Rushcliffe Borough Council	**Governance Scrutiny Group** **Thursday, 4 December 2025** **Capital and Investment Strategy – Quarter 2 Report 2025/26**

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 September 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 the Governance Scrutiny Group reviews and comments as necessary on the Capital and Investment Strategy update position as of 30 September 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) rose by 3.8% in the 12 months to September 2025, in line with the Bank of England's forecast of 3.7% but well above its 2% target. However, it is expected to fall back towards this target in 2026.

4.2. The Bank of England retained base rate at 4% at the Monetary Policy Committee meeting in November but Arlingclose expects a cut to 3.75% in December, with easing inflation, a softer labour market and fiscal tightening strengthening the case.

4.3. The UK economy is estimated to have grown by 0.3% in the second quarter of the 2025, following a 0.7% increase in the first quarter. Growth in Q2 has been driven by increases in services and construction, although the production sector fell by 0.3%. Forecasters anticipate a more muted pace of growth in the second half of 2025 persisting into early 2026.

Investment Income

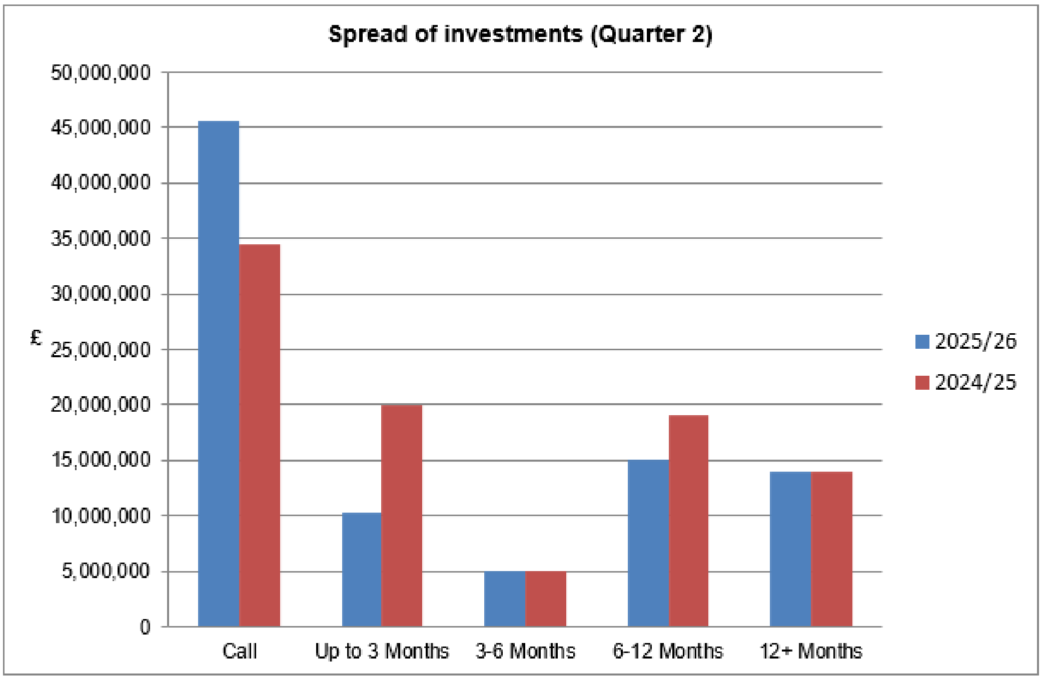
4.4. Based on the Arlingclose interest rate forecast at the time (an average rate of 4.06%), the Council budgeted to receive £1,434,900 in investment income in 2025/26. Actual interest earned to 30 September 2025 totalled £816,277 with total receipts for the year expected to be approximately £1,630,000 (£2,168,616 in 2024/25). Interest receipts are higher than estimated due to investment balances and interest rates both being higher than expected. All investments have been made in accordance with the Council's Capital and Investment Strategy. The Council achieved an average interest rate of 4.34% in quarter 2.

4.5. The average level of funds available for investment purposes during the quarter was £75.61m, with the level of funds fluctuating dependent on the timing of precept payments, receipt of grants, S106 receipts 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).

4.6. 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 £7.50m. A full list of investments at 30 September can be found at **Appendix A**.

4.7. The graph below depicts the Council's investment spread showing the range of investments over different time periods, balancing both cash flow risk and counterparty risk. The spread of investments is comparable over 3 months to this time last year, but more is currently being held in call accounts as opposed to up to 3 months as currently there are fewer Local Authority deals. To counter this, the Council invested £6m in a secured bank deposit with Standard Chartered in October fixed for 94 days. To ensure liquidity, the Council continues to hold considerable sums over the short term, with a greater number of institutions, but with interest rates coming down the Council will be looking to invest for slightly longer terms in the future to lock in the higher rate deals and maximise returns. This is compliant with the Council's Capital and Investment Strategy and recommended action by the Council's Treasury advisors.

Graph 1



4.8. The Council ensures investments are secure and that liquidity is maintained whilst proactively looking to maximise its rate of return (See paragraph 4.4).

4.9. The Council's diversified funds are subject to fluctuations in fair value. The current position can be seen in **Appendix B,** a balance of £0.727m. 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 (current balance of £1.310m). There is a statutory override currently in place, preventing any accounting adjustments impacting on the revenue accounts until April,1 2029. Overall, the rates of return on the Diversified Funds (5.58%) are higher than those achieved on MMFs (4.05%), but capital valuations are more volatile on these funds. 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.

Borrowing and Prudential Indicators

4.10. In accordance with the Local Government Act 2003, the Council has a statutory duty to determine and keep under review how much it can afford to borrow. Therefore, the Council establishes 'Affordable Borrowing Limits' (or Authorised Limit) as part of the Prudential Indicators with the approved Capital and Investment Strategy.

4.11. The authorised limit represents the limit beyond which external borrowing is prohibited and is set as part of the Treasury Strategy, whereas the operational boundary is the expected borrowing position of the Council based on the CFR and a buffer. The operational boundary set for the year is £15m (see **Appendix C**). The authorised limit is set at £20m.

4.12. Considering cash balances in paragraph 4.5, the Council continues to internally borrow to fund capital expenditure and does not envisage externally borrowing during the medium term.

4.13. The Liability (or Asset) Benchmark reflects the real need to borrow (**Table 1**). The Council is reporting a credit balance (asset), which shows that the Council has no need to borrow over the medium term since existing resources exceed the underlying need to borrow. The projected position at the end of the year reflects both IFRS 16 (and the impact on CFR) together with the expected S106 balances, which feed into the working capital figure, together with higher usable reserves. Working capital is projected to reduce over the medium term as S106 balances reduces and resources are used to fund the capital programme.

Table 1 – Liability/(Asset) Benchmark

Capital Financing Requirement (CFR)	2025/26 Budget £'000	2025/26 Projection £'000	2026/27 Projection £'000	2027/28 Projection £'000	2028/29 Projection £'000	2029/30 Projection £'000
Closing CFR	8,836	8,362	7,125	6,693	6,381	6,063
Less:						
Usable Reserves	(31,516)	(33,633)	(28,503)	(25,374)	(22,548)	(19,695)
Working Capital	(48,020)	(46,301)	(44,301)	(42,301)	(40,301)	(38,301)
Plus, minimum investments	10,000	10,000	10,000	10,000	10,000	10,000
LIABILITY/(ASSET) BENCHMARK	(60,700)	(61,572)	(55,679)	(50,982)	(46,468)	(41,933)

Capital Expenditure and Financing

4.14. 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** and key comments to note regarding Capital are at paragraphs 4.15 to 4.18.

4.15. The original Capital Programme for 2025/26 was £8.344m. This has been revised to £13.847m, mainly due to carry forwards from 2024/25 and acceleration of schemes from 2026/27. The projected outturn is £12.381m, resulting in an estimated underspend of £1.466m primarily arising from Warm Homes schemes reduction to match actual grant allocated £610k and £400k Land acquisition for carbon offsetting not yet committed.

4.16. The actual capital expenditure forms one of the required prudential indicators. **Table 2** below shows the actual capital expenditure and how this is financed; fully funded from Council resources.

Table 2 Capital Expenditure and Financing

Capital Programme	2025/26 Estimate £'000	2025/26 Projection £'000	Projected Variance £'000
Capital Expenditure	13,847	12,381	(1,466)
Less Financed by:			
Capital Receipts	(4,732)	(4,494)	238
Capital Grants	(2,969)	(2,209)	760
Reserves	(6,146)	(5,678)	468
Increase in borrowing need	0	0	0

4.17. 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. No external borrowing was undertaken during the quarter ended 30 September 2025 and the Council does not anticipate a need to externally borrow over the Medium-Term, so the CFR balance continues to reduce after deducting MRP repayments and capital receipts as seen in **Table 3.**

4.18. The impact of IFRS 16 (the impact of all leases going on the 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 3 Capital Financing Requirement (CFR)

Capital Financing Requirement (CFR)	2025/26 Estimate £'000	2025/26 Projection £'000
Opening Balance	10,010	10,010
Add: unfinanced capital expenditure (IFRS16)	0	0
Less MRP/VRP	(1,174)	(1,648)
Less applied Capital Receipts and S106	0	0
Closing Balance	8,836	8,362

Treasury Management and Prudential Indicators

4.19. During the quarter ended 30 September 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 (**Appendix C**).

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

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

4.22. 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 2 is 0.68%, which is better than estimated, due to higher interest receipts reducing net financing costs.

4.23. Net Income from Commercial and Service Investments to Net Revenue Streams reflects the Council's dependence on investments. The projected figure is marginally higher than budgeted primarily due to savings on utilities against budget, increasing the net income received from these investments (See table 4).

Commercial Investments

4.24. The Council must disclose its dependence on commercial income, and the contribution non-core investments make towards core functions.

4.25. The projected position for total contribution of non-core investments towards core functions is 12.2% compared with the estimated figure of 12.5% reflecting a slight drop in rental income due to vacancies (Bridgford Hall) and the increase in total income due to interest receipts as discussed on paragraph 4.4 above (see **Table 4** below).

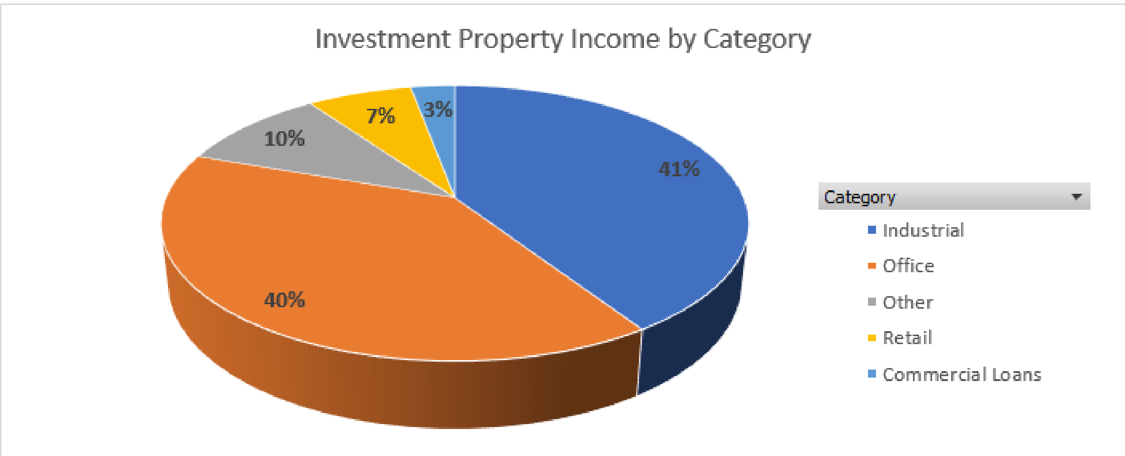
Table 4

Commercial Investments	2025/26 Full Year Budget £'000	2025/26 Actual Qtr 2 £'000	YTD Budget Qtr 2 £'000	25-26 Full Year Projection £'000
Commercial Property Income	(1,979)	(973)	(990)	(1,960)
Running Costs	465	223	229	471
Net contribution to core functions	**(1,514)**	**(750)**	**(761)**	**(1,489)**
Interest from Commercial Loans	(59)	(30)	(30)	(59)
Total Contribution	**(1,573)**	**(780)**	**(791)**	**(1,548)**
Total Income	(12,537)	(6,350)	(6,103)	(12,660)
Total Contribution/Total income	**12.5%**	**12.3%**	**13.0%**	**12.2%**
Sensitivity +/- 10%	(198)	(97)	(99)	(196)

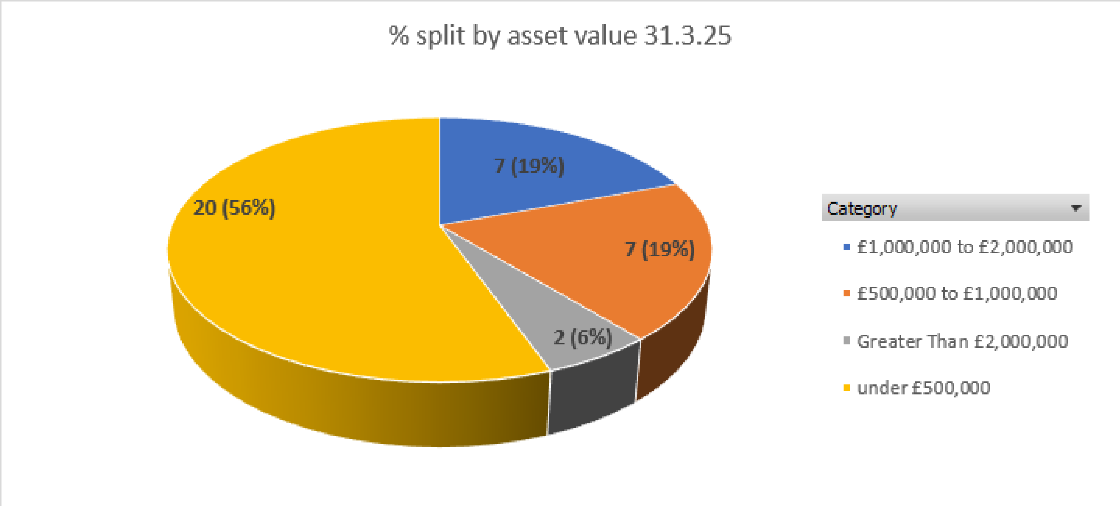
Risk Exposure Indicators

4.26. The Council minimises its exposure to risk by spreading investments across sectors and by avoiding single large-scale investments. The spread of investments across sectors can be seen by asset value in graph 2 and number of investments in graph 3. Industrial units and office accommodation account for the majority of income from investment properties (81% in total). The two largest investments are The Point and Unit 3 Edwalton Business Park.

Graph 2



Graph 3



Security and Liquidity

4.27. 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 five-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.

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

4.29. 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. The last Asset Management review of commercial assets was reported to this group 22 February 2024 with the next review planned for February 2026. A review has also just been completed on operational/non-investment properties and will be subject to Cabinet approval.

4.30. 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.

Training and Development

4.31. The last presentation and training session to Councillors, provided by the Council's Treasury Management Advisors, was 17 December 2024. The next scheduled training session will be held on 6 January 2026.

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 September 2025.

5.2. The UK economy is recovering from recent financial market volatility, 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

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

There are no Section 17 implications identified for this report.

7.5. Biodiversity Net Gain Implications

There are no Biodiversity Net Gain Implications as a result of the recommendations in 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 the Governance Scrutiny Group reviews and comments as necessary on the Capital and Investment Strategy update position as of 30 September 2025.

For more information contact:	Peter Linfield Executive Manager - Finance and Corporate Services 0115 914 8439 plinfield@rushcliffe.gov.uk
Background papers available for inspection	Capital and Investment Strategy 2025/26
List of Appendices:	Appendix A – Investments at 30 September 2025 Appendix B – Pooled Funds Appendix C – Prudential and Treasury Indicators for 2025/26 at 30 September 2025 Glossary of Terms

APPENDIX A

Investment Balances at 30 September 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	623,797	Call		3.99%
MMF	Blackrodk	8,539,440	Call		4.06%
MMF	CCLA - PSDF	1,341,118	Call		4.04%
MMF	Federated Investors (UK)	9,965,650	Call		4.09%
MMF	Goldman Sachs Asset Management	2,972,257	Call		4.00%
MMF	HSBC Asset Management ESG	5,677,204	Call		4.05%
MMF	Invesco AIM	6,494,903	Call		4.07%
MMF	Aberdeen Asset Management	9,289,661	Call		4.07%
MMF	HSBC Asset Management Business Deposit	128,668	Call		1.53%
Government	Cheshire East Council	5,000,000	364 Days	13/07/2026	4.20%
Government	Blackpool Council	5,000,000	181 Days	12/05/2026	4.25%
Government	Leeds City Council	5,000,000	212 Days	24/04/2026	4.25%
Government	Telford & Wrekin	5,000,000	185 Days	26/01/2026	4.20%
Government	Lancashire County Council	5,000,000	364 Days	18/06/202	4.25%
Banks Unsecured	Bank of Scotland PLC	833	Call		0.01%
Banks Unsecured	Bank of Scotland PLC32	118,879	32 Days		2.50%
Banks Unsecured	Barclays Bank PLC	6,887	Call		1.63%
Banks Unsecured	Barclays Bank PLC 32	4,993,280	32 Days		3.80%
Banks Unsecured	Handelsbanken PLC	12,286	Call		3.85%
Banks Unsecured	Handelsbanken PLC35	13,022	35 Days		3.60%
Banks Unsecured	Santander UK PLC	469,064	Call		2.23%
Banks Unsecured	Santander UK PLC35	92,016	35 Days		3.53%
	Average Interest Rate				**4.34%**
	Total Investments	**89,667,834**			

Pooled Funds at 30 September 2025

Fair Value	Amount Invested	31/03/2025	30/09/2025	Difference since April 2025	Difference in valuation from initial investment
Aegon-Previously Kames	£5,000,000	£4,560,790	£4,808,208	£247,418	(£191,792)
Ninety One-Previously Investec	£5,000,000	£4,518,894	£4,616,254	£97,360	(£383,746)
RLAM	£1,000,000	£1,015,613	£1,022,888	£7,275	£22,888
CCLA Property	£2,000,000	£2,008,092	£2,012,620	£4,528	£12,620
CCLA CF	£2,000,000	£1,825,481	£1,812,970	(£12,510)	(£187,030)
Total	£15,000,000	£13,928,870	£14,272,940	£344,071	(£727,060)

APPENDIX C

Prudential and Treasury Indicators

Prudential & Treasury Indicators 30th September 2025	2025/26 Estimate £'000	2025/26 Projected £'000
Prudential Indicators		
Capital Expenditure	13,847	12,381
Expected Investment Position at 31 March 2026	73,021	68,428
Capital Financing requirement at 31 March 2026	8,836	8,362
Proportion of financing costs to net revenue streams	1.67%	0.68%
Gross Debt (Debt incl PFI & Leases)	0	0
Net Income (from Commercial and Service Investments) to Net Revenue Streams	(10.5%)	(10.9%)
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%	28%
Upper limit for variable rate exposure (investments)	100%	72%
Upper limit for total principal sums invested over 1 year	36,500	34,214
Liability Benchmark	(60,700)	(61,572)

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 is 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

ESG – stands for environmental, social, and governance and refers to how companies score on these responsibility metrics. Environmental criteria gauge how a company safeguards the environment. Social criteria examine how it manages relationships with employees, suppliers, customers, and communities. Governance measures a company's leadership, executive pay, audits, internal controls, and shareholder rights.

MRP – Minimum Revenue Provision – is the minimum amount which a Council must charge to its revenue budget each year, to set aside a provision for paying back borrowing. This is an annual revenue expense in a Council's budget.