Governance Scrutiny Group

Thursday, 25 September 2025

Capital and Investment Strategy – Q1 Report 2025/26

Rushcliffe
Borough Council

Report of the Director - 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 30 June 2025.

1.2. The Capital and Investment Strategy for 2025/26, approved by Council on 6 March 2025, 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 Governance Scrutiny Group notes the Capital and Investment Strategy update position as of 30 June 2025.

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) has increased over the quarter, rising from an annual rate of 3.2% to 2.6% in March to 3.4% in May, well above the Bank of England's 2% target. Inflation is expected to peak at 3.7% in September as service price inflation and wage growth impact before decreasing.

4.2. The Bank of England dropped the base rate from 4.5% at the start of the financial year to 4.25% in May. A further, 0.25%, interest rate cut was made in August taking the base rate to 4.0% with a third cut expected to take rates to 3.75% in October. This aligns with the assumptions in the Treasury Management Strategy for this year.

4.3. The UK economy expanded 0.7% in the first quarter of the calendar year, following three previous quarters of weaker growth. However, monthly GDP. Showed a contraction of 0.3% in April, suggesting growth in the second quarter of the calendar year is unlikely to be as strong as the first.

Investment Income

4.4. Based on the Arlingclose interest rate forecast at the time, that interest rates would fall from 4.75% in November 2024 reducing to 3.75% by the end of the 2025/26 financial year (an average rate of 4.06%), the Council budgeted to receive £1,434,900 in investment income in 2025/26 (compared with £1,043,200 in 2024/25). Actual interest earned to 30 June 2025 totalled £367,873 with total receipts for the year expected to be approximately £1,471,500 (£2,168,616 in 2024/25). Interest receipts are higher than estimated due to larger S106 balances and higher than expected 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 4.62% in quarter 1.

4.5. The average level of funds available for investment purposes during the quarter was £88.445m. 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 £13.929m 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 £7.44m. A full list of investments at 30 June can be found at **Appendix A**.

4.6. The Council ensures investments are secure and that liquidity is achieved whilst at the same time it is proactively looking to maximise its rate of return.

4.7. The Council's diversified funds are 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 £1.310m. There is a statutory override preventing any accounting adjustments impacting on the revenue accounts. Existing diversified fund investments held as of April 1, 2024, will continue to be subject to the override until April,1 2029. In 2024/25, the diversified funds returned an average rate of 5.29% over 50 basis points more the Money Market Funds at 4.78%. The Council will continue to monitor the position on these investments and take advice from the treasury advisors and as appropriate increase or reduce the reserve.

Capital Expenditure and Financing

4.8. The original Capital Programme for 2025/26 was £8.344m, with £4.308m carry forwards and other adjustments of £0.930m giving a current budget of £13.582m. The projected outturn is £12.901m, resulting in an estimated underspend of £0.681m arising primarily from the need to reprofile expenditure on Warm Homes scheme to match the actual grant allocation.

4.9. The actual capital expenditure forms one of the required prudential indicators. Table 1 below shows the actual capital expenditure and how this is financed, fully funded from council resources.

Table 1: Actual Capital Expenditure and Financing

Capital Programme	2025/26 Estimate £'000	2025/26 Projection £'000	Projected Variance £'000
Capital Expenditure	13,582	12,901	(681)
Less Financed by:			
Capital Receipts	(4,363)	(4,337)	26
Capital Grants	(3,025)	(2,326)	699
Reserves	(6,194)	(6,238)	(44)
Increase in borrowing need	0	0	0

4.10. 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 2025/26 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.

4.11. The impact of IFRS 16 (the impact of all leases going on balance sheet) was not known at the time the budgets were set but the impact on the opening position is reflected in the projection for the year.

Table 2: Capital Financing Requirement

Capital Financing Requirement (CFR)	2024/25 Actual £'000	2025/26 Estimate £'000	2025/26 Projection £'000
Opening Balance	9,889	7,689	9,989
Add: unfinanced capital expenditure (IFRS16)	2,752	0	0
Less MRP/VRP	(1,652)	(1,174)	(1,669)
Less applied Capital Receipts and S106	(1,000)	0	0
Closing Balance	9,989	6,515	8,320

Treasury Management and Prudential Indicators

4.12. 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**.

4.13. During the quarter ended 30 June 2025, 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.

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

4.15. No external borrowing was undertaken during the quarter ended 30 June 2025 and the Council does not anticipate a need to externally borrow in this financial year or over the medium term.

4.16. 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.

4.17. Net Income from Commercial and Service Investments to Net Revenue Streams reflects the Council's dependence on investments. The projected figure is marginally lower due to projected net income from Rushcliffe Oaks being slightly down against budget, offset slightly by a smaller surplus from the business rates pool.

4.18. The ratio of Financing Costs to Net Revenue Streams is a Key Prudential Indicator of affordability and compares net financing costs (MRP, borrowing costs less investment income) to net revenue income. This indicator shows the proportion of net income that is used to pay for financing costs. The projected actual at quarter 1 is -1.51%, the minus indicating that interest receipts exceed financing costs and net revenue streams are slightly lower as mentioned at paragraph 4.17 above.

Commercial Investments

4.19. 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.

4.20. The projected position for total contribution of non-core investments towards core functions is the same as the estimated figure of 12.5% (see Table 3 below). Rental income for quarter 1 is slightly higher due to profiling and spend on utilities and responsive works budgets to date are currently lower than expected.

Table 3: Commercial Investments

Commercial Investments	2025/26 Full Year Budget £'000	2025/26 Actual Qtr 1 £'000	YTD Budget Qtr 1 £'000	25-26 Full Year Projection £'000
Commercial Property Income	(1,979)	(515)	(495)	(1,979)
Running Costs	257	95	107	327
Net contribution to core functions	**(1,722)**	**(420)**	**(388)**	**(1,652)**
Interest from Commercial Loans	(59)	(15)	(15)	(59)
Total Contribution	**(1,781)**	**(435)**	**(403)**	**(1,711)**
Total Income	(12,537)	(3,000)	(2,998)	(12,411)
Total Contribution/Total income	**14.2%**	**14.5%**	**13.4%**	**13.8%**
Sensitivity +/- 10%	(198)	(52)	(50)	(198)

5. Conclusion

5.1. Officers can confirm that the approved limits within the Capital and Investment Strategy were not breached during the quarter ended 30 June 2025.

5.2. The quarter started with significant financial market volatility as President Trump announced a wide range of 'reciprocal' trade tariffs in early April, causing equity markets to decline sharply both in the UK and the US. A 90-day pause was put on tariffs previously announced but this heightened uncertainty, and volatility remained a feature over the period. The UK economy is recovering but risk remains globally along with inflationary pressures and falling interest rates. The latter will have a negative effect on returns that can be achieved from investments, and global unrest may impact on the capital value of some of the Council's investments. Officers will continue to monitor the environment and report any significant issues to the Governance Scrutiny Group.

6. Risk and Uncertainties

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**

There are no Section 17 implications identified for this report.

7.5. **Bio-Diversity Net Gain Implications**

There are no Bio-Diversity Net Gain implications identified for this report.

8. Link to Corporate Priorities

The Environment	Helping to protect the environment by consideration of carbon footprint and fossil-based investments as part of the Capital and Investment Strategy
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

9. Recommendations

It is recommended that Governance Scrutiny Group notes the Capital and Investment Strategy update position as of 30 June 2025.

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Background papers available for inspection	Capital and Investment Strategy 2025/26
List of Appendices:	Appendix A – Investments at 30 June 2025 Appendix B – Pooled Funds Appendix C – Prudential and Treasury Indicators for 2025/26 at 30 June 2025 Glossary of Terms

APPENDIX A

Investment balances at 30 June 2025

Type	Financial Institution	Amount £	Length of Investment	Maturity Date for Fixed Investments	Interest
Pooled Fund	Royal London Cash Plus Fund	1,015,613	On-going		3.96%
Pooled Fund	CCLA Property Fund	2,008,092	On-going		4.36%
Pooled Fund	CCLA Cautious Fund	1,825,481	On-going		3.25%
Pooled Fund	Aegon Diversified Income fund	4,560,790	On-going		6.80%
Pooled Fund	Ninety One Diversified Income Fund	4,518,894	On-going		6.20%
MMF	Aviva	6,201,769	Call		4.22%
MMF	Blackrodk	5,187,384	Call		4.28%
MMF	CCLA - PSDF	863,885	Call		4.28%
MMF	Federated Investors (UK)	9,849,702	Call		4.31%
MMF	Goldman Sachs Asset Management	76,155	Call		4.23%
MMF	HSBC Asset Management ESG	5,617,406	Call		4.28%
MMF	Invesco AIM	9,483,110	Call		4.28%
MMF	Aberdeen Asset Management	9,905,010	Call		4.30%
MMF	HSBC Asset Management Business Deposit	725,932	Call		1.65%
Government	Cheshire East Council	5,000,000	31 Days	14/07/2025	4.30%
Government	Blackpool Council	5,000,000	184 Days	12/11/2025	4.60%
Government	Telford & Wrekin	5,000,000	273 Days	25/07/2025	4.80%
Government	New Forest District Council	4,000,000	276 Days	22/09/2025	5.50%
Government	Lancashire County Council	5,000,000	120 Days	19/06/2026	5.80%
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 PLC 32	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 PLC	460,044	Call		2.02%
Banks Unsecured	Santander UK PLC35	89,308	35 Days		4.28%
	Average Interest Rate				**4.62%**
	Total Investments	**91,367,703**			

APPENDIX B

Pooled Funds

Fair Value	Amount Invested	31/03/2025	30/06/2025	Difference since April 2025	Difference in valuation from initial investment
Aegon-Previously Kames	£5,000,000	£4,560,790	£4,682,217	£121,426	(£317,783)
Ninety One-Previously Investec	£5,000,000	£4,518,894	£4,563,149	£44,255	(£436,851)
RLAM	£1,000,000	£1,015,613	£1,022,238	£6,625	£22,238
CCLA Property	£2,000,000	£2,008,092	£2,011,249	£3,157	£11,249
CCLA CF	£2,000,000	£1,825,481	£1,819,356	(£6,125)	(£180,644)
Total	£15,000,000	£13,928,870	£14,098,208	£169,338	(£901,792)

APPENDIX C

Prudential & Treasury Indicators 30th June 2025	2025/26 Estimate £'000	2025/26 Projected £'000
Prudential Indicators		
Capital Expenditure	13,582	12,901
Expected Investment Position at 31 March 2026	73,021	61,387
Capital Financing requirement at 31 March 2026	6,515	8,320
Proportion of financing costs to net revenue streams	(1.31%)	(1.51%)
Gross Debt (Debt incl PFI & Leases)	0	0
Net Income (from Commercial and Service Investments) to Net Revenue Streams	(10.8%)	(10.3%)
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%	26%
Upper limit for variable rate exposure (investments)	100%	74%
Upper limit for total principal sums invested over 1 year	36,500	30,694
Liability Benchmark	(63,021)	(71,216)

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