Appendix A

CAPITAL AND INVESTMENT STRATEGY 2025/26 – 2029/30

Introduction

1. The Local Government Act 2003 requires the Council to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities when carrying out capital and treasury management activities.

2. The Ministry of Housing Communities and Local Government (MHCLG) has issued Guidance on Local Council Investments that requires the Council to approve an investment strategy before the start of each financial year.

3. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the MHCLG Guidance.

The Capital Strategy

4. The Council's capital expenditure plans are summarised below and forms the first of the prudential indicators. Capital expenditure needs to have regard to:

   - Corporate Priorities (e.g., strategic planning)
   - Stewardship of assets (e.g. asset management planning)
   - Value for money (e.g. option appraisal)
   - Prudence and sustainability (e.g. implications for external borrowing and whole life costing)
   - Affordability (e.g. implications for council tax)
   - Practicability (e.g. the achievability of the Corporate Strategy)
   - Proportionality (e.g. risks associated with investment are proportionate to financial capacity); and
   - Environmental Social Governance (ESG) (e.g. address environmental sustainability in a manner which is consistent with our corporate policies. This is now a requirement of the Treasury Management (TM) Code)

5. Each year the Council will produce a Capital Programme to be approved by Full Council in March as part of Council Tax setting.

6. Each scheme is supported by a detailed appraisal (which may also be a Cabinet Report), as set out in the Council's Financial Regulations. The capital appraisals will address the following:

   a) A detailed description of the project
   b) How the project contributes to the Council's Corporate Priorities and Strategic Commitments (particularly the Council's environmental and carbon policies)
   c) Anticipated outcomes and outputs
   d) A consideration of alternative solutions
   e) An estimate of the capital costs and sources of funding

f) An estimate of the revenue implications, including any savings and/or future income generation potential
g) A consideration of whether it is a new lease agreement
h) How the project affects the Council's Environmental targets
i) Any other aspects relevant to the appraisal of the scheme as the S151 Officer may determine.

The appraisal requirement applies to all schemes except where there is regular grant support and if commercial negotiations are due to take place and further reporting to Cabinet or Full Council is therefore required.

7. From time-to-time unforeseen opportunities may arise, or new priorities may emerge, which will require swift action and inclusion in the Capital Programme. These schemes are still subject to the appraisal process and the Capital Programme will contain a contingency sum to allow such schemes to progress without disrupting other planned capital activity.

Capital Prudential Indicators

a) Capital Expenditure Estimates

8. Capital expenditure can be financed immediately through the application of capital resources, for example, capital receipts, capital grants or revenue resources. However, if these resources are insufficient or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need. Table 1 summarises the capital expenditure projections and anticipated financing. The detail behind the schemes are included in the Medium Term Financial Strategy (MTFS) presented to Full Council.

Table1: Projected Capital Expenditure and Financing

	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000	2029/30 Estimate £'000
Capital Expenditure	12,095	8,344	5,481	5,437	3,680	4,185
Less Financed by:						
Capital Receipts	2,571	2,719	295	246	178	795
Capital Grants/ Contributions	6,434	1,706	2,640	3,614	2,457	1,820
Reserves	3,090	3,919	2,546	1,577	1,045	1,570
Total Financing	12,095	8,344	5,481	5,437	3,680	4,185
Underlying need to Borrow	**0**	**0**	**0**	**0**	**0**	**0**

9. The key risks to the capital expenditure plans are that the level of grants estimated is subject to change, anticipated capital receipts are not realised/deferred or spend is more than expected in the medium term. There is uncertainty surrounding the future of New Homes Bonus which has impacted on

the level of capital grants received going forward. The provisional allocation for 2025/26 is £1.478m with nothing anticipated in future years.

b) The Council’s Underlying Need to Borrow and Investment position

10. The Council’s cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR) which remains a key indicator under the Prudential Code. The CFR increases with new debt-financed capital expenditure and reduces with Minimum Revenue Provision (MRP) and capital receipts used to replace debt. In addition, the CFR will reduce with any voluntary contributions (VRP) made, because of financing requirements in relation to the Rushcliffe Arena development.

11. The Council also holds usable reserves and working capital which represent the underlying resources available for investment. The Council’s current strategy is to use these resources, by way of internal borrowing, to avoid the need to externalise debt.

12. Table 2 below summarises the overall position regarding borrowing and available investments. It shows a decrease in CFR as the final residual MRP payment in relation to the Arena is made in 2026/27.

Table 2: CFR and Investment Resources

	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000	2029/30 Estimate £'000
Opening CFR	9,889	7,689	6,515	5,776	5,602	5,428
CFR in year	-	-	-	-	-	-
Less: MRP etc	(1,200)	(1,174)	(739)	(174)	(174)	(174)
Less: Capital Receipts Applied	(1,000)	-	-	-	-	-
Closing CFR	**7,689**	**6,515**	**5,776**	**5,602**	**5,428**	**5,254**
Less: External Borrowing	-	-	-	-	-	-
Internal Borrowing	7,689	6,515	5,776	5,602	5,428	5,254
Less:						
Usable Reserves	(32,267)	(31,516)	(28,730)	(25,197)	(22,058)	(18,524)
Working Capital	(50,020)	(48,020)	(46,020)	(44,020)	(42,020)	(40,020)
Available for Investment	(74,598)	(73,021)	(68,974)	(63,615)	(58,650)	(53,290)

13. The Council is currently debt free and the assumption in the capital expenditure plan is that the Council will not need to externally borrow over the period of the MTFS predominantly due to Community infrastructure Levy (CIL) and S106 monies. Available resources (usable reserves and working capital) gradually reduce with usable reserves being used over the medium term to finance both capital and revenue expenditure. Working capital is projected to steadily reduce as S106 monies in relation to education are no longer paid to the Council and monies from developers are released.

14. Projected levels of the Council’s total outstanding debt are shown below, compared with the capital financing requirement (see above). Statutory guidance is that debt should remain below the CFR, except in the short term. As

can be seen from table 3, the Council expects to comply with this. A reducing CFR is also positive as the Council's underlying need to borrow reduces.

Table 3 – Prudential Indicator: Gross Debt and the Capital Financing Requirement

	2024/25 Forecast £'000	2025/26 Forecast £'000	2026/27 Forecast £'000	2027/28 Forecast £'000	2028/29 Forecast £'000	2029/30 Forecast £'000
Debt (incl. PFI & leases)	0	0	0	0	0	0
Capital Financing Requirement	7,689	6,515	5,776	5,602	5,428	5,254

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.

Minimum Revenue Provision Policy

16. DLUHC Regulations require the Governance Scrutiny Group to consider a Minimum Revenue Provision (MRP) Statement in advance of each year. Further commentary regarding financing of the debt is provided in paragraphs 28-34. A variety of options are provided to Councils, so long as there is prudent provision. The Council has chosen the Asset Life Method (Option 3 within the Guidance) with the following recommended MRP Statement:

MRP will be based on the estimated life of the assets, in accordance with Option 3 of the regulations. Estimated life periods within this limit will be determined under delegated powers, subject to any statutory override. (MHCLG revised guidance states maximum asset lives of 40 and 50 years for property and land respectively)

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

This option provides for a reduction in the borrowing need over approximately the asset's life.

17. As well as the need to pay off an element of the accumulated General Fund borrowing requirement, used to fund capital expenditure each year (the CFR), through a revenue charge (the MRP), the Council is also allowed to make

additional voluntary contributions (VRP). In times of financial crisis, the Council has the flexibility to reduce voluntary contributions. Once payments in relation to the Arena finish (2026-27) the Council does not envisage making VRP contributions on any other scheme. Table 2 (paragraph 12) includes the use of capital receipts to bring the CFR down by funding capital expenditure.

Treasury Management Strategy 2025/26 to 2029/30

18. The CIPFA Treasury Management Code (2021) defines 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."

    The code also includes non-cash investments which are covered at paragraph 66 below. Under the revised Prudential code, investments are separated into categories for Treasury Investment, Service Investment and Commercial Investment.

19. The CIPFA Code of Practice for Treasury Management in the Public Services (the "CIPFA Treasury Management Code") and the CIPFA Prudential Code require local authorities to produce a Treasury Management Strategy before the start of each financial year.

20. This Strategy includes those indicators that relate to the treasury management functions and help ensure that the Council's capital investment plans are affordable, prudent, and sustainable, while giving priority to the security and liquidity of those investments. TMP 1 (Treasury Management Practices) sets out the Council's practices relating to Environmental Social Governance (ESG) and is a developing area.

The Current Economic Climate and Prospects for Interest Rates

21. The impact on the UK from the government's Autumn Budget, slower interest rate cuts, modestly weaker economic growth over the medium term, together with the impact from President Trumps second term in office and uncertainties around US domestic and foreign policy, will all influence the UK economy and ultimately impact on the performance of the Council's treasury management strategy for 2025/26.

22. The Bank of England's (BoE) Monetary Policy Committee (MPC) reduced the Bank Rate to 4.75% at its meeting in November 2024 (since maintained at this level at the December meeting), having previously cut it by 25 basis points from the 5.25% peak at the August MPC meeting. The Council's treasury management adviser Arlingclose forecasts that interest rates will continue reducing through 2025, taking the Bank Rate to around 3.75% by the end of the 2025/26 financial year. The effect from the Autumn Budget on economic growth

and inflation has reduced expectations in terms of the pace of interest rate cuts as well as pushing up the rate.

23. The Consumer Prices Index (CPI) rose by 2.6% in the 12 months to November 2024, up from 2.3% in October. However, a shock release showed the December year-on-year figure was 2.5% slightly lower than expected. The outlook for CPI inflation in the November Monetary Policy Report (MPR) showed it rising above the MPC's 2% target from 2024 into 2025 and reaching around 2.75% by the summer 2025. This is due to the ongoing impacts from higher interest rates and the Autumn Budget. Over the medium-term, once these pressures ease, inflation is expected to stabilise around 2% target.

24. The unemployment rate in the UK rose slightly from 4% in October to 4.3% November 2024.The BoE MPR showed the unemployment rate is expected to increase modestly, rising to around 4.5%, the assumed medium term equilibrium level.

25. Table 4 below shows the assumed average interest (which reflects a prudent approach) that will be made over the next five years for budget setting purposes.

Table 4: Budgetary Impact of Assumed Interest Rate Going Forward

	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Anticipated Interest Rate	4.06%	3.75%	3.50%	3.00%	3.00%
Expected interest from investments (£)	1,375,900	1,248,800	1,117,600	957,700	863,000
Other interest (£)	59,000	59,000	59,000	59,000	59,000
Total Interest (£)	**1,434,900**	**1,307,800**	**1,176,600**	**1,016,700**	**922,000**

Sensitivity:	£	£	£	£	£
- 0.25% Interest Rate	80,800	73,500	72,500	59,600	56,800
+ 0.25% Interest Rate	(80,800)	(73,500)	(72,500)	(59,600)	(56,800)

26. In the event that a bank suffers a loss, the Council could be subject to bail-in to assist with the recovery process. The impact of a bail-in depends on the size of the loss incurred by the bank or building society, the amount of equity capital and junior bonds that can be absorbed first and the proportion of insured deposits, covered bonds and other liabilities that are exempt from bail-in.

27. The Council has managed bail-in risk by both reducing the amount that can be invested with each institution to £10 million and by investment diversification between creditworthy counterparties.

Borrowing Strategy 2025/26 to 2029/30

Prudential Indicators for External Debt

28. Table 2 above identifies that the Council will not need to externally borrow over the MTFS instead choosing to internally borrow. Whilst this means that no

external borrowing costs (interest/debt management) are incurred, there is an opportunity cost of using internal borrowing by way of lost interest on cash balances.

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

- UK Municipal Bond Agency and other special purpose companies created to enable local authority bond issues
- HM Treasury's PWLB lending facility
- Any other public sector body
- UK public and private sector pension funds
- Any other bank or building societies authorised to operate in the UK
- Capital market bond investors
- National Wealth Fund (formerly UK Infrastructure Bank)
- Any institution approved for investments
- Retail investors via a regulated peer-to-peer platform

Public Works Loan Board (PWLB) borrowing is at Gilts +80bps (certainty rate). If applying, there is the need to categorise the capital programme into 5 categories including service, housing and regeneration. If any Council has assets that are being purchased 'primarily for yield' anywhere in their capital programme they will not be able to access PWLB funding.

Other sources of debt finance, in addition to the above, that are not borrowing but may be classed as other debt liabilities are listed below. These options would be subject to due diligence in the event that any are proposed methods to finance Council debt.

- Hire purchase
- Leasing
- Sale and leaseback
- Private Finance Initiative

a) Authorised Limit for External Debt

30. The authorised limit is the "affordable borrowing limit" required by section 3 (1) of the Local Government Act 2003 and represents the limit beyond which borrowing is prohibited. It shows the maximum amount the Council could afford to borrow in the short term to maximise treasury management opportunities and either cover temporary cash flow shortfalls or use for longer term capital investment. It should be set higher than the CFR (see table 3) plus a safety margin of £10m to £15m. The limits below satisfy this requirement.

Table 5: The Authorised Limit

	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000	2029/30 Estimate £'000
Authorised Limit	20,000	20,000	20,000	20,000	20,000	20,000

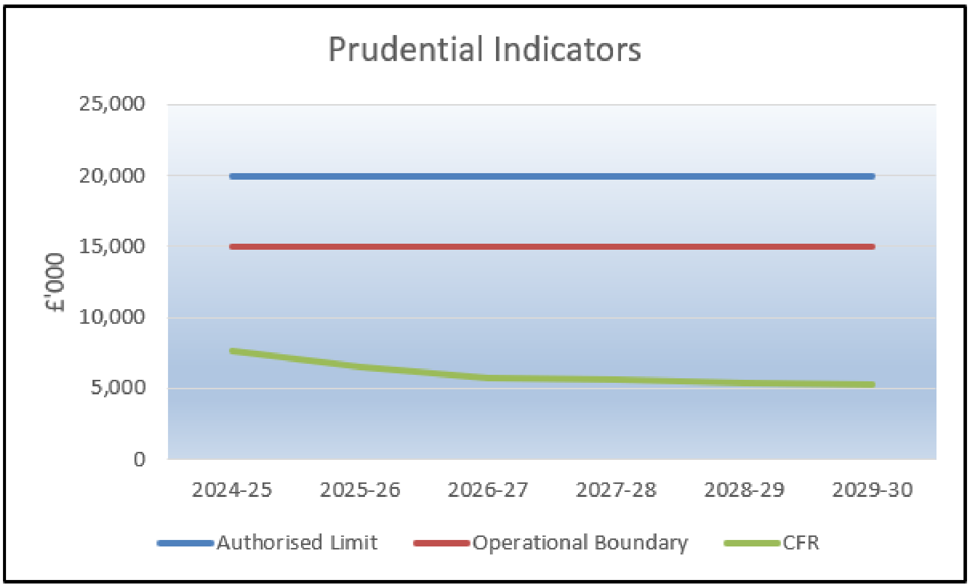
b) Operational Boundary for External Debt

31. The operational boundary is the expected borrowing position of the Council during the year. The operational boundary is not a limit and actual borrowing can be either below or above the boundary subject to the authorised limit not being breached. The Operational Limit has been set at £15m (Table 6) and, whilst the Council is not expected to externally borrow over the period of the MTFS, this provides a cushion and gives flexibility should circumstances significantly change..

Table 6: The Operational Boundary

	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000	2029/30 Estimate £'000
Operational Boundary	15,000	15,000	15,000	15,000	15,000	15,000

Chart 1 below shows the prudential indicators graphically



32. The Council's is required to show the maturity structure of borrowing. The Council had no debt and is unlikely to need to borrow over the medium term and if it did, it would only be for small amounts so there is no significant refinancing risks and therefore the limits in the strategy do not need to be restrictive (see Table 7).

Table 7 – Prudential Indicator: Refinancing Risk Indicator

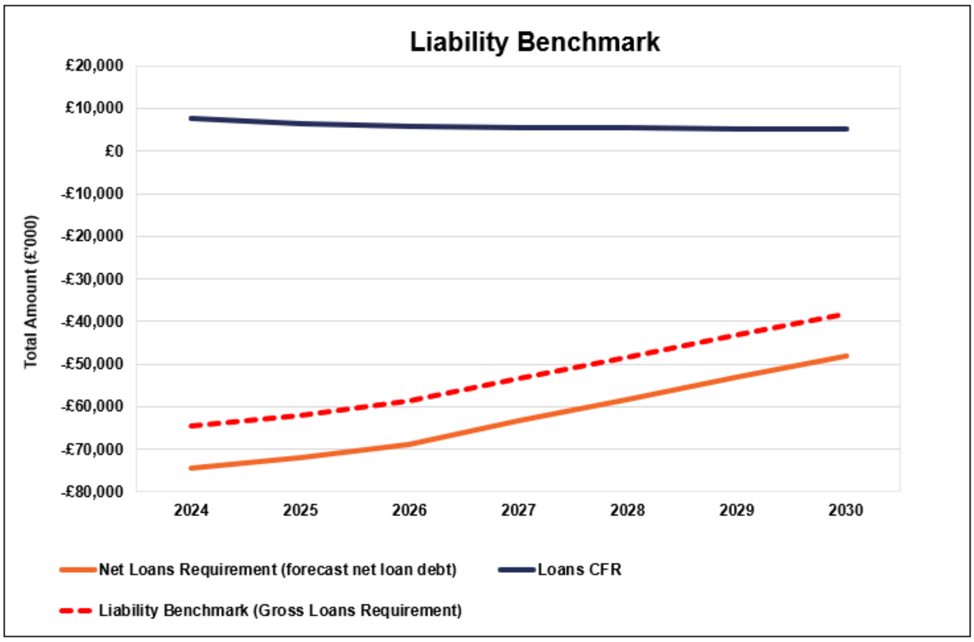
Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	100%	0%
12 months an within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

33. The Liability Benchmark reflects the real need to borrow and can be seen in table 8. In accordance with the Code this must also be shown graphically (Chart 2). The Council's CFR is reducing due to MRP repayments, reserves are being used to fund future capital expenditure and working capital/S106 monies are returning to a normal level. As demonstrated by the credit figures below, the Council expects to be a long-term investor and has no need to borrow over the medium term.

Table 8 Prudential Indicator: Liability Benchmark

	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000	2029/30 Estimate £'000
Closing CFR	7,689	6,515	5,776	5,602	5,428	5,254
Less:						
Usable Reserves	(32,267)	(31,516)	(28,730)	(25,197)	(22,058)	(18,524)
Working Capital	(50,020)	(48,020)	(46,020)	(44,020)	(42,020)	(40,020)
Plus minimum investment:	10,000	10,000	10,000	10,000	10,000	10,000
LIABILITY BENCHMARK	(64,598)	(63,021)	(58,974)	(53,615)	(48,650)	(43,290)

Chart 2 Prudential Indicator: Liability Benchmark



Prudential Indicators for Affordability

34. Affordability indicators provide details of the impact of capital investment plans on the Council's overall finances.

a) Actual and estimates of the ratio of net financing costs to net revenue stream

35. This indicator identifies the trend in net financing costs which include borrowing costs (MRP only for Rushcliffe) less investment income, against net revenue income. The purpose of the indicator is to show how the proportion of net income used to pay for financing costs is changing over time.

36. A credit indicates interest earned rather than an interest cost. The figures fluctuate over the MTFS period but from 2025/26 all figures are in credit. This is reflective of the reducing MRP payments, as payments in relation to Rushcliffe Arena finish in 2026/27. There are other non-treasury capital commitments in relation to Rushcliffe Oaks Crematorium and Bingham Arena and Enterprise Centre which give rise to further MRP, but repayments are lower because they are spread over a longer period.

37. Net revenue streams fluctuate over the period. New Homes Bonus has been extended a further year, but no further income is expected after 2025-26. Later years reflect both the downward trend in interest from lower investment balances whilst net revenue streams increase from Council Tax and Localised Business Rate increases.

Table 9: Proportion of Financing Costs to Net Revenue Stream

	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Net Interest Payable/(Receivable)	(261)	(569)	(1,003)	(843)	(748)
Net Revenue Stream	19,392	14,883	14,849	15,446	16,070
Financing costs:Net Revenue Stream	-1.35%	-3.82%	-6.75%	-5.46%	-4.65%

b) Estimates of net income to net revenue stream

38. This indicator that looks at net income from commercial and service investments (for example it includes Rushcliffe Oaks Crematorium and Bingham Market) and expresses it as a percentage of net revenue streams. The increase reflects rent increases and full year effect of the crematorium becoming operational.

Table 10: Proportion of Net Income to Net Revenue Stream

	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Net Income from investments	(2,142)	(2,286)	(2,331)	(2,354)	(2,373)
Net Revenue Stream	19,392	14,883	14,849	15,446	16,070
Net Income:Net Revenue Stream	11.0%	15.4%	15.7%	15.2%	14.8%

Investment Strategy 2025/26 to 2029/30

39. Table 11 below shows the Council's investment projections. The downward movement reflects the use of capital receipts to finance capital expenditure. In addition, it reflects the release of S106 monies and the loss of S106 receipts for Education which are no longer paid to the Council.

Table 11: Investment Projections

	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Investments at 31 March £'000	74,598	73,021	68,974	63,615	58,650	53,290

40. Both the CIPFA Code requires 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. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitable low investment income.

Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, to maintain the spending power of the sum invested. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing. The Council ensures that robust due diligence procedures cover all external investments.

41. As demonstrated by the liability benchmark above (paragraph 33), the Council expects to be a long-term investor and treasury investments will therefore include both short-term low risk instruments to manage day to day cash flows and longer-term instruments where limited additional risk is accepted in return for higher investment income to support the services the Council provides.

42. Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will (in accordance with treasury advice) prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

43. The Council will keep under review the sensitivity of its treasury assets and liabilities to inflation and will seek to manage the risk accordingly in the context of the whole of the Council's inflation exposures.

44. The Council will invest its surplus funds with any of the counterparty types in Table 12 below, subject to the limits shown and counterparties included at Appendix i.

Table 12: Counterparty Details

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£10m	Unlimited
Secured investments *	25 years	£10m	Unlimited
Banks (unsecured) *	13 months	£3m	Unlimited
Building societies (unsecured) *	13 months	£3m	£3m
Registered provider *	5 years	£5m	£5m
Money market funds *	n/a	£10m	Unlimited
Strategic pooled funds	n/a	£10m	£30m
Real estate investment trusts	n/a	£5m	£10m
Other investments *	5 years	£5m	£10m

*Please refer to Glossary at Appendix (iv)

Although the above table details the counterparties that the Council could invest funds with, it would not invest funds with counterparties against the advice of Arlingclose (the Council's TM Advisors) even if they met the criteria above.

45. Credit rating information is provided by Arlingclose on all active counterparties that comply with the criteria above. A counterparty list will be maintained from this information and any counterparty not meeting the criteria will be removed from the list.

43. 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.

44. 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.

45. The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will be given to other available information on the credit quality of the organisations in which it invests, including financial

statements, information on potential government support, reports in the quality financial press and analysis and advice from Arlingclose.

46. The Council is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism that may affect its public reputation, and this risk will also be considered when making investment decisions. Many local authorities are not rated by credit rating agencies, although some are. The Council will always take reasonable steps as mentioned in paragraph 45 and carry out due diligence before investing.

47. Although the Council has never made use of financial derivatives and has no current plans to do so, in line with the Cipfa code, the Council would seek external advice before entering into such an agreement to ensure that it fully understands the implications (see paragraph 61 for more detail).

Credit Risk

48. The CIPFA Treasury Management Code recommends that organisations should clearly specify the minimum acceptable credit quality of its counterparties; however, they should not rely on credit ratings alone and should recognise their limitations. Full regard will therefore be given to other available information on the credit quality of the organisations, in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantial doubts about its credit quality, even though it may meet the credit rating criteria.

49. When deteriorating financial market conditions affect the credit worthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned but will protect the principal sum invested.

Current investments

50. The Council uses its own processes to monitor cash flow and determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial strategy and cash flow forecast.

51. Surplus funds are invested based on the most up to date forecasts of interest rates and in accordance with the Council's cash flow requirements in order to gain the maximum benefit from the Council's cash position throughout the year. Generally speaking, in times of rising interest rates it is prudent to invest short term, whilst also ensuring a diversified portfolio. Funds are separated between service investment and non-specified investments as detailed in paragraphs 53 to 55 below.

52. Historically (prior to 2011) the Council held £2m in pooled/diversified funds. In 2018 it purchased an additional £2m, a further £9m in 2019, followed by £2m in 2021 giving a total of £15m. The fair value of these funds fluctuates, the current value of these investments can be seen in Appendix ii. The downward trend experienced by the political turmoil last year coupled with high levels of inflation and monetary policies surrounding interest rates has impacted on these.

53. The fluctuations in capital value of the pooled funds to date is a loss of £0.978m. This is currently reversed by the statutory override preventing any accounting loss impacting on the revenue accounts. This is due to end 31 March 2025. The risk of this loss crystalising after this period has been largely mitigated by appropriations of £1.173m to the Pooled Funds reserve.

54. It should be noted that whilst the value of this type of investment can fluctuate, the revenue returns make up a significant proportion of the overall returns on investments (the fair value of these investments accounted for 19% of average investment balances in 2023/24 but generated 34% interest) and over the period of investment has returned £3.5m in interest. The Council will continue to monitor the position on these investments and take advice from the treasury advisors.

Service investments

55. The Council invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities (treasury management),
- to support local public services by lending to or buying shares in other organisations (service investments), and
- to earn investment income (or known as commercial investments where this is the main purpose).

56. The Council can lend money to its suppliers, parish councils, local businesses, local charities, employees, housing associations to support local public services and stimulate local growth. The Council has existing loans to Nottinghamshire Cricket Club which not only stimulates the local economy but provides social outcomes The Trent Bridge: Community Trust delivers projects that have positive impacts on local communities such as tackling social exclusion and anti-social behaviour. The main risk when making service loans is that the borrower

may be unable to repay the principal lent and/or the interest due. In order to limit this risk and ensure that total exposure to service loans remains proportionate to the size of the Council, the upper limit on any category of borrower will be £5 million.

Non-specified investments

57. Shares are the only investment type that the Council has identified that meets the definition of a non-specified investment in the government guidance. The Council does not intend to make any such investments, that are defined as capital expenditure by legislation.

Investment Limits

58. The Council's revenue reserves available to cover investment losses in a worst-case scenario are forecast to be around £15.8 million on 31st March 2025. The maximum that will be lent to any one organisation (other than the UK Government) will be £10.0 million. This figure is constantly under review to assess risk in the case of a single default. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries, and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country since the risk is diversified over many countries.

Table 13: Additional investment limits

	Cash limit
Any group of pooled funds under the same management	£10m per manager
Investments held in a broker's nominee account	£10m per broker
Foreign countries	£3m per country

Treasury Management limits on activity

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

a) Interest Rate Exposures

60. This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net interest payable. The Council has set a limit of 50% on fixed interest rate exposure. During a time of falling interest rates as forecast (paragraph 25) this indicator should not be restrictive, preventing the Council from locking into higher interest rates. The definition of fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Table 14: Interest Rate Exposure

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Upper Limit on fixed interest rate exposure	50%	50%	50%	50%	50%	50%
Upper Limit on variable interest rate exposure	100%	100%	100%	100%	100%	100%

Principal Sums Invested over 1 year

61. This limit is intended to contain exposure to the possibility of any loss that may arise as a result of the Council having to seek early repayment of any investments made. The limits on the long-term principal sum invested to final maturities beyond the period end are set at 50% of the sum available for investment (to the nearest £100k), as follows:

Table 15: Principal Sums Invested over 1 year

	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Limit on Principal invested over 1 year £'000	37,300	36,500	34,500	31,800	29,300	26,600

Policy on the use of financial derivatives

62. 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 (Lender Option Borrowers Option) 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).

63. 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 considered 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.

64. 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.

Treasury Management Advisors

65. Arlingclose will act as the Council's treasury management advisors until 31 October 2026. The company provides a range of services which include:

- Technical support on treasury matters and capital finance issues
- Economic and interest rate analysis
- Generic investment advice on interest rates, timing, and investment instruments; and
- Credit ratings/market information service comprising the three main credit rating agencies.

66. Whilst the treasury management advisors provide support to the internal treasury function, the current market rules and the CIPFA Treasury Management Code confirms that the final decision on treasury management matters rests with the Council. The service provided by the Council's treasury management advisors is subject to regular review.

Other Options Considered

67. The MHCLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance and Corporate Services, having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Our policy is to have a feathered approach i.e., a range of counterparties spread over different time periods (short/medium/long term), this mitigates risk of changes in credit ratings and interest rates whether they go up or down.

Commercial Investments

68. The CIPFA definition of investments in treasury management activities above (paragraph 18) covers all financial assets of the organisation as well as other non-financial assets which the organisation holds primarily for financial returns, such as investment property portfolios. This may therefore include investments which are not managed as part of normal treasury management or under treasury management delegations.

69. Under the updated Prudential Code, Local Authorities are no longer allowed to borrow to fund non-financial assets solely to generate a profit.

70. The Council will maintain a summary of current material investments, subsidiaries, joint ventures, and liabilities, including financial guarantees and the organisation's risk exposure. The current summary is included at Appendix iii.

71. The Council will also monitor past commercial property investments against original objectives and consider plans to divest as part of a biennial review. The last report was presented to Governance Scrutiny Group in February 2024 (see paragraph 78).

72. Proportionality is included as an objective in the Prudential Code. Clarification and definitions to define commercial activity and investment are also included, and the purchase of commercial property purely for profit cannot lead to an increased capital financing requirement (CFR).

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

a. **Dependence on commercial income and contribution non-core investments make towards core functions**

74. The expected contributions from existing commercial investments are shown in Table 16. To manage the risk to the Council's budget, the contribution from commercial investments should not account for a significant proportion of the Council's total income. Over the medium term the contribution from commercial investments is around 11% each year leaving the Council less exposed to risks surrounding commercial property.

75. This was slightly higher in 2024/25 due to the Council's budgeted total income at the time being lower primarily due to interest receipts forecasts reflecting interest rate cuts which were anticipated at the time of budget setting.

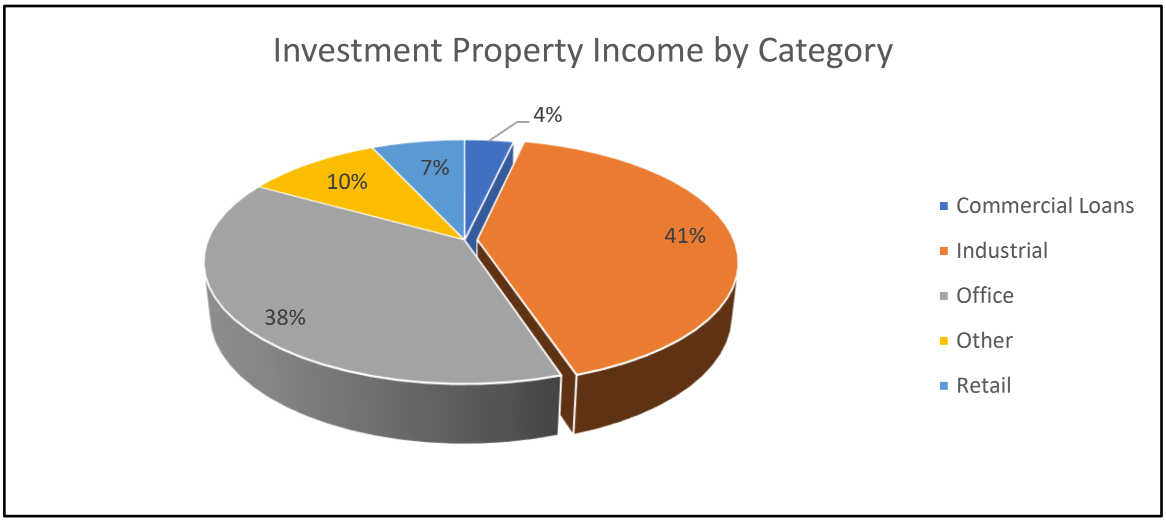
Table 16: Commercial Investment income and costs

	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000
Commercial Property Income	(1,902)	(1,979)	(2,041)	(2,041)	(2,044)	(2,047)
Running Costs	458	465	467	476	486	497
Net Contribution to core functions	(1,444)	(1,514)	(1,574)	(1,565)	(1,558)	(1,550)
Interest from Commercial Loans	(63)	(59)	(59)	(59)	(59)	(59)
Total Contribution	(1,507)	(1,573)	(1,633)	(1,624)	(1,617)	(1,609)
Sensitivity:						
+/- 10% Commercial Property Income	190	198	204	204	204	205
Indicator:						
Total Contribution as a % of total Council Income	13.4%	11.5%	11.7%	11.6%	11.4%	11.1%
Total Income	11,231	13,650	13,949	13,977	14,228	14,436

b) Risk Exposure Indicators

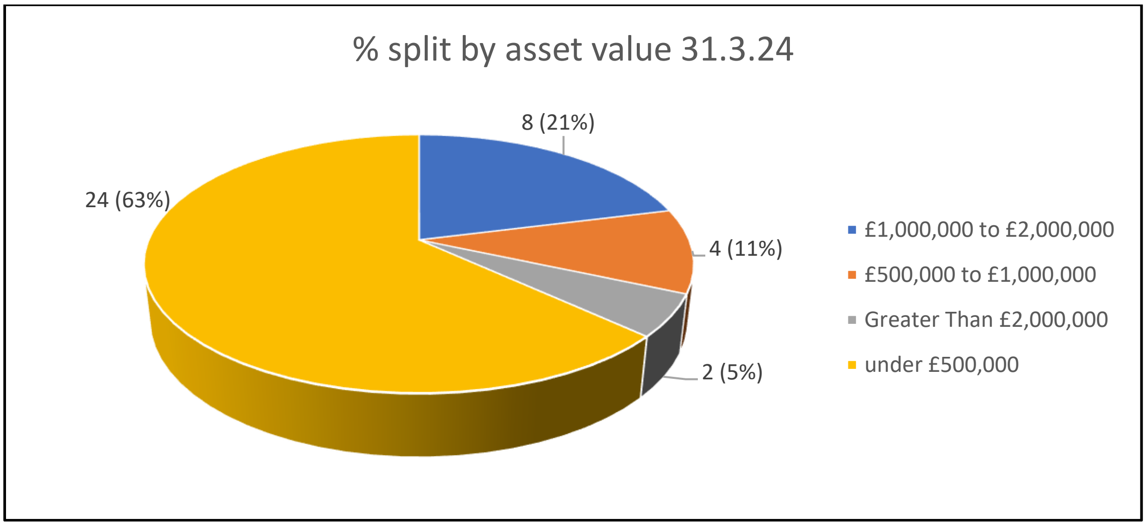
76. The Council can minimise its exposure to risk by spreading investments across sectors and by avoiding single large-scale investments (Chart 3 and 4 below). Generally, there is a spread of investment across sectors in the Council's portfolio. The Council's previous commitment to economic regeneration (not purely financial return) has meant that many of its investments have been in industrial units, which have been very successful. This is closely followed by income from Office accommodation which in some cases is linked to economic regeneration schemes. Bingham Enterprise is the latest investment which is now fully let and generating rental income of £108,000 per annum.

Chart 3 Investment Income by Category



c) Security and Liquidity

Chart 4 Investment by Asset Value



77. Commercial investments are held for longer term asset appreciation as well as yield. Investments or sales decisions will normally be planned as part of the consideration of the 5-year capital strategy to maximise the potential return. Nevertheless, the local and national markets are monitored to ensure any gains are maximised or losses minimised.

78. To help ensure asset values are maintained the assets are given quarterly inspections, together with a condition survey every 3 years. Any works required to maintain the value of the property will then form part of Council's spending plans.

79. The liquidity of the assets is also dependent on the condition of the property, the strength of the tenants and the remaining lease lengths. The Council keeps these items under review with a view to maximising the potential liquidity and value of the property wherever possible.

80. The liquidity considerations for commercial investments are intrinsically linked to the level of cash and short-term investments, which help manage and mitigate the Council's liquidity risk.

81. The investments are subject to ongoing review with regards to their financial viability or indeed whether they are surplus to requirement. At the February 2024 Governance Scrutiny Group Meeting, details on the risks surrounding the Council's commercial properties were reported, as well as providing a pathway to potential commercial asset disposal, if required.

Knowledge and Skills

82. The TM Code requires Local Authorities to document a formal and comprehensive knowledge and skills schedule reflecting the need to ensure that both members and officers responsible for treasury management are suitably trained and kept up to date (TMP 10). There will be specific training for members involved in scrutiny and broader training for members who sit on full Council. Training for Members was last delivered in December 2024. Previously these needs have been reported through the Member Development Group, with the Council specifically addressing this important issue by:

- Periodically facilitating workshops for members on finance issues.
- Interim reporting and advising members of Treasury issues via Governance Scrutiny Group.

With regards to officers:

- Attendance at training events, seminars, and workshops; and
- Support from the Council's treasury management advisors
- Identifying officer training needs on treasury management related issues through the Performance Development and Review appraisal process

The Governance Scrutiny Group have completed the CIPFA self-assessment tool and the results of this were scrutinised at the 28 November meeting. Actions arising from this self-assessment will be implemented during 2025. Attendance at training is recorded and members are encouraged to attend all Treasury training.

83. The Council will continue to have its Annual Treasury Management training session with Councillors provided by its Treasury advisers.

84. The Treasury Management Policy Statement attached at Appendix B follows the recommendations set out in Section 6 of CIPFA's Treasury Management in the Public Services: Code of Practice (2021).

Appendix (i)

Counterparty Registrations under MIFID II

The Council is registered with the following regulated financial services organisations who may arrange investments with other counterparties with whom they have themselves registered:

- BGC Brokers LP
- Royal London Asset Management
- Tradition UK Ltd
- King & Shaxson
- Aberdeen Asset Management
- Aviva
- Institutional Cash Distributors Ltd
- Federated Investors (UK) LLP
- Invesco Asset Management Ltd
- CCLA
- Goldman Sachs Asset Management
- Black Rock
- Aegon Asset Management
- Ninety One
- HSBC Asset Management
- Imperial Treasury Services

Appendix (ii)

Pooled Funds – Changes in Fair Value since Acquisition

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 (iii)

Current Book Value of Non-Treasury Investments

	Book Value 31.3.24 £000	Book Value 31.3.23 £000
The Point Office Accommodation	3.272	3.429
Hollygate Lane, Cotgrave Industrial Units	2.776	2.918
Unit 3 Edwalton Business Park	2.223	2.432
Bardon Single Industrial Unit	1.929	2.078
Unit 1 Edwalton Business Park	1.787	1.954
Trent Boulevard	1.428	1.559
Colliers Business Park Phase 2	1.386	1.422
Cotgrave Phase 2	1.227	1.266
Bingham Hub Offices	1.112	-
Bridgford Hall Aparthotel and Registry Office	1.061	1.150
Finch Close	0.911	0.978
Boundary Court	0.787	0.838
Colliers Business Park Phase 1	0.775	0.787
Cotgrave Precinct Shops	0.487	0.478
Mobile Home Park	0.477	0.400
New Offices Cotgrave	0.470	0.484
TOTAL INVESTMENT PROPERTY	**22.108**	**22.173**
Notts County Cricket Club Loan	1.499	1.611
TOTAL	**23.607**	**23.784**

Appendix (iv)

Glossary

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

For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £10 million per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

UK Government

Sterling-denominated investments with or explicitly guaranteed by the UK Government, including the Debt Management Account Deposit Facility, treasury bills and gilts. These are deemed to be zero credit risk due to the government's ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Local authorities and other government entities: Loans to, and bonds and bills issued or guaranteed by, other national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds, secured deposits and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured): Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

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

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

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

Operational bank accounts: The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank. These are not classed as investments but are still subject to the risk of a bank bail-in and balances will therefore be kept below £**10 million** per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.