

CAPITAL AND INVESTMENT STRATEGY 2026/27 – 2030/31

Introduction

1. The Local Government Act 2003 requires the Council to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities (the CIPFA code) 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 (IFRS 16)
- 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 is included in the Medium-Term Financial Strategy (MTFS) presented to Full Council.

Table1: Projected Capital Expenditure and Financing

	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000	2029/30 Estimate £'000	2030/31 Estimate £'000
Capital Expenditure	14,186	6,898	5,703	4,472	4,740	3,283
Less Financed by:						
Capital Receipts	4,460	325	625	315	915	435
Capital Grants/ Contributions	3,720	2,224	3,350	2,487	1,850	870
Reserves	6,006	4,349	1,728	1,670	1,975	1,978
Total Financing	14,186	6,898	5,703	4,472	4,740	3,283
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 are subject to change, anticipated capital receipts are not realised/deferred or spend is more than expected in the medium term. We now know New Homes Bonus has been discontinued in the 2026/27 finance settlement.

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.
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

	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000	2029/30 Estimate £'000	2030/31 Estimate £'000
Opening CFR	10,010	8,362	7,125	6,693	6,381	6,063
CFR in year	-	-	-	-	-	-
Less: MRP,VRP,IFRS16 MRP	(1,648)	(1,237)	(432)	(312)	(318)	(325)
Closing CFR	8,362	7,125	6,693	6,381	6,063	5,738
Less: External Borrowing	-	-	-	-	-	-
Internal Borrowing	8,362	7,125	6,693	6,381	6,063	5,738
Less:						
Usable Reserves	(33,573)	(32,705)	(33,105)	(32,856)	(30,937)	(30,466)
Working Capital	(46,301)	(44,301)	(42,301)	(40,301)	(38,301)	(38,301)
Available for Investment	(71,512)	(69,881)	(68,713)	(66,776)	(63,175)	(63,029)

*The CFR increase in 2024/25 arose from a change in the accounting for leases.

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 the ability to internally borrow using 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. Reserves will decrease further when spending plans are finalised and unknown costs such as those relating to Local Government Reorganisation impact on the Council. 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

	2025/26 Forecast £'000	2026/27 Forecast £'000	2027/28 Forecast £'000	2028/29 Forecast £'000	2029/30 Forecast £'000	2030/31 Forecast £'000
Debt (IFRS16 lease liability)	2,321	1,848	1,350	1,093	955	811
Capital Financing Requirement	8,362	7,125	6,693	6,381	6,063	5,738

Minimum Revenue Provision Policy

15. MHCLG 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 27-32. A variety of options are provided to Councils, so long as there is prudent provision. As with previous strategies, the Council implements 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.

16. 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 permitted 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 2026/27 to 2030/31

17. The CIPFA Code of Practice for Treasury Management in the Public Services (the “CIPFA Treasury Management Code”) 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 70 below. Under the revised Prudential code, investments are separated into categories for Treasury Investment, Service Investment and Commercial Investment.

18. The CIPFA 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.
19. 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. Treasury Management Practices (TMP) 1 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

20. The impact on the UK from the government’s Autumn Budget, is an influence on the Council’s treasury management strategy for 2026/27. Other influences will include lower short-term interest rates alongside higher medium and longer-term rates, modest economic growth, together with ongoing uncertainties around the global economy, stock market sentiment, and ongoing geopolitical issues.
21. The Bank of England’s (BoE) reduced the base rate to 3.75% at its meeting in December 2025, down 25 basis points from 4%. This follows multiple cuts during 2025. The Council’s treasury advisors are expecting this downward trend to continue over the medium term with the next cut anticipated in February 2026 and rates expected to stabilise around 3.25%.
22. The Consumer Prices Index (CPI) was 3.2% in November, down from 3.8% in September and lower than the 3.5% expected. Core CPI eased to 3.2% from 3.5%, against forecasts of it being 3.6%. The BoE projects inflation to reach the 2% target by late 2026 or early 2027.
23. The labour market continues to ease with rising unemployment, falling vacancies and flat inactivity. In the three months to October 2025, the unemployment rate increased to 5.1%, while the employment rate slipped to 74.9%. Going forward,

the Bank predicts the unemployment rate will remain around 5.0% before trending downwards in 2026 at a gradual pace over the rest of the time horizon.

24. 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

	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate	2030/31 Estimate
Anticipated Interest Rate	3.31%	3.25%	3.00%	3.00%	3.00%
Expected interest from investments (£)	1,263,100	1,235,200	1,163,300	1,091,900	1,033,900
Other interest (£)	54,400	48,800	44,300	39,900	35,200
Total Interest (£)	1,317,500	1,284,000	1,207,600	1,131,800	1,069,100
Sensitivity:	£	£	£	£	£
- 0.25% Interest Rate	82,100	78,600	84,700	77,800	83,100
+ 0.25% Interest Rate	(82,100)	(78,600)	(84,700)	(77,800)	(83,100)

25. 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.

26. 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 2026/27 to 2030/31

Prudential Indicators for External Debt

27. 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.

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

- HM Treasury's PWLB lending facility
- National Wealth Fund (formerly UK Infrastructure Bank)
- Any institution approved for investments
- Any other bank or building society authorised to operate in the UK
- Any other public sector body
- UK public and private sector pension funds
- Capital market bond investors
- Retail investors via a regulated peer-to-peer platform

- Special purpose companies created to enable local authority bond issues

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 (not anticipated). 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.

- Leasing
- Hire purchase
- Private Finance Initiative
- Sale and leaseback
- Similar asset-based finance

a) Authorised Limit for External Debt

29. 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

	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000	2029/30 Estimate £'000	2030/31 Estimate £'000
Authorised Limit	20,000	20,000	20,000	20,000	20,000	20,000

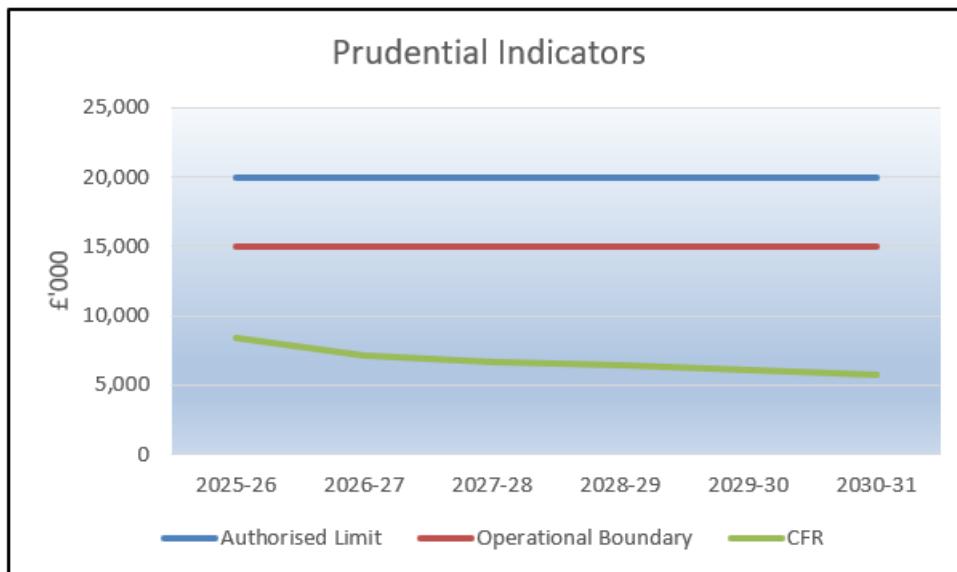
b) Operational Boundary for External Debt

30. 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

	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000	2029/30 Estimate £'000	2030/31 Estimate £'000
Operational Boundary	15,000	15,000	15,000	15,000	15,000	15,000

Chart 1 below shows the prudential indicators graphically



31. 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 are 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 and 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%

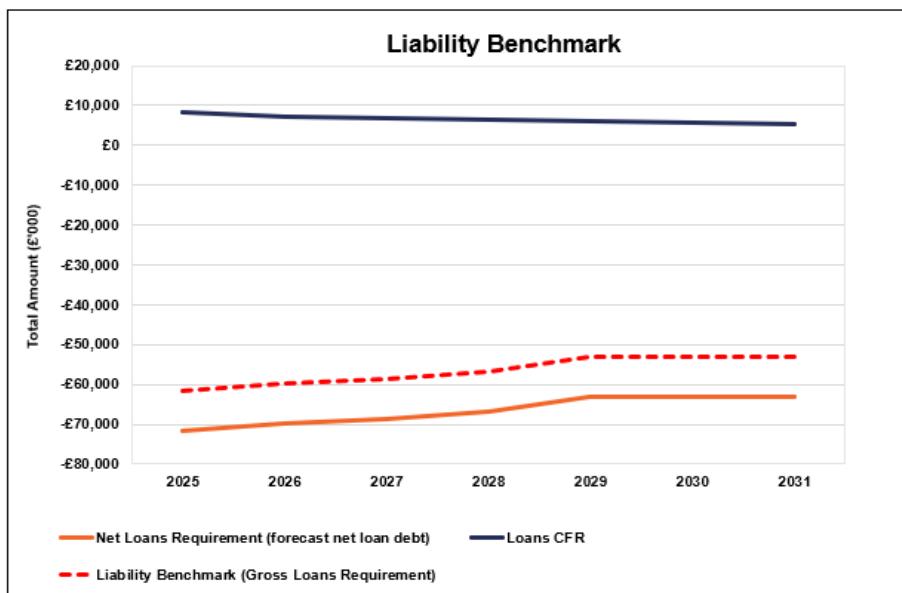
32. The Liability Benchmark reflects the real need to borrow and can be seen in table 8. In accordance with the Code this must also be shown graphically (Chart 2). The Council's CFR is reducing due to MRP repayments. Reserves are being

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

	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Closing CFR	8,362	7,125	6,693	6,381	6,063	5,738
Less:						
Usable Reserves	(33,573)	(32,705)	(33,105)	(32,856)	(30,937)	(30,466)
Working Capital	(46,301)	(44,301)	(42,301)	(40,301)	(38,301)	(38,301)
Plus minimum investments	10,000	10,000	10,000	10,000	10,000	10,000
LIABILITY BENCHMARK	(61,512)	(59,881)	(58,713)	(56,776)	(53,175)	(53,029)

Chart 2 Prudential Indicator: Liability Benchmark



Prudential Indicators for Affordability

33. 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**
34. This indicator identifies the trend in net financing costs which include borrowing costs (MRP and IFRS16 interest 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.

35. A credit indicates net interest earned rather than an interest cost. The figures fluctuate over the MTFS period, but all figures after 2026/27 are a 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.
36. Net revenue streams fluctuate over the period. Following the Fair Funding Review, individual income streams (such as New Homes Bonus) have now been replaced with a single Revenue Support Grant to support transition and provide a funding 'floor'. Allocations are confirmed until 2028/29 after which it is expected that this will reduce. Later years also reflect both the downward trend in interest from lower investment balances and fluctuating net revenue streams from Council Tax and Localised Business Rate changes.

Table 9: Proportion of Financing Costs to Net Revenue Stream

	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate	2030/31 Estimate
Net Interest Payable/(Receivable)	34	(762)	(831)	(762)	(699)
Net Revenue Stream	17,907	17,705	17,445	16,394	17,057
Financing costs:Net Revenue Stream	0.19%	-4.30%	-4.76%	-4.65%	-4.10%

b) Estimates of net income to net revenue stream

37. 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 improved commercial performance of the crematorium.

Table 10: Proportion of Net Income to Net Revenue Stream

	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate	2030/31 Estimate
Net Income from investments	(2,094)	(2,284)	(2,345)	(2,411)	(2,482)
Net Revenue Stream	17,907	17,705	17,445	16,394	17,057
Net Income:Net Revenue Stream	11.7%	12.9%	13.4%	14.7%	14.6%

Investment Strategy 2026/27 to 2030/31

38. Table 11 below shows the Council's investment balance 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

	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate	2030/31 Estimate
Investments at 31 March £'000	71,500	69,900	68,700	66,800	63,200	63,000

39. 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 (see paragraph 41). The Council ensures that robust due diligence procedures cover all external investments.
40. As demonstrated by the liability benchmark above (paragraph 32), 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.
41. ESG policy: 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 (NZAM) and/or the UK Stewardship Code. Note that the NZAM is currently suspended but has announced a resumption from January 2026. Ultimately security, liquidity and yield are the overriding principles that drive where the council invests its resources.
42. 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.

43. 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 - government collateral	25 years	£10m	Unlimited
Secured investments - other collateral*	10 years	£10m	Unlimited
Banks (unsecured) *	13 months	£5m	Unlimited
Building societies (unsecured) *	13 months	£5m	£5m
Registered providers (unsecured) *	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 Treasury Management Advisors) even if they met the criteria above.

44. 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.

45. 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.

46. 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.

47. 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.
48. The Council is aware that investments 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 47 and carry out due diligence before investing.
49. 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 64 for more detail).

Credit Risk

50. 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.
51. 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

52. 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.
53. Surplus funds are invested 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 declining interest rates it is prudent to lock into longer deals to take advantage of higher rates, whilst also ensuring a diversified portfolio. Funds are separated between service investment and non-specified investments as detailed in paragraphs 57 to 59 below.
54. The Council currently holds a total of £15m in pooled/diversified funds. The fair value of these funds fluctuates, and the current value of these investments can be seen in Appendix ii. The downward trend experienced in previous years is starting to reverse but these funds are still susceptible to global unrest, inflation and monetary policies.
55. The fluctuations in capital value of the pooled/diversified funds to date is a loss of £0.561m. This is currently reversed by the statutory override preventing any accounting loss impacting on the revenue accounts. This is due to end 1 April 2029. The risk of this loss crystallising after this period has been mitigated by appropriations of £1.310m to the Treasury Capital Depreciation Reserve.
56. It should be noted that whilst the capital 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 16% of average investment balances in 2024/25 but generated 34% interest. The Council will continue to monitor the position on these investments and take advice from the treasury advisors.

Service investments

57. 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).
58. 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, normally at market interest rates. 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

59. 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

60. The Council's revenue reserves available to cover investment losses in a worst-case scenario are forecast to be around £17.5 million on 31st March 2026 and £19.3 million on 31st March 2027. The maximum that will be lent unsecured to any one organisation (other than the UK Government) will be £10 million (table 12). 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

61. The Council measures and manages its exposures to treasury management risks using the following indicators:
 - a) **Interest Rate Exposures**
62. This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposure is usually expressed as a percentage of the amount of net interest payable. However, for the Council, interest costs on borrowing are greatly exceeded by interest and investment

income, therefore the upper limit for fixed and variable interest rate exposure in absolute terms will be negative. The Council has set a limit of 50% on fixed interest rate exposure. During a time of falling interest rates as forecast (paragraph 24) this indicator should not be restrictive or prevent the Council from locking more investments 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

	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
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

63. 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. It includes long-term investments with no fixed maturity date including strategic pooled/diversified funds. 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

	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate	2030/31 Estimate
Limit on Principal invested over 1 year £'000	35,800	34,900	34,400	33,400	31,600	31,500

Policy on the use of financial derivatives

64. 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).

65. 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.
66. 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

67. Arlingclose will act as the Council's treasury management advisors until 31 October 2026 (with optional extension to 31 October 2028). The company provides a range of services which include:
 - Technical support on treasury matters and capital finance issues
 - Economic and interest rate analysis
 - Investment advice on interest rates, timing, and investment instruments; and
 - Credit ratings/market information service comprising the three main credit rating agencies.
68. 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

69. 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 ie 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

70. The CIPFA definition of investments in treasury management activities above (paragraph 17) 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.

71. Under the updated Prudential Code, Local Authorities are no longer allowed to borrow to fund non-financial assets solely to generate a profit.
72. 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.
73. 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 83) with the next report due in June 2026.
74. 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).
75. 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**
76. 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 10% each year leaving the Council less exposed to risks surrounding commercial property.
77. This percentage is declining over the medium term due to the Council's budgeted total income increasing relative to rental income.

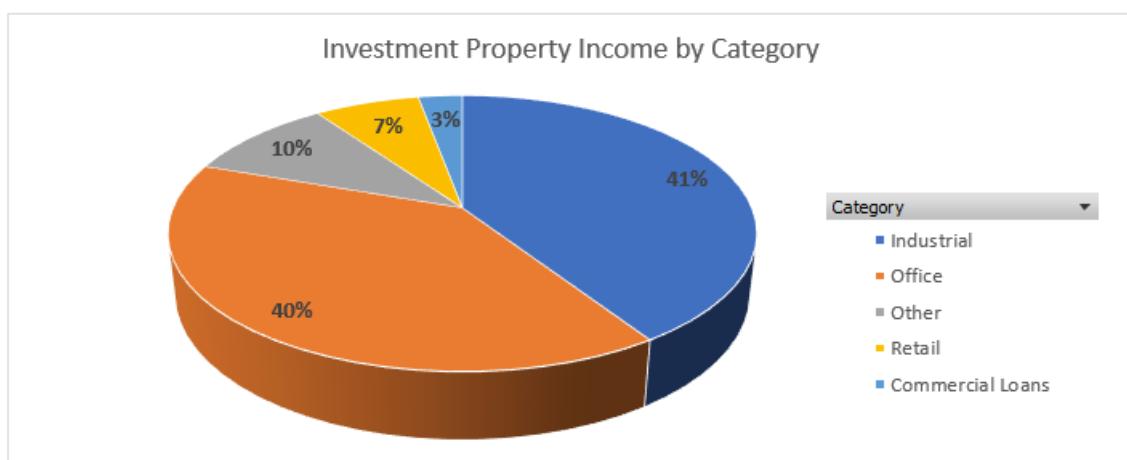
Table 16: Commercial Investment income and costs

	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000	2030/31 £'000
Commercial Property Income	(1,837)	(1,940)	(1,940)	(1,940)	(1,940)
Running Costs	503	483	492	501	510
Net Contribution to core functions	(1,333)	(1,457)	(1,448)	(1,439)	(1,430)
 Interest from Commercial Loans	 (55)	 (49)	 (44)	 (40)	 (35)
 Total Contribution	 (1,388)	 (1,506)	 (1,492)	 (1,479)	 (1,465)
Sensitivity:					
+/- 10% Commercial Property Income	184	194	194	194	194
Indicator:					
Total Contribution as a % of total Council Income	10.0%	10.4%	10.0%	9.8%	9.5%
Total Income	13,952	14,441	14,864	15,147	15,435

b) Risk Exposure Indicators

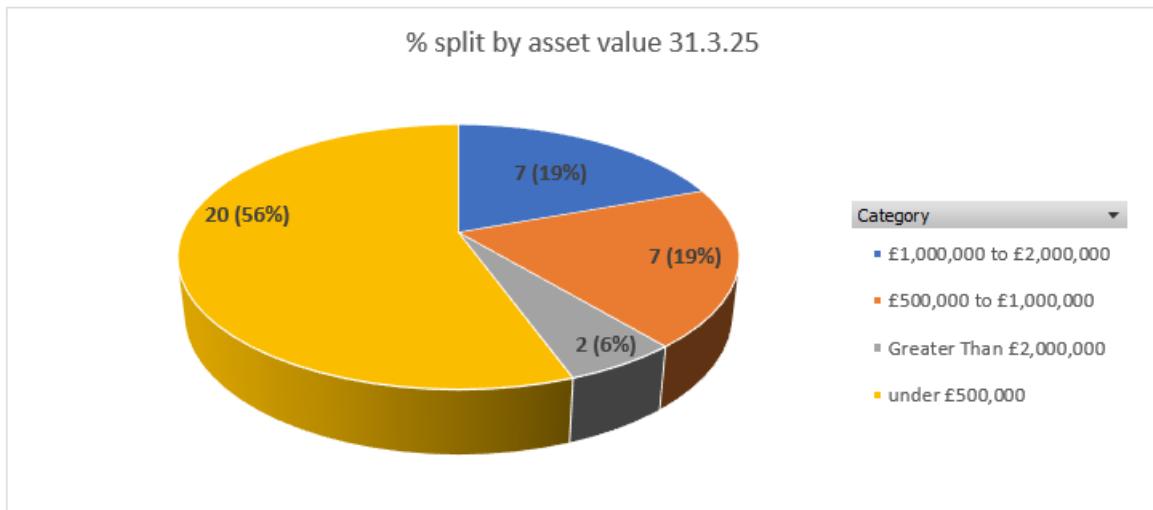
78. The Council can minimise its exposure to risk by spreading investments across sectors and by avoiding single large-scale investments (Chart 3 and 4 below). Generally, there is a spread of investment across sectors in the Council's portfolio. The Council's previous commitment to economic regeneration (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 Centre 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



79. 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.
80. 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.
81. 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.
82. 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.
83. 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

84. 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 January 2026. The Council specifically addressing this important issue by:

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

With regards to officers, the Council employs professionally qualified and experienced staff in senior positions and continues to support professional development by:

- 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

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

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

Pooled Funds	Fair Value	Difference			Difference in valuation from initial investment
	31.03.25	Fair Value	from	Amount Invested	
		31.12.25	31.03.25		
Aegon-Previously Kames	4,560,790	4,955,654	394,864	5,000,000	(44,346)
Ninety One-Previously Investec	4,518,894	4,621,171	102,277	5,000,000	(378,829)
RLAM	1,015,613	1,026,306	10,692	1,000,000	26,306
CCLA Property	2,008,092	2,011,052	2,960	2,000,000	11,052
CCLA Diversified	1,825,481	1,824,177	(1,303)	2,000,000	(175,823)
	13,928,870	14,438,360	509,491	15,000,000	(561,640)

Current Book Value of Non-Treasury Investments

INVESTMENT PROPERTY	Book Value 31.3.25 £000	Book Value 31.3.24 £000
The Point Office Accommodation	3.282	3.272
Hollygate Lane, Cotgrave Industrial Units	2.944	2.776
Unit 3 Edwalton Business Park	2.194	2.223
Bardon Single Industrial Unit	1.929	1.929
Unit 1 Edwalton Business Park	1.731	1.787
Trent Boulevard	1.414	1.428
Colliers Business Park Phase 2	1.511	1.386
Cotgrave Phase 2	1.231	1.227
Bingham Hub Offices	1.116	1.112
Bridgford Hall Aparthotel and Registry O	0.955	1.061
Finch Close	0.914	0.911
Boundary Court	0.742	0.787
Colliers Business Park Phase 1	0.863	0.775
Cotgrave Precinct Shops	0.526	0.487
Mobile Home Park	0.477	0.477
New Offices Cotgrave	0.504	0.470
TOTAL INVESTMENT PROPERTY	22.333	22.108
Notts County Cricket Club Loan	1.384	1.499
TOTAL	23.717	23.607

Glossary

CPI: is the consumer price index. A measure of the cost of living for the typical person.

Core CPI: is the CPI for energy and food prices.

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 considered.

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.

† Time limits

These start on the earlier of date that the Authority is committed to make the investment and the date that cash is transferred to the counterparty.

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. The counterparty limit for loans to local authorities will be increased to an unlimited amount where (a) the government has announced that the Council will merge with the borrowing authority and (b) the loan is scheduled to be repaid after the expected date of the merger.

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. A higher limit applies for investments fully secured on UK or other government collateral.

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 through 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.