	GOLDMAN SACHS ASSET MANAGEMENT	150,393	Call	4.63%
MMF	HSBC ASSET MANAGEMENT	0	Call	0.00%
MMF	HSBC ASSET MANAGEMENT ESG	5,491,232	Call	4.73%
MMF	HSBC ASSET MANAGEMENT BUSINESS DEPOSIT	239,827	Call	1.88%
MMF	INVESCO AIM	9,022,805	Call	4.74%
MMF	ABERDEEN ASSET MANAGEMENT	9,514,636	Call	4.75%
Government	BROXBOURNE BOROUGH COUNCIL	4,570,000	16/06/2025	5.50%
Government	SURREY COUNTY COUNCIL	5,000,000	28/02/2025	4.85%
Government	RUSHMOOR BOROUGH COUNCIL	5,000,000	18/04/2025	5.25%
Government	TELFORD & WREKIN	5,000,000	25/07/2025	4.80%
Government	BLACKPOOL COUNCIL	4,000,000	23/04/2025	4.77%
Government	HARLOW COUNCIL	5,000,000	19/02/2025	4.80%
Government	LB OF WALTHAM FOREST	5,000,000	22/04/2025	4.90%
Government	SURREY COUNTY COUNCIL	5,000,000	25/04/2025	4.90%
Government	NEW FOREST DISTRICT COUNCIL	5,000,000	22/09/2025	5.50%
Banks Unsecured	BANK OF SCOTLAND PLC	862	Call	0.01%
Banks Unsecured	BANK OF SCOTLAND PLC32	116,286	32 Days	3.25%
Banks Unsecured	BARCLAYS BANK PLC	6,799	Call	2.00%
Banks Unsecured	BARCLAYS BANK PLC32	4,830,436	32 Days	4.70%
Banks Unsecured	HANDELSBANKEN PLC	12,062	Call	0.00%
Banks Unsecured	HANDELSBANKEN PLC35	12,683	35 Days	2.50%
Banks Unsecured	SANTANDER UK PLC1	460,044	Call	2.02%
Banks Unsecured	SANTANDER UK PLC35	89,308	35 Days	4.28%
	Average Interest Rate			**4.69%**
	Total Investments	**99,448,160**		

APPENDIX B

Pooled Funds

Fair Value	31.03.24	31.12.24	Difference from 31.03.24	Amount Invested	Difference in valuation from initial investment
Aegon-Previously Kames	4,597,766	4,634,285	36,519	5,000,000	(365,715)
Ninety One-Previously Investec	4,535,612	4,511,518	(24,094)	5,000,000	(488,482)
RLAM	1,005,085	1,012,717	7,633	1,000,000	12,717
CCLA Property	1,970,157	1,991,128	20,970	2,000,000	(8,872)
CCLA Divesified	1,929,604	1,872,395	(57,209)	2,000,000	(127,605)
	14,038,224	**14,022,043**	**(16,181)**	15,000,000	**(977,957)**

APPENDIX C

Prudential and Treasury Indicators Quarter 3

Prudential & Treasury Indicators 31st December 2024	2024/25 Estimate £'000	2024/25 Projected £'000
Prudential Indicators		
Capital Expenditure	11,079	8,107
Expected Investment Position at 31 March 2025	55,706	77,930
Capital Financing requirement at 31 March 2025	7,863	7,689
Proportion of financing costs to net revenue streams	0.83%	-5.00%
Gross Debt (Debt incl PFI & Leases)	0	0
Net Income (from Commercial and Service Investments) to Net Revenue Streams	11.2%	11.1%
Treasury Management Indicators		
Authorised Limit for external debt (Borrowing and other Long Term Liabilities)	20,000	20,000
Operational Boundary for external debt (borrowing and other Long Term Liabilities)	15,000	15,000
Upper limit for fixed interest rate exposure on investments up to 1 year	50%	44%
Upper limit for variable rate exposure (investments)	100%	56%
Upper limit for total principal sums invested over 1 year	27,900	38,965
Liability Benchmark	-45,706	-64,598

Glossary of Terms

Money Market Funds – these funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks.

CCLA Property Fund - this a local authority property investment fund. The property fund is designed to achieve long term capital growth and a rising income from investments in the commercial property sector.

Covered Bonds – these investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means they are exempt from bail-in.

Pooled Funds – shares in diversified investment vehicles consisting of different investment types including banks, equity shares and property, these funds have the advantage of providing wide diversification of investment risks