**Report of the Portfolio Holder for Resources and Personnel Policy**

# Treasury Management and Prudential Indicators 2025/26 – Mid-Year Report

1. Purpose of Report

To provide Members with the mid-year update on Treasury Management activity and the Prudential Indicators for 2025/26.

**2. Recommendation**

**Cabinet is asked to NOTE the Treasury Management and Prudential Indicators 2025/26 Mid-year Report.**

3. Detail

Regulations issued under the Local Government Act 2003 require the Council to fulfil the requirements of the Chartered Institute of Finance and Accountancy (CIPFA) Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities when undertaking its treasury management activities.

As well as the Treasury Management and Prudential Indicators annual report that is presented to Cabinet in July each year, there is a regulatory requirement for Members to at least receive a mid-year review. This is intended to enhance the level of Member scrutiny in these areas.

The CIPFA Code of Practice on Treasury Management requires the Deputy Chief Executive to operate the Treasury Management function in accordance with the Treasury Management Strategy approved by Cabinet on 4 February 2025. Details of all borrowing and investment transactions undertaken in 2025/26 up to 30 September 2025, together with the balances at this date and limits on activity, are provided in **Appendix 1**. There are no issues of non-compliance with these practices that need to be reported.

Under the CIPFA Prudential Code for Capital Finance in Local Authorities, the Council is required to prepare several prudential indicators against which treasury management performance should be measured. The objectives of the Prudential Code are to ensure that the Council's capital investment plans are affordable, prudent and sustainable. Fundamental to this is the calculation of a number of prudential indicators, which provide the basis for the management and monitoring of capital expenditure, borrowing and investments. The Council has complied with its 2025/26 prudential indicators up to 30 September 2025 and details are provided in **Appendix 2**.

4. Key Decision

This report not a key decision as defined under Regulation 8 of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.

5. Updates from Scrutiny

Not applicable.

6. Financial Implications

The comments from the Interim Deputy Chief Executive and Section 151 Officer were as follows:

This report meets the requirements of the CIPFA Code of Practice on Treasury Management and the Prudential Code for Capital Finance in Local Authorities.

All treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice on Treasury Management and the approved Treasury Management Strategy. Further comments are incorporated in the narrative in the executive summary and appendices.

7. Legal Implications

The comments from the Monitoring Officer / Head of Legal Services were as follows:

Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance. This report demonstrates compliance with the legislative framework.

8. Human Resources Implications

There were no comments from the Human Resources Manager.

9. Union Comments

Not applicable.

10. Climate Change Implications

Not applicable.

11. Data Protection Compliance Implications

    This report does not contain any OFFICIAL(SENSITIVE) information and there are no Data Protection issues in relation to this report.

12. Equality Impact Assessment

    As there is no change to policy an equality impact assessment is not required.

13. Background Papers

    Nil.

**Appendix 1**

**Treasury Management Activity 2025/26 (Q2)**

## 1. Introduction

The Council has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Council to approve, as a minimum, treasury management semi-annual and annual outturn reports.

This report includes the new requirement in the 2021 Code, mandatory from April 2023, of quarterly reporting of the Treasury Management activity and prudential indicators.

The Council's Treasury Management Strategy for 2025/26 was approved at the Cabinet meeting on 4 February 2025. The Council continues to borrow and invest substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's Treasury Management Strategy.

## 2. External Context

Economic Background:

The first quarter was dominated by the fallout from the US trade tariffs and the impact on equity and bond markets. The second quarter, still rife with uncertainty, saw equity markets making gains and a divergence in US and UK government bond yields, which had been moving relatively closely together.

From June, concerns around the Government's fiscal position and speculation around the Autumn Budget, saw yields on medium and longer-term gilts pushed higher, including the 30-year rate which hit its highest level for almost 30 years.

UK headline annual consumer price inflation (CPI) increased over the period, rising from 2.6% in March to 3.8% in August; still above the Bank of England's 2% target. Core inflation also rose from 3.4% to 3.6% over the same period, albeit the August reading was down from 3.8% the previous month.

The UK economy expanded by 0.7% in the first quarter of the calendar year and by 0.3% in the second quarter. The final Q2 2025 GDP report revised annual growth upwards to 1.4% year on year. However, monthly figures showed zero growth in July, in line with expectations, indicating a sluggish start to Q3.

The labour market data continued to soften throughout the period with the unemployment rate rising and earnings growth easing. In addition, the economic inactivity rate and number of vacancies fell as the employment rate rose.

The Bank of England's Monetary Policy Committee (MPC) cut the Bank Rate from 4.5% to 4.25% in May and to 4.0% in August after an unprecedented second round of voting. The MPC views still differ on whether the upside risks from inflation expectations and wage setting outweigh downside risks from weaker demand and growth.

Arlingclose, the Council's treasury adviser, maintained its central view that Bank Rate would be cut further as the Bank of England focused on weak GDP growth more than higher inflation. The risks to the forecast are balanced in the near-term but weighted to the downside further out as weak consumer sentiment and business confidence and investment continue to constrain growth. There was also considerable uncertainty around the Autumn Budget and the impact this will have on the outlook.

The August Monetary Policy Report highlighted that after peaking in Q3 2025, inflation is projected to fall back to target by mid-2027, helped by increasing spare capacity in the economy and the ongoing effects from past tighter policy rates. GDP is expected to remain weak in the near-term while over the medium-term outlook will be influenced by domestic and global developments.

Against a backdrop of uncertain US trade policy and pressure from President Trump, the US Federal Reserve held interest rates steady for most of the period, before cutting the Fed Funds Rate to 4.0% in September. Fed policymakers also published their new economic projections. These pointed to a 0.5% lower Fed Funds Rate by the end of 2025 and 0.25% lower in 2026, alongside GDP growth of 1.6% in 2025, inflation of 3% and an unemployment rate of 4.5%. The European Central Bank cut rates in June, reducing its main refinancing rate from 2.25% to 2.0%, before keeping it on hold through to the end of the period. New ECB projections predicted inflation averaging 2.1% in 2025, before falling below target in 2026, alongside improving GDP growth, for which the risks are deemed more balanced and the disinflationary process over.

Financial markets:

After sharp declines early in the period, sentiment in financial markets improved but risky assets have generally remained volatile. Early in the period bond yields fell, but ongoing uncertainty, particularly in the UK, has seen medium and longer yields rise with bond investors requiring an increasingly higher return against the perceived elevated risk of UK plc. Since the sell-off in April, equity markets have gained back the previous declines, with investors continuing to remain bullish in the face of ongoing uncertainty.

Over the period, the 10-year UK benchmark gilt yield started at 4.65% and ended at 4.70%. However, these six months saw significant volatility with the 10-year yield hitting a low of 4.45% and a high of 4.82%. It was a broadly similar picture for the 20-year gilt which started at 5.18% and ended at 5.39% with a low and high of 5.10% and 5.55% respectively. The Sterling Overnight Rate (SONIA) averaged 4.19% over the six months to 30 September 2025.

Credit review:

Arlingclose has maintained its advised recommended maximum unsecured duration limit on most banks on its counterparty list at six months. Duration advice for the remaining five institutions, was kept to a maximum of 100 days.

Early in the period, Fitch upgraded NatWest Group and related entities to AA- from A+ and placed Clydesdale Bank's long-term A- rating on Rating Watch Positive. While Moody's downgraded the long-term rating on the United States sovereign to Aa1 in May. In the second quarter, Fitch upgraded Clydesdale Bank and HSBC, downgraded Lancashire County Council and Close Brothers while Moody's upgraded Transport for London, Allied Irish Banks, Bank of Ireland and Toronto-Dominion Bank.

After spiking in early April following the US trade tariff announcements, UK Credit Default Swap (CDS) prices have since generally trended downwards and ended the period at levels broadly in line with those in the first quarter of the calendar year and throughout most of 2024 as price volatility remained generally more muted compared to previous periods. European and other world banks' CDS prices have followed a similar pattern to the UK, while Canadian bank prices remain modestly elevated compared to earlier in 2025 and in 2024.

Financial market volatility is expected to remain a feature, at least in the near term and CDS levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Council's counterparty list recommended by Arlingclose remain under constant review.

## 3. Borrowing

a) Debt Activity in Year

Loan debt outstanding as at 30 September 2025 is shown below:

| Loan Type | Amount Outstanding 01/04/25 £'000 | Amount Outstanding 30/09/2025 £'000 |
|---|---|---|
| Short Term Loans: | | |
| Bramcote Crematorium | 379 | - |
| Money Market Loans | - | - |
| Public Works Loan Board | 11,965 | 9,099 |
| Long Term Loans: | | |
| Money Market Loans | 3,000 | 3,000 |
| Public Works Loan Board | 94,957 | 95,624 |
| **Total** | **110,301** | **107,723** |

This level of borrowing should be considered in the context of the assets held by the Council. The latest valuation used for the Balance Sheet on 31 March 2025 showed that the Council held fixed assets with a total value of £326m (including its share of the Bramcote Crematorium assets). This included General Fund assets at £58.6m and Housing Revenue Account (HRA) assets at £267.6m. **The market valuation of Council dwellings is estimated at £631m.** This compares favourably with the current debt portfolio.

b) Loans

Short-term money market loans are from other local authorities and public sector bodies. The Council did not have any money market loans at 1 April 2025 and has not taken on any new money market loans in the year to date.

One PWLB loan of £7.4m will mature on 28 March 2026. As this is due to mature within the next 12 months it is considered ‘short term’ in nature. There will be a need to replace this loan.

Opening short term loans also included PWLB annuities at £17k. A sum of £8k was repaid on 13 September 2025 and the remaining £9k is due for repayment on 13 March 2026. Opening short terms loans also included PWLB ‘Equal Instalments of Principal’ (EIP) loans of £3.0m. An additional £333k has been added to this figure for a new EIP loan of £1.0m taken out in August 2025. A sum of £1.69m was repaid in the first two quarters of 2025/26 with a remaining £1.69m to be repaid in the last two quarters.

Opening short term loans included £379k invested with the Council by Bramcote Crematorium. A withdrawal was made to allow for a distribution of £400k to its two constituent authorities (Broxtowe and Erewash) on 30 September 2025.

The major element of the long-term loans from the PWLB relates to the loans totalling £66.4m taken out on 28 March 2012 to make payment to the government as part of Housing Finance reforms. This enabled the Council to exit the HRA subsidy system and move to self-financing arrangements that allowed local authorities to support their housing stock from their own HRA income. These loans were for maturity periods of between 10 and 20 years and were set at special one-off preferential rates made available by the PWLB for this exercise of 13 basis points above the equivalent gilt yield at the date on which the loans were taken out. One of these loans at £6.5m was repaid in 2022/23, another for £6.1m matured in 2023/24, another one for £7.5m was repaid in 2024/25 and one for £7.4m is due mature in March 2026.

Debt is kept under review to match the level of borrowing with the financing requirement for assets, based on analysis of the Council’s balance sheet, with the aim of maintaining borrowing at the most efficient level in line with the prudential framework for capital finance.

The planned financing of the 2025/26 Capital Programme (including in-year amendments approved by Cabinet) indicates that borrowing of £19.3m in would be required to help fund the programme. This borrowing has not yet been fully undertaken as the availability of large investment balances has meant that there has been no specific need to undertake this borrowing thus far.

The Council will continue to adopt a cautious and considered approach to any borrowing that it may undertake. The Council's treasury advisors, Arlingclose, actively consult with investors, investment banks and capital markets to establish the attraction of different sources of borrowing and their related trade-off between risk and reward. The Council will liaise with its advisors before making any borrowing decisions and then report these to Members.

c) <u>Debt Rescheduling</u>

In conjunction with the treasury management advisors, the Council continues to seek opportunities for the rescheduling of debt that could reduce its overall borrowing costs. No debt rescheduling has taken place to date in 2025/26.

Whilst the possibility of achieving savings by repaying a loan may initially appear attractive, if a replacement loan is needed to facilitate this then the replacement loan will have to be replaced at some stage. There is a risk that, as interest rates have risen dramatically recently, new loans could be more expensive and the initial decision to pursue the repayment of the original loan could turn out to be costly in the long term.

There may be opportunities in the future to achieve discounts by repaying loans using funds that are currently invested but the Council's primary concern will be to ensure that it has sufficient liquidity available to meets its liabilities and this represents a significant barrier to debt repayment activity.

Currently most of the Council's PWLB loans would attract a premium, i.e. a penalty, on premature repayment of between 5% and 99%. Those with a higher probability of attracting a discount in the future were interest rates to rise further (i.e. where the current premium is between 0% and 10%) are some loans that were taken out in March 2012 at preferential rates as part of the move to exit the HRA subsidy system as referred to above.

The Council and its treasury management advisors will continue to monitor the situation and evaluate potential opportunities where appropriate. Debt rescheduling activity will only be undertaken when annual revenue savings can be achieved and both a stable debt maturity profile and suitable interest rate structure can be maintained.

d) Cost of Borrowing and Debt Profile

Long-term Debt

The Council's long-term debt had an average of 7.20 years to maturity at 30 September 2025 (31 March 2025 was 7.62 years). The average interest payable at that date was 3.62% (31 March 2025 was 3.50%).

Short-term Borrowing

Short-term borrowing comprises the continuing loan from the Bramcote Crematorium Joint Committee and the loans outlined further above.

PWLB Rate Changes and Future Borrowing

Most of the Council's long-term debt is borrowed from the PWLB. The most recent PWLB Technical Note (published 15 June 2023) shows the current Standard Rate for PWLB loans is 100 basis points above current gilt prices. Those local authorities who submit a Certainty Rate Return, which is primarily a high-level analysis of the local authority's capital programme, capital financing and borrowing plans for the next three years, are eligible to borrow at the Certainty Rate. The Certainty Rate is 20 basis points below the Standard Rate. In addition, the PWLB has also introduced a HRA Rate at 60 basis points below the standard rate for the financing of HRA scheme.

Given that PWLB lending terms are currently competitive, PWLB will be considered, alongside other lenders, by the Council when looking to take out future long-term borrowing.

## 4. Investments

a) Investment Policy

The Council's investment policy is governed by guidance from the government, which was implemented in the Investment Strategy approved by Cabinet on 4 February 2025. This gives priority to security and liquidity, and the Council's aim is to achieve a yield commensurate with these principles.

The Council only places long-term investments with banks and building societies which are UK domiciled and have, a minimum, the Long-Term A- (or equivalent) rating from the Fitch, Moody's and Standard and Poors credit rating agencies.

The Council is also able to invest in Money Market Funds (MMF) that are AAA rated and with the UK government, as well as with other local authorities. The maximum permitted duration of investments is two years.

The investment activity during 2025/26 to date conformed to the approved strategy. The Council had no security or liquidity difficulties.

b) Interest Received

The total interest receivable for the period ended 30 September 2025 amounted to £340k at an average rate of 4.17% (compared to £599k at 4.73% to 31 December 2024). This was broadly in line with the reductions in the Bank Rate.

SONIA (Sterling Overnight Index Average) is an interest rate published by the Bank of England, which can be seen as the average interest rate at which a selection of financial institutions lends to one another in sterling (GBP) with a maturity of 1-day (overnight). SONIA is a benchmark rate and had an average 1-day rate over the period of 4.19%.

The LIBOR interest rate was the average interbank interest rate at which many banks on the London Money Markets are prepared to lend one another in unsecured funds denominated GBP. This rate permanently ceased from October 2024, and the Secured Overnight Financing Rate (SOFR) is used instead. This is a benchmark interest rate for dollar-denominated derivatives and loans, but this is mostly used by USA whilst the UK prefers to use SONIA.

The Council has a total of four long-term investment totalling £8.0m and these along with the interest income received over the period are as follows:

- CCLA Local Authority Property Fund (LAPF) – £2.0m (£21k)
- CCLA Cautious Multi Asset Fund (CMAF) – £2.0m (£4k)
- Royal London Enhanced Cash Plus Fund – £2.0m (£38k)
- Ninety-One Diversified Income Fund – £2.0m (£38k)

The £2.0m invested in the CCLA Local Authorities’ Property Fund (LAPF) had a dividend yield of 1.03% during the period whilst the £2.0m invested in CCLA Cautious Multi Asset Fund had a dividend yield of 1.18%. The Royal London Cash Plus and Ninety-One Diversified Income Funds have dividend yields of 1.92% and 1.89% respectively. The average total income return for the period is 1.5%. Further details of these long-term investments are set out in 3(v).

c) Investments Placed

A summary of all investments (either short or long term) made and repaid from 1 April to 30 September 2025 is set out in the following table:

| | Balance at 01/04/25 £'000 | Invests Made £'000 | Invests Repaid £'000 | Balance at 30/09/25 £'000 | Net Change £'000 |
|---|---|---|---|---|---|
| Short-Term | | | | | |
| Aberdeen MMF | 3,270 | 34,900 | (33,170) | 5,000 | 1,730 |
| LGIM MMF | 5,000 | 13,620 | (13,620) | 5,000 | - |
| Federated MMF | - | 32,490 | (30,620) | 1,870 | 1,870 |
| Public Sector Deposit Fund | 2,000 | 3,000 | (3,000) | 2,000 | - |
| DMADF | - | 1,350 | (1,350) | - | - |
| Long-Term | | | | | |
| Royal London Cash Plus | 2,000 | - | - | 2,000 | - |
| Diversified Income Fund | 2,000 | - | - | 2,000 | - |
| LA Property Fund | 2,000 | - | - | 2,000 | - |
| Ninety-One DIF | 2,000 | - | - | 2,000 | - |
| **Total** | **18,270** | **85,360** | **(81,760)** | **21,870** | **3,600** |

Money Market Funds (MMF) are set up as individual accounts where funds can be placed short-term, often overnight, and monies withdrawn as and when required. This has a major impact upon the number of investments made with these institutions during the period above.

Investments continue to be made in MMF due to their ability to provide a secure and highly liquid place in which to invest and the reduced number of other potential counterparties available as outlined in 2(g) below.

d) Credit Risk

Security of capital remains the main investment objective. The Council aims to achieve a score of '7' or lower to reflect its overriding priority of maintaining the security of any sums invested. This equates to the minimum credit rating threshold of A- for investment counterparties as set out in the 2025/26 Investment Strategy.

Counterparty credit quality has been maintained at an appropriate level during 2025/26 as shown by the credit score analysis in the following table:

| Date | Value Weighted Average – Credit Risk Score | Value Weighted Average – Credit Rating | Time Weighted Average – Credit Risk Score | Time Weighted Average – Credit Rating |
|---|---|---|---|---|
| 30/09/2025 | 4.71 | A+ | 4.71 | A+ |

No investments were made with institutions where the credit rating exceeded a score of 7 (i.e. lower than A-). All deposits were made with institutions achieving an average score of 5.0 or better. As such, counterparty credit quality has been maintained at an appropriate level during the period.

The table below shows how credit risk scores relate to long-term credit ratings:

| Rating | AAA | AA+ | AA | AA- | A+ | A | A- | BBB+ | BBB | BBB- |
|---|---|---|---|---|---|---|---|---|---|---|
| Score | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |

e) Risk Benchmarking

The Investment Strategy 2025/26 to 2027/28 contained several security, liquidity and risk benchmarks to allow officers to monitor the current and trend positions and incorporate these within investment decisions. The benchmarks have been met in full for the period to 30 September 2025 such that:

- the Council's maximum average credit risk score has been less than 7
- a bank overdraft limit of £1.0m has been maintained
- the liquid short-term deposits of at least £500k have been available within one week
- the average weighted life of investments has been below a maximum of six months
- the average rate achieved by the Council was 4.73% which exceeded the SONIA average 1-day rate of 4.19%.

f) Counterparty Update

The Interim Deputy Chief Executive and Section 151 Officer maintains a counterparty list based upon criteria set out in the Investment Strategy. Any proposed revisions to the criteria will be submitted to Cabinet for formal approval as set out further below.

The rating criteria use the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For example, if an institution is rated by two agencies and one meets the Council's criteria and the other does not, the institution will fall outside the lending criteria.

Creditworthiness information is provided by the treasury management advisors, Arlingclose, on all counterparties that comply with the criteria set out in the Investments Strategy. Any counterparty failing to meet the criteria is removed from the counterparty list.

g) Changes to the Investments Strategy

Due to the level of uncertainty in financial markets, it is important that there is sufficient flexibility to enable changes to be made to the Investments Strategy at short notice should they be considered necessary by the Interim Deputy Chief Executive and Section 151 Officer.

Any such changes to the Investments Strategy will be made by the Chief Executive exercising urgency powers following consultation with the Leader of the Council and the Portfolio Holder for Resources and Personnel Policy. A report setting out the detail behind these changes would then be presented to Cabinet at the next available opportunity.

h) Regulatory Update – Statutory Override

In July 2018, the government consulted on statutory overrides relating to the introduction of the IFRS 9 Financial Instruments accounting standard from 2018/19. It has since decided to introduce a temporary statutory override for fair value movements in pooled funds. The government accepted arguments made in the consultation responses that the un-amended adoption of IFRS 9 could result in unwarranted volatility for the General Fund and impact unnecessarily upon Council Tax and/or service expenditure. The subsequent statutory override, while requiring IFRS 9 to be adopted in full, requires fair value movements in pooled investment funds to be taken to a separate unusable reserve instead rather than directly to the General Fund.

The override applies to all collective investment schemes and not just to pooled property funds. In order to promote transparency, the guidance requires a separate unusable reserve to be used to hold the fair value movements rather than the Financial Instruments Adjustment Account.

In April 2023, the Department for Levelling Up, Housing and Communities (DLUHC) published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended until 1 April 2029 for pooled fund investments made before 1 April 2024. Whether the override will be extended beyond the new date is not known but current MHCLG communication suggests not. The Council will discuss with Arlingclose the implications for the investment strategy and what action may need to be taken.

i) Prudential and Treasury Management Code Changes

The Prudential Code requires the production of a high-level Capital Strategy report to full Council covering the basics of the capital programme and treasury management. The prudential indicators for capital expenditure and the authorised borrowing limit are included in this report

The definition of investments in the Treasury Management Code now covers all of the Council's financial assets as well as other non-financial assets that are held primarily for a financial return. This is replicated in the Government's Investment Guidance in which the definition of investments is further broadened to include all such assets held partially for financial return. The Council has no such assets at present.

## 5. Treasury Management Indicators

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

i) Security

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

| Credit Risk Indicator | Target 2025/26 |
|---|---|
| Portfolio Average Credit Rating | A- |

The Council has complied with this indicator by achieving an average credit rating of A for its investment portfolio between 1 April and 30 September 2025.

ii) Liquidity

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

| Liquidity Risk Indicator | Target 2025/26 |
|---|---|
| Total cash available within 3 months | £10.0m |

The Council has complied with this indicator by maintaining an average of £20m in cash available to meet unexpected payments within a rolling three-month period from 1 April and 30 September 2025.

iii) Interest Rate Exposures

This indicator is set to control the Council's exposure to interest rate risk. Bank Rate dropped by 50 basis points from 4.5% on 1 April to 4.0% by 30 September 2025. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates for 2025/26 are:

| Interest rate risk indicator | Target Limit 2025/26 |
|---|---|
| Upper limit on one-year revenue impact of a 1% rise in interest rates | £1.0m |
| Upper limit on one-year revenue impact of a 1% fall in interest rates | £1.0m |

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates. The target limits have been complied with for Q2.

iv) Maturity Structure of Borrowing

This indicator is set to control the Council's exposure to refinancing risk. It is intended to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

| Maturity Structure of Fixed Rate Borrowing | Lower Limit % | Upper Limit % | Fixed Rate Borrowing 30-Sep-25 | Level % | Compliance with Set Limits |
|---|---|---|---|---|---|
| Under 12 months | 0 | 50 | 9,099 | 8 | Yes |
| 12 months to 2 years | 0 | 50 | 11,300 | 11 | Yes |
| 2 years to 5 years | 0 | 50 | 35,068 | 33 | Yes |
| 5 years to 10 years | 0 | 75 | 44,138 | 41 | Yes |
| 10 years to 20 years | 0 | 100 | - | 0 | Yes |
| 20 years to 30 years | 0 | 100 | 5,000 | 5 | Yes |
| 30 years to 40 years | 0 | 100 | - | 0 | Yes |
| 40 years to 50 years | 0 | 100 | 3,000 | 3 | Yes |

As suggested in the Code, fixed rate investments of less than 12 months and fixed rate borrowing with less than 12 months to maturity are regarded as variable rather than fixed rate investments and borrowings as their replacement could be subject to movements in interest rates. This principle has been applied in calculating the fixed and variable interest rate exposures on debt and investments. However, the borrowing with less than 12 months to maturity at 30 September 2025 is shown as fixed rate borrowing in the maturity structure.

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

v) Principal Sums Invested for Periods Longer than a Year

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

| Risk Indicator | Target Limit 2025/26 |
|---|---|
| Upper limit on principal invested beyond year end | £8.0m |

The Council has complied with the limit during the period, with a total of £8.0m in long term investments as at 30 September 2025 consisting of:

- £2.0m invested in the CCLA Local Authorities' Property Fund (LAPF). Although the Council can theoretically redeem part or all of its holding in the fund by giving six months' notice as set out in 2(c), this is intended to be a long-term investment.
- £2.0m invested in the CCLA Cautious Multi Asset Fund. Whilst this is intended to be a long-term investment, two days' notice is required should this investment need to be repaid to the Council.
- £2.0m invested in the Royal London Enhanced Cash Plus Fund. Whilst this is intended to be a long-term investment, should the Council require this to be repaid then it can be done with one day's notice.
- £2.0m invested in the Ninety-One Diversified Income Fund. The minimum recommended period for such an investment is three to five years. However, should this need to be repaid to the Council then it can be done with three days' notice.

**Appendix 2**

**Prudential Indicators**

1. Introduction

The Local Government Act 2003 requires local authorities to comply with the Prudential Code for Capital Finance in Local Authorities when carrying out their capital budgeting and treasury management activities. Fundamental to this is the calculation of several prudential indicators, which provide the basis for the management and monitoring of capital expenditure, borrowing and investments. The indicators are based on the Council's planned and actual capital spending.

2. Capital Expenditure and Financing 2025/26

The Council undertakes capital expenditure on assets which have a long-term value. These activities may either be:

- financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resulting impact upon the Council's borrowing need; or

- if insufficient financing is available or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

Actual capital expenditure forms one of the required prudential indicators. The following table shows the 2025/26 Capital Programme as at 30 September 2025 compared with the original estimate for the year across each area:

| | 2025/26 Original Estimate £'000 | 2025/26 Estimate at 30/09/2025 £'000 |
|---|---|---|
| Housing (HRA/GF) (incl. housing delivery) | 18,713 | 29,695 |
| Business Growth (including economic regeneration schemes) | 11,317 | 28,658 |
| Leisure and Health | 2,679 | 626 |
| Environment and Climate Change | 1,871 | 4,022 |
| Community Safety | - | - |
| Finance and Resources | 386 | 1,049 |
| **Total** | **34,966** | **64,050** |

The change to the original estimate is largely due to bringing forward unspent capital budgets totalling £31m from 2024/25, in addition to several increases and reductions to various schemes and new schemes approved by Cabinet in year.

Excluded from the 2025/26 Capital Programme are schemes totalling £2.482m that are on a 'reserve list' to be brought forward for formal approval to proceed once a source of funding is identified.

The table below shows the planned capital expenditure up to 30 September 2025 and how this will be financed:

| | Original Estimate 2025/26 £'000 | Revised Estimate at 30/09/2025 £'000 |
|---|---|---|
| General Fund | 17,053 | 35,822 |
| HRA | 17,913 | 28,228 |
| Total Capital Expenditure | **34,966** | **64,050** |
| Financed by: | | |
| Capital Receipts | 2,400 | 2,767 |
| Capital Grants | 15,501 | 37,289 |
| Revenue (including Major Repairs Reserve) | 5,015 | 5,015 |
| Unfinanced Capital Expenditure | **9,568** | **18,979** |
| Reserve List items | 2,482 | 2,482 |

It is anticipated that the schemes on the 'reserve list' would be financed from capital receipts received at a future date if available. Unfinanced capital expenditure will be met from additional borrowing as set out above.

3. <u>Overall Borrowing Need</u>

The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position and represents net capital expenditure that has not yet been paid for by revenue or other resources.

Part of the treasury management activity seeks to address this borrowing need, either through borrowing from external bodies or utilising temporary cash resources within the Council.

As set out in Appendix 1, the Council has not fully taken out the anticipated borrowing of £18.979m in respect of the planned capital expenditure for 2025/26 shown as unfinanced above. It is likely that some of this borrowing will be delayed until 2026/27 if there is significant slippage in the capital programme into the following year. Any additional borrowing to be undertaken will seek to align the Council's overall borrowing level with the CFR.

There are two PWLB loans of £1.5m (repaid April 2025) and £7.4m value that are due to mature in 2025/26. These will be replaced, at least in part depending upon cash flows, with other borrowing before 31 March 2026.

The Council's CFR will next be calculated as at 31 March 2026 when the financing of actual capital expenditure incurred in 2025/26 will be undertaken. This will be reported to Cabinet in July 2026.

4. Prudential Indicators and Compliance Issues

Some of the prudential indicators provide either an overview or specific limits on treasury management activity. These are as follows:

i) Gross Borrowing Compared to the Capital Financing Requirement (CFR)

In order to ensure that borrowing levels are prudent over the medium term, the Council's external borrowing must only be for a capital purpose. Gross borrowing should not therefore, except in the short term, exceed the CFR. This indicator will be calculated at the end of 2025/26 and the outcome reported to Cabinet in July 2026. It is presently anticipated that the Council will comply with this indicator.

ii) Authorised Limit

This is the statutory limit determined under section 3(1) of the Local Government Act 2003 and represents the limit beyond which borrowing is prohibited. It reflects the level of borrowing which could be afforded in the short term to maximise treasury management opportunities and cover temporary cash flow shortfalls but is unlikely to be sustainable over the longer term. The table below demonstrates up to September 2025, the Council has maintained gross borrowing within its authorised limit.

iii) Operational Boundary

This indicator is based on the probable external debt during the year. The operational boundary is not a limit and actual borrowing can vary around the levels shown for short times. The operational boundary should act as an indicator to ensure the authorised limit is not breached and is a key management tool for in year monitoring of treasury management activities by the Interim Deputy Chief Executive.

| | Values £000 |
|---|---|
| Authorised Limit for Borrowing | 142,150 |
| Operational Boundary for External Debt | 113,720 |
| *Maximum Gross Borrowing (April to September 2025) | **107,723** |

The maximum external debt in the period from April to September 2025 represents the gross borrowing figures as set out in 1(a) and includes the loans received from Bramcote Crematorium during this period.

iv) Proportion of Financing Costs to Net Revenue Stream

This indicator compares net financing costs (borrowing costs less investment income) to net revenue income from revenue support grant, business rates, housing revenue account subsidy, council tax and rent 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. The indicator will be calculated for 2025/26 at the end of the financial year and reported to Cabinet in July 2026.