Agenda No 6

AGENDA MANAGEMENT SHEET

Report Title:	2025/26 Capital and Treasury Management Strategy incorporating the Annual Investment Strategy
Name of Committee:	Audit and Ethics Committee
Date of Meeting:	6 February 2025
Report Director:	Chief Officer - Finance and Performance
Portfolio:	Finance and Performance, Legal and Governance
Ward Relevance:	All
Prior Consultation:	Portfolio Holder
Contact Officer:	Jon Illingworth Chief Officer Finance and Performance jon.illingworth@rugby.gov.uk
Public or Private:	Public
Report Subject to Call-In:	Yes
Report En-Bloc:	No
Forward Plan:	No
Corporate Priorities:	This report relates to the following priority(ies): ☐ A Healthier Rugby – To support people to live healthier, longer, and more independent lives. ☐ A Thriving Rugby – To deliver a thriving economy which brings Borough-wide investment and regenerates Rugby Town Centre. ☐ A Greener Rugby – To protect the environment and ensure the Borough adapts to climate change. ☐ A Fairer Rugby – To reduce inequalities and improve housing across the Borough. Corporate Strategy 2025-2035 ☒ This report does not specifically relate to any Council priorities but is a statutory requirement for the organisation
Summary:	This report provides the committee with the latest Capital and Treasury Management Strategy. Included in the are limits and indicators that embody the risk management approach that the Council.

Financial Implications:	The capital finance and treasury management indicators are set to ensure that the Council is guided into making prudent decisions on treasury management activities
Risk Management/Health and Safety Implications:	There are no risk management implications for this report.
Environmental Implications:	There are no environmental implications directly from this report.
Legal Implications:	There are no legal implications arising from this report.
Equality and Diversity:	None as a direct result of the report therefore no Equality Impact Assessment is required
Options:	As this report complies with the Prudential and Treasury Management Codes of Practice, which have been approved by Council, no other options have been considered.
Recommendation:	IT BE RECOMMENDED TO COUNCIL THAT: 1) The Capital strategy including the continuation capital programme for 2025/26 be approved. 2) The Treasury Management Strategy incorporating the Annual Investment Strategy including associated limits and specific indicators be approved. 3) The Minimum Revenue Provision Policy be approved (Section A of Strategy).
Reasons for Recommendation:	To comply with the Codes of Practice.

Agenda No 6

Audit and Ethics Committee - 6 February 2025

2025/26 Capital and Treasury Management Strategy incorporating the Annual Investment Strategy

Public Report of the Chief Officer - Finance and Performance

Recommendation
It be recommended to Council that 1) The Capital Strategy including the continuation capital programme for 2025/26 be approved. 2) The Treasury Management Strategy incorporating the Annual Investment Strategy including associated limits and specific indicators be approved. 3) The Minimum Revenue Provision Policy be approved (Section A of Strategy).

EXECUTIVE SUMMARY

The Council is required to approve its Capital Strategy and Treasury Management and Investment Strategy each year.

The format and content of these strategies is prescribed largely by CIPFA Codes of Practice and Government Legislation; however, they are also tailored to the individual requirements of the Council and are therefore reviewed each year.

1. Introduction

1.1. This report and associated appendices fulfil legislative requirements governed by the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code.

1.2. Local Authorities should have in place a Capital Strategy that sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes. The Treasury Management Strategy incorporating the Annual Investment Strategy (TMS) which supports plans drawn up in the Medium-Term Financial plans within the General Fund and Housing Revenue Account funds.

1.3. The TMS which supports plans drawn up in the Medium-Term Financial plans within the General Fund and Housing Revenue Account funds.

1.4. The TMS also includes the Council's Minimum Revenue Provision policy statement and key prudential indicators relating to the cost and affordability of the Council's capital plans. There are strong links between the Capital and TMS as the Council's approach to treasury management, is a critical component of capital planning.

1.5. The TMS jointly demonstrates how the Council's treasury service will support capital decisions made as part of the capital programme and the funding thereof, the day-to-day treasury management activities and the limitations on borrowing activity through treasury and prudential indicators and limits.

1.6. The key prudential indicator is the Authorised Limit, the maximum amount of debt the Council can enter in accordance with the CIPFA Prudential Code. Other prudential and treasury indicators are contained within either the TMS or the Capital Strategy where appropriate in accordance with the CIPFA Prudential Code or the CIPFA Treasury Management Code.

1.7. The strategy outlined above provides the approved framework within which the officers undertake the day-to-day capital and treasury activities.

1.8. The Council's Constitution requires that the Council approve the Prudential Code indicators and the TMS.

2. Treasury Management Strategy

2.1. The proposed updated Treasury Management Strategy is attached at Appendix 1 to the report.

2.2. *Enhancements from 2024/25*

- As part of the 2024/25 strategy, the maturity structure of the Council's long-term debt has been reviewed. Acceptable exposure to repayment within specified time frames has been updated in view of the changing economy and volatility of interest rates. This will allow the Council to seek the best interest rate deals when financing future capital schemes.

- Due to the tightening of government regulations relating to the use of capital resources the strategy has reduced the amounts allowed for commercial investments and as well as short term non-specified investments.

2.3. *Training and development*

2.4. To support the Audit and Ethics Committee, external training will be provided through the Council's Treasury Management advisors. To sessions will be held before the strategy is approved and at the mid-year reporting stage. In addition to this, officers will provide guidance and support as required

3. Capital Strategy

3.1. The proposed updated Capital Strategy is attached at Appendix 2 to the report.

3.2. There are no significant changes from 2024/25, however the continuation schemes have been extended by a year.

4. Future Developments

4.1. Both strategies will undertake a detailed review during 2025/26, development will be presented to the Committee during 2025/26.

Name of Meeting: Audit and Ethics Committee

Date of Meeting: 6 February 2025

Subject Matter: 2025/26 Capital and Treasury Management Strategy incorporating the Annual Investment Strategy

Originating Department: Finance and Performance

DO ANY BACKGROUND PAPERS APPLY ☐ **YES** ☐ **NO**

LIST OF BACKGROUND PAPERS

Doc No	Title of Document and Hyperlink

The background papers relating to reports on planning applications and which are open to public inspection under Section 100D of the Local Government Act 1972, consist of the planning applications, referred to in the reports, and all written responses to consultations made by the Local Planning Authority, in connection with those applications.

☐ Exempt information is contained in the following documents:

Doc No	Relevant Paragraph of Schedule 12A

APPENDIX A

TREASURY MANAGEMENT STRATEGY 2025/26 - 2029/30

Incorporating the Investment Strategy

Rugby Borough Council

Section A – Capital Expenditure and Financing

Introduction

Capital expenditure is where the Council spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing or leasing).

Budget managers are required to present a report to Cabinet or Council to include projects in the Council's capital programme. Full details on the process can be found in the Capital Strategy 2025/26.

Capital Expenditure & Financing

The Council's capital expenditure plans are the key driver of treasury management activity. It has been developed in conjunction with the 2025/26 budget process and the output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

The table below summarises capital expenditure plans, and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need. This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and includes current estimates for capital bids for 2025/26 and beyond

	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate

Financing of capital expenditure	£m	£m	£m	£m	£m	£m
General Fund	**4.939**	**2.262**	**2.062**	**2.062**	**2.062**	**2.062**
HRA	**21.607**	**15.977**	**5.970**	**4.867**	**4.867**	**2.867**
			To be financed by:			
Capital grants/ contributions	4.146	2.705	0.805	-	-	-
Capital reserves/ receipts	10.406	4.867	5.970	4.867	4.867	4.867
Revenue	-	-	-	-	-	-
Net financing/ Borrowing for the year	**11.994**	**10.667**	**1.257**	**2.062**	**2.062**	**0.062**

Table 1 Financing of Capital Expenditure 2024/25 – 2029/30

Capital Financing Requirement

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities, for example Private Finance Initiative schemes ("PFI") and finance leases. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the PFI or lease provider and so the Council is not required to separately borrow for these schemes. The Council currently does not have any finance lease or PFI/PPP commitments within the CFR.

The current CFR projections are included in Table 2 below.

Table 2 Capital Financing Requirement 2023/24-2029/30

	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m	2029/30 Estimate £m
Capital Financing Requirement							
CFR – Non housing	25.462	27.434	27.326	26.964	26.614	27.552	28.497
CFR – HRA	68.305	76.702	83.949	85.052	85.052	85.052	85.052
Total CFR	**93.767**	**104.136**	**111.275**	**112.016**	**111.666**	**112.604**	**113.549**
Movement in CFR	**3.324**	**10.369**	**7.139**	**0.741**	**(0.350)**	**0.938**	**0.945**

Movement in CFR represented by							
Net financing need for the year	4.621	11.598	8.624	2.301	1.315	2.420	2.501
Less: MRP/VRP and other financing movements	(1.297)	(1.389)	(1.485)	(1.560)	(1.665)	(1.482)	(1.556)
Movement in CFR	**3.324**	**10.369**	**7.139**	**0.741**	**(0.350)**	**0.938**	**0.945**

Liability Benchmarking

The Authority is required to calculate and assess the Liability Benchmark for at least the forthcoming financial year and the subsequent two years. This benchmark provides a basis for determining the appropriate structure of the Authority's external borrowing profile and is presented as a chart showing the following four balances:

• **Existing loan debt outstanding:** the Authority's current loans that will remain outstanding in future years.

• **Loans CFR:** calculated in accordance with the definition of Loans CFR in the Prudential Code and projected forward, taking into account approved prudential borrowing and planned MRP.

• **Net loans requirement:** the Authority's gross borrowing, less treasury management investments, as of the previous financial year-end, forecasted to include approved prudential borrowing, planned MRP, and other significant cash flow projections.

• **Gross loans requirement (Liability Benchmark):** calculated as the net loans requirement plus a short-term liquidity allowance.

The Liability Benchmark chart below illustrates Rugby Borough Council's financial position. As of the end of 2025/26, the Council's liability benchmark remains significantly below the existing loan debt, reflecting the Council's substantial cash investments of £79 million. This indicates that the Council can manage its borrowing requirements primarily through internal resources rather than seeking additional external borrowing. The net loans requirement, shown as the orange line, remains lower than the benchmark, suggesting that the Council's current borrowing strategy aligns with its financial needs while effectively utilising its available cash reserves.

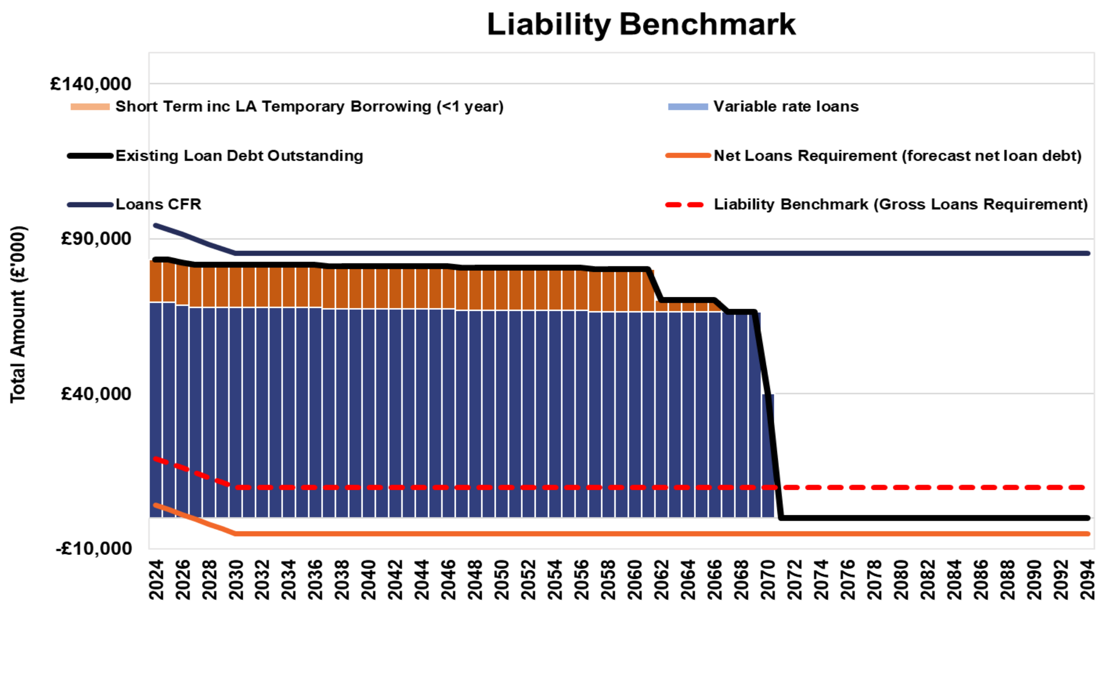

Chart 1 Liability Benchmark 2025/26 -

Minimum Revenue Provision (MRP) Policy Statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

MHCLG regulations have been issued which require the Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP statement:

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, (*central government support for local authority capital expenditure is the amount of expenditure towards which revenue support grant will be paid to a local authority on the cost of its borrowing*) MRP will be charged on a 2% straight line basis.

From 1 April 2008 for all unsupported borrowing (*capital expenditure for which no direct central government support is available and is undertaken with reference to the Prudential Code*) (including PFI and finance leases) the MRP policy will be:

- **Asset life (annuity) method –** MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction)

MRP Overpayments – The MHCLG MRP Guidance allows that any charges made over the statutory MRP – VRP, or overpayments – can be reclaimed in later years, if deemed necessary or prudent. For these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until 31 March 2024 the total amount of VRP overpayments were £6.453m

These options provide for a reduction in the borrowing need over approximately the asset's life.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

Commercial Activity

Commercial property investment, particularly the 'bricks and mortar' retail environment, has seen considerable volatility during recent years with the demise of many established high-street brands. This trend is expected to continue in the foreseeable future as the retail market adapts to the continuing growth of on-line markets. Due diligence which will include utilising the expertise of consultants in the relevant fields will be applied in considering direct or indirect (pooled funds, etc) investment in this sector to examine sensitivity around asset valuations, assumed rental yields, and tenant strength. Particular emphasis will be given to exit strategies and risks associated with asset obsolescence and/or changing market conditions.

Service Investments: Loans

The Council can lend money to local bodies or its subsidiaries to support local public services and stimulate local economic growth. Historically the Council has only done this in very limited circumstances where a significant service outcome is expected. There are currently two loans that have been approved by Council.

A loan of up to **£5.703m** was approved as the Council became a partner in the Sherbourne Recycling in Coventry. The facility processes of all recyclate material for the partners with also the opportunity to sell any surplus capacity in the private market. The scheme which has 8 partner local authorities

- Coventry City Council
- Solihull MBC
- Walsall MBC
- Nuneaton and Bedworth BC
- North Warwickshire BC
- Rugby BC
- Warwick BC
- Stratford BC

This loan which commenced in 2023/24 is scheduled to be repaid over a 25-year term.

The Council now has a corporate structure for its trading activity which is flexible enough to establish a variety of subsidiary companies. The structure has been created in such a way that the activity of the housing development Joint Vehicle will be operated separately under the same umbrella structure.

To limit the risk and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding exposure is currently set at £20m.

Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts will be shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum due and has appropriate credit control arrangements in place to recover overdue repayments.

Assessment:

The Council will assess the risk of loss before entering service loans by assessing the counterparty's resilience, the service users' needs that the loan is designed to help meet and how these will evolve over time. During the life of the loan any change in original assumptions will be monitored. The Council will use external advisors if felt appropriate by the Chief Officer Finance & Performance. All loans will be subject to contract agreed by Chief Officer Legal & Governance. All loans must be approved by full Council and will be monitored by the Chief Officer Finance & Performance.

Service Investments: Shares

The Council has a minimal committed shareholding of up to £0.095m as part of its investment in the Sherbourne Recycling Facility.

The Council has the limit on investment in this type which will be set at £0.120m and any change to the limit would be addressed in the report to the Council in setting up any further subsidiaries.

a. Security:

One of the risks of investing in shares is that they potentially fall in value meaning that the initial outlay may not be recovered. To limit this risk upper limits on the sum invested in local subsidiaries will be set at the lowest practical level, if and when exposure is allowed.

b. Risk assessment:

The Council would assess the risk of loss before entering and whilst holding shares by going through an extensive process of risk analysis. The risk analysis will include an assessment of the market that the subsidiary will be active in including the nature and level of competition, how the market/customer needs will evolve over time, the barriers to entry and exit and any ongoing investment requirements.

Council will use external advisors as thought appropriate by the Chief Officer Finance & Performance.

c. Liquidity: Although this type of investment is fundamentally illiquid, to limit this the Council, when it sets a limit in this area, will initially set out the maximum periods for which funds may prudently be committed and how the Council will ensure it stays within its stated investment limits.

d. Non-specified Investments: The limits on share investments will be included in the Council's required upper limits on non-specified investments.

Commercial Investments: Property

The Council owns a small portfolio of Investment Property which are predominantly 'legacy' properties. Investment properties are defined as those that are used solely to earn rentals and/or for capital appreciation. As financial return through rental income and/or capital appreciation is the main objective, the Council recognises the higher risk on commercial investment compared with treasury investments. The principal risk exposures include:

• individual vacancies

• falls in market value

• changes in the overall and local economy.

Individual property risks are constantly monitored and managed by the Property Manager. In order that commercial investments remain proportionate to the financial capacity of the Council, these are subject to an overall maximum investment limit which is set at £30m. Should income not meet expectations the Council holds General Fund reserves available to balance the revenue budget in the short term while the Property Manager reviews the performance of the portfolio. The movement in the fair value of the investment properties in 2023/24 is as follows:

	£m
Balance at 1 April 2023	**0.690**
Net gains/losses from fair value adjustments	**31**
Balance at 31 March 2024	**0.721**

Table 3 Movement in Fair Value of Investment Property 2023/24

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing. and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustments Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Decisions on new commercial investments are made by the Leadership Team and Cabinet after recommendation from the Asset Management Member Working Group in line with the criteria and limits approved by the Council in this strategy. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme.

Liquidity and Security Fair Value Hierarchy

The fair value of investment property has been measured using a market approach, which considers quoted prices for similar assets in active markets, existing lease terms and rentals, research into market evidence including market rentals and yields, the covenant strength for existing tenants, and data and market knowledge gained in managing the Council's Investment Asset portfolio. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised as level 2 on the fair value hierarchy.

a. Security: In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

The commercial properties are revalued each year-end by external valuers so the Council will each year consider whether the underlying assets provide security i.e. are not below their purchase cost. Should this be the case the Council will consider whether its current holding of the assets is appropriate and bring any alternative actions to Members in an update to the Investment Strategy.

b. Risk assessment: The Council assesses the risk of loss before entering into and whilst holding property investments by:

i. assessing the relevant market sector including the level of competition, the barriers to entry and exit and future market prospects.

ii. using advisors if thought appropriate by the Chief Officer Finance and Performance.

iii. consulting Council's Asset Management Member Working Group.

iv. taking a final comprehensive report on all new investments to Cabinet

v. continually monitoring risk in the whole portfolio and any specific assets

c. Liquidity: Property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. Given that the Council's portfolio is comprised of only of 4 properties, liquidity is not considered to be an issue currently, but should numbers increase then this will need to be assessed further.

Loan Commitments and Financial Guarantees

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness. The Council does not provide such commitments and guarantees, and this strategy does not include them for 2025/26. As noted above, if the Council creates a potential subsidiary which may, or may not, require commitments or guarantees dependent on its legal structure. the required limits will be set as a part of the Council report on the setting up of a subsidiary.

Investment Indicators

The Council has set the following quantitative indicators to allow elected Members and the public to assess its total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the total exposure to potential investment losses.

Total investment exposure (anticipated)	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m
Treasury management investments	60.000	40.000	40.000	40.000	35.000	35.000
Service investments: Loans	5.703	5.703	5.703	5.703	5.703	5.703
Service investments: Shares	0.095	0.095	0.095	0.095	0.095	0.095
TOTAL INVESTMENTS	**65.798**	**45.798**	**45.798**	**45.798**	**40.798**	**40.798**
TOTAL EXPOSURE	**65.798**	**45.798**	**45.798**	**45.798**	**40.798**	**40.798**

Table 4 Total Risk Exposure

How investments are funded: Government guidance is that these indicators should include how investments are funded. The Council does not currently hold **any** investment assets with particular liabilities (i.e. associated borrowing). All the Council's investments are funded by usable reserves and income received in advance of expenditure.

- Commercial income to net service expenditure ratio.
- Benchmarking of returns – ratio of property income yield to the Investment Property Databank (IPD) property yield index averaged over 5-year period.
- Average vacancy level; and
- Operating overheads of property section attributable to commercial property as a proportion of net property income

These indicators will be published in future reports at the point when the Council invests in significant service investments (loans and shares) or commercial property acquisition..

Revenue Budget Implications

Whilst capital expenditure is not directly charged to revenue, the consequences of capital expenditure are through interest payments and minimum revenue provision (MRP) on sums borrowed to finance projects. MRP is not chargeable to the HRA. The sums charged to revenue are the first call on the resources of the General Fund and HRA and if these costs escalate then there may need to be offsetting savings elsewhere within budgets to compensate. Details of the current estimated sums due to be charged to revenue are set out below.

£m	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m	2029/30 Estimate £m
General Fund							
Interest Payable	0.534	0.534	0.522	0.510	0.510	0.510	0.510
MRP	1.297	1.389	1.485	1.560	1.665	1.482	1.556
Total General Fund	**1.831**	**1.923**	**2.007**	**2.070**	**2.175**	**1.992**	**2.066**
HRA							
Interest Payable	1.111	1.112	1.105	1.105	1.105	1.105	1.105
Total	**2.942**	**3.035**	**3.112**	**3.175**	**3.280**	**3.097**	**3.171**

Table 5, Revenue Implications of Capital Expenditure

The information in the table is based on the approved current projects and will be subject to change as new capital projects are approved or slippage in existing projects occur.

As the costs of financing capital charged to revenue must be considered to be a first call on the available resources, it is important to identify how much of the revenue income streams are committed to financing capital.

Ratio of financing costs as a proportion of the net revenue stream

	2023/24 Actual %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %	2027/28 Estimate %	2028/29 Estimate %	2029/30 Estimate %
General Fund	(4.9)	(3.10)	(0.30)	7.6	9.00	9.00	9.00
HRA	17.8	16.40	18.00	19.60	19.5	19.5	19.5

Table 6 Ratio of financing costs as a proportion of the net revenue stream

In the context of the General Fund, Actual of MRP/Interest charges relate to borrowing for the following large schemes approved by Council in recent years:

- Queens Diamond Jubilee Leisure Centre;
- Rainsbrook Cemetery and Crematorium
- Sherbourne Recycling Facility

In the context of the Housing Revenue Account, financing costs can be split into two major items

- £73m borrowing undertaken at the point of self-financing in 2012. This was repaid in 2023
- £66m of borrowing undertaken for the planned Navigation Way/Rounds Gardens high rise replacement scheme to take advantage of the preference PWLB rates

From April 2024, the Council will account for leases in line with the requirements of IFRS16 – Leases. This standard requires that local authorities will have to treat all leases where they are acting as a lessee, except for low value or short term leases, as finance leases. This means that the Council will need to bring an asset valuation and a corresponding liability onto its balance sheet with effect from 1 April 2024. As the Council will have a liability, it will have to recognise interest payments and minimum revenue provision requirements as separate elements of the lease payments whereas previously the lease payment was accounted for as cost of supplies and services. This will have a direct impact on the Council's prudential indicators. The impact for Rugby, is not expected to be material.

Whilst the Council has several potential projects in the pipeline, until the projects are approved, no new borrowing has been assumed. The impact of the strategy will be updated to reflect new project approvals by the Council.

Section B - Treasury Management

Introduction

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in lower risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the Council.

ESG (Environmental, Social and Governance)

As a Local Authority using public funds, a consideration of ESG is an aspiration with treasury management activity. There are potentially financial benefits to be gained in the long – term from recognising the impact of climate change, efficient energy consumption, sustainable resources, inclusion, diversity, equality, and strong corporate governance. There is no target for ESG in this strategy because the authority takes a risk based approach to investment activity with the founding principles being

- security
- liquidity,
- yield

If an investment meets the Council's criteria for investing and delivers ESG benefits it will be pursued and highlighted specifically to the Audit and Ethics Committee through the Treasury Management reporting framework.

Cash Resources

The table below demonstrates that, over the term of the medium-term financial planning period, the Council will be relying more on internal borrowing i.e. using reserves and other cash resources that it holds rather than borrow from external sources. From projections of the capital programme and use of reserves this strategy is seen as sustainable in the medium term although the Chief Officer Finance and Performance will monitor the actual position against the projections in order to be ready to respond should long-term external borrowing become advisable.

External Debt	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m	2029/30 Estimate £m
Debt at 1 April	**83.300**	**90.300**	**82.257**	**81.257**	**80.557**	**80.557**	**80.557**
Expected change in Debt	7.000	(7.000)	(1.000)	(0.700)	-	-	-
Other long-term liabilities (OLTL)	-	-	-	-	-	-	-
Expected change in OLTL	-	-	-	-	-	-	-
Gross debt at 31 March	**90.300**	**83.300**	**81.257**	**80.557**	**80.557**	**80.557**	**80.557**
The Capital Financing Requirement	93.767	104.136	111.275	112.016	111.666	112.604	113.549
Under / (over) borrowing	**3.467**	**21.242**	**29.424**	**31.459**	**31.103**	**32.047**	**32.992**

Table 7 Gross Debt and the CFR 2023/24 – 2029/30

Within the range of prudential indicators there are several key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

In recent years the Council has moved from an overborrowed to an under borrowed position with the repayment of the 2012 Self Financing loans for the HRA.

Affordable borrowing limit and Operational boundary

Irrespective of plans to borrow or not, the Council is legally obliged to set an *affordable borrowing limit* (also termed the authorised limit for external debt) each year.

This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired could be afforded in the short-term, but is not sustainable in the longer term.

This is a statutory limit determined under section 3(1) of the Local Government Act 2003. The Government retains an option to control either the total of all council's plans, or those of a specific council, although this power has not yet been exercised.

The table below identifies the current borrowing limit:

Authorised limit £m	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m	2029/30 Estimate £m
Debt and other long-term liabilities	190.000	190.000	190.000	190.000	190.000	190.000	190.000

Table 8 Authorised Limit 2023/24 – 2029/30

In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

In most cases, this would be a similar figure to the CFR but may be higher or lower depending on the levels of actual debt and the ability to fund under borrowing by other cash resources.

Operational Boundary £m	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m	2029/30 Estimate £m
Debt and other long-term liabilities	180.000	180.000	180.000	180.000	180.000	180.000	180.000

Table 9 Operational Boundary 2023/24 – 2029/30

The Council's policy on treasury investments is to prioritise security and liquidity over yield that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks and building societies, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which investments to buy, and the Council may request its money back at short notice.

Governance

Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Chief Officer Finance and Performance and staff, who must act in line with the approved Treasury Management Strategy. The Audit and Ethics Committee receives a mid-year and full year report and is responsible for scrutinising treasury management decisions made.

Borrowing Strategy

The Council has remained in a under-borrowed state throughout 2024/25. This means that the total capital borrowing need (the CFR), will not have been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow is used as a temporary measure. This strategy remains prudent while borrowing rates remain at an elevated level but will be re-evaluated if rates begin to drop as forecast 2025/26.

Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The Chief Officer for Finance and Performance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates,* then borrowing will be postponed.

- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast,* perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the appropriate decision-making body at the next available opportunity.

Sources of Borrowing

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

- Public Works Loan Board (PWLB) and any successor body
- Any institution approved for investments (see below)
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds
- Capital market bond investors
- UK Municipal Bond Agency and other special purpose companies created to enable joint local authority bond issues

In addition, capital finance may be raised using leases and hire purchase that are not borrowing but may be classed as other debt liabilities.

The Council has previously raised most of its long-term borrowing from the PWLB, but it will, if required, investigate other sources of finance amongst the sources listed above, that may be available at more favourable rates.

Short-term and variable rate loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

Treasury Investment Strategy

The Council holds significant funds, representing income received in advance of expenditure plus balances and reserves held. In the past year, the Council's total investments have ranged between £60m and £70m and although the level of reserves is expected to reduce in the longer term, there will still be significant short to medium-term cash flow surpluses leading to larger sums being held than the core reserves of the

Council would indicate. This will allow the Council to continue to take advantage of the higher interest rates prevalent since 2022/23.

Both the CIPFA Prudential Code and the MHCLG Guidance require 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, or yield. 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 unsuitably 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 as close to or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Given the size of the Council's current investment portfolio the Council will look to spread any risk with diversification, using a variety of products including Money Market Funds and Property Funds as well investing in the traditional institutions such as banks and local authorities through the money markets.

Business models: Under the IFRS 9 accounting standard introduced in 2018/19, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows rather than buying and selling investments and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved Counterparties

The Council's investment policy has had regard to the following: -

- MHCLG's Guidance on Local Government Investments
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

The above guidance from the DLUHC and CIPFA places a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take

account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as **“credit default swaps”** and overlay that information on top of the credit ratings.

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are categorised as either ‘specified’ or ‘non-specified’ investments.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally they were originally classified as being non-specified investments solely due to the maturity period exceeding one year.

- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified and loan investment limits.** The Council has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments of £70m.

6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table 10

7. **Transaction limits** are set for each type of investment (as per table 10)

8. This authority will set a limit for its investments which are invested for **longer than 365 days**, (see paragraph B10.5.3).

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph B8.2).

10. This authority has engaged external consultants, (see paragraph B8.4), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in sterling.

12. As a result of the change in accounting standards for 2020/21 under IFRS 9, the authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023. On 5 January 2023 government had announced that the IFRS 9 statutory override in local government will end on 31 March 2025.

    However, the authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph B10.5). Regular monitoring of investment performance will be carried out during the year.

(i) The criteria for providing a pool of high-quality investment counterparties, (both specified and non-specified investments) is:

- Banks 1 - good credit quality **–** the Council will only use banks which:

  i. are UK banks; and/or

  ii. are non-UK and domiciled in a country which has a minimum sovereign

  Long-Term rating of A- and have, as a minimum the following credit rating (where rated):

  Long Term - *A-*

  The Council uses credit ratings from the three main rating agencies, Fitch, Standard & Poors and Moodys. The lowest available credit rating will be used to determine credit quality

- Banks 2 – Part nationalised UK bank – Royal Bank of Scotland ring-fenced operations. This bank can be included provided they continue to be part nationalised or meet the ratings in Banks 1 above.

- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested. The minimum credit rating for operational bank accounts will be BBB-, and with assets greater than £25bn.

- Bank subsidiary and treasury operation -. The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.

- Building societies - The Council will use all societies which have a minimum credit rating of BBB.
- Money Market Funds (MMFs) CNAV – £10M
- Money Market Funds (MMFs) LVAV –£10M
- Money Market Funds (MMFs) VNAV – £5M
- Ultra-Short Dated Bond Funds with a credit rating of at least – AA
- UK Government (including gilts, Treasury Bills and the Debt Management Account Deposit Facility – “DMADF”)
- Local authorities, parish councils etc
- Housing associations/Registered Providers
- Supranational institutions
- Corporate loans, bonds and commercial paper
- Property and equity pooled funds

A limit of £40m will be applied to the use of non-specified investments

The Council may invest with any of the counterparty types in the table below; subject to the cash limits (per counterparty) and the time limits shown in Table 10. These limits will cover both specified and non-specified investments.

<table>
<tr><th colspan="6">Approved counterparties</th></tr>
<tr><th>Credit Rating</th><th>Banks / Building Societies Unsecured</th><th>Banks / Building Societies Secured</th><th>Non-UK Governments Securities</th><th>Corporate</th><th>Registered Providers</th></tr>
<tr><td>AAA</td><td>£10m
5 years</td><td>£10m
5 years</td><td>£5m
10 years</td><td>£5m
10 years</td><td>£15m
10 Years</td></tr>
<tr><td>AA+</td><td>£10m
5 years</td><td>£10m
5 years</td><td>£5m
7 years</td><td>£5m
7 years</td><td>£15m
10 years</td></tr>
<tr><td>AA</td><td>£10m
4 years</td><td>£10m
4 years</td><td>£5m
5 years</td><td>£5m
5 years</td><td>£15m
10 years</td></tr>
<tr><td>AA-</td><td>£10m
3 years</td><td>£10m
3 years</td><td>£5m
4 years</td><td>£5m
4 years</td><td>£15m
10 years</td></tr>
<tr><td>A+</td><td>£10m
12 months</td><td>£10m
12 Months</td><td>£5m
3 years</td><td>£5m
3 years</td><td>£15m
5 years</td></tr>
<tr><td>A</td><td>£10m
12 months</td><td>£10m
12 Months</td><td>£5m
2 years</td><td>£5m
2 years</td><td>£15m
5 years</td></tr>
<tr><td>A-</td><td>£10m
6 months</td><td>£10m
6 months</td><td>£5m
1 year</td><td>£5m
1 year</td><td>£15m
5 years</td></tr>
<tr><td>BBB- and assets > £25bn</td><td colspan="5">Council’s UK operational bank account only
£10m 1 day</td></tr>
<tr><td rowspan="2">No credit rating</td><td colspan="2" rowspan="2">UK unrated Building Societies £3m
6 months</td><td rowspan="2">Corporates
£1m
1 year</td><td colspan="2">Registered Providers</td></tr>
<tr><td colspan="2">£10m
3 years</td></tr>
<tr><td>UK Govt</td><td colspan="5">Central government: £unlimited 50 years
UK Local Authority: £20m 10 years</td></tr>
<tr><td colspan="3">Pooled Funds (incl. Money Market Funds) and Real Estate Investment Trusts</td><td colspan="3">£5m per Fund or Trust
Overall limit on aggregate amounts invested across Funds or Trusts of £30m</td></tr>
</table>

Table 10 Counterparty Limits

Table 10 must be read in conjunction with the notes below.

Where appropriate the council will carry out thorough due diligence in order to minimise the risk that it could be exposed to. This will involve independent credit analysis acquired from a Treasury Management advisory company shows them to be suitably creditworthy.

a. **Credit Rating**: Investment limits are set with reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. 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.

b. **Banks 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.

c. **Banks Secured**: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they 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 highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

d. **Building Societies**: Although the regulation of building societies is no longer any different to that of banks the Council takes additional comfort from building societies' business model. The Council will therefore consider investing with unrated building societies where independent credit analysis acquired from a Treasury Management advisory company shows them to be suitably creditworthy.

e. **Government**: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years and with a UK local government body up to £20m for up to 10 years. The Council is confident that as a sector local authority are secure investments in the context of support from Central Government and the legal surcharging framework that guarantees debts will be paid.

f. **Corporates**: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made either following an external credit assessment as part of a diversified pool in order to spread the risk widely.

g. **Registered Providers**: Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services; they retain the likelihood of receiving government support if needed.

h. **Pooled Funds**: Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

i. **Bond, equity and property funds** 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, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly. These types of funds were introduced in 2013/14 and have provided increased yield although their capital value has shown some volatility requiring continued monitoring.

k. **Real estate investment trusts (REITs)**: Shares in companies that invest mainly in real estate and pay most 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. The Council will carry out detail appraisal and take advice before any possible investment.

l. **Operational bank accounts**: The Council may incur exposure though its current accounts to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. 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. The Council currently banks with Lloyds Banking Group rated A+.

The Council's limit that it can remain invested within Lloyds Banking Group is £10m.

m. **Long Term investments**: Alongside pooled funds the Council may use long term investments when they are appropriately secure over the term of the investment. A limit of £70m has been set total long term (over a year) investments.

n. **Risk Assessment and Credit Ratings**: Credit ratings are monitored by the Council's treasury advisors, who will notify changes in ratings as they occur. 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 ended 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.

Where a credit rating agency announces that a 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 no investments other than call investments 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.

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

a) **Non-specified treasury management investment limit.** The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being £40m of the total treasury management investment portfolio.

b) **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of AA-** from Fitch or equivalent. The range of countries that qualify using this credit criteria will be added to, or deducted from, by officers should ratings change in accordance with this policy.

c) **Other limits.** In addition:

   - no more than £20m will be placed with any non-UK country at any time.
   - limits in place above will apply to a group of companies.
   - sector limits will be monitored regularly for appropriateness.

Treasury Management consultants – the Council uses Link Group, Treasury Solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions always remains with the organisation and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

Investment performance

This Council will use an investment benchmark to assess the performance of investment portfolio using the 12-month compounded / SONIA. Previously the Council had used the publication of official LIBOR figures (and related LIBID calculations) which ceased at the close of 2021. As such, we have updated references to SONIA (Sterling Overnight Index Average), which is the risk-free rate for sterling markets administered by the Bank of England.

For reference, SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

External fund managers – As at 31 December 2024 £5m of the Council's funds is externally managed on a discretionary / pooled basis by CCLA and Lothbury Property Funds

The Council's external fund manager(s) will comply with the Annual Investment Strategy. The agreement(s) between the Council and the fund manager(s) additionally stipulate guidelines on duration and other limits in order to contain and control risk.

The Council fully appreciates the importance of monitoring the activity and resultant performance of its appointed external fund manager. In order to aid this assessment, the Council is provided with a suite of regular reporting from its manager. This includes receiving quarterly statements and annual reports.

In addition to formal reports, the Council also meets with representatives of the fund manager on a semi-annual basis. These meetings allow for additional scrutiny of the manager's activity as well as discussions on the outlook for the fund as well as wider markets.

Investment Security and Borrowing

The Council understands that credit ratings are good, but not perfect, predictors of investment default. 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 and reports in the quality financial press. <u>No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the Council's credit rating criteria.</u>

When deteriorating financial market conditions affect the creditworthiness 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.

Investment limits: Revenue reserves are available to cover investment losses in the short term 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.

Cash flow management: The Council's officers maintain a detailed cash flow forecast for each coming year revising it as more information is available. This informs the short-term investments such as those to cover precept payments. The forecast is compiled on a prudent basis, with receipts under-estimated and payments over-estimated, creating a buffer to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Long term investment strategy is based on the Council's medium term financial strategy.

Treasury Management Indicators

Security benchmark: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the historic risk of default of its investments against a maximum target rate. The table below shows the chance of default by a range of institutions that the Council might invest with.

RISK OF DEFAULT					
Rating/Years	< 1Year	1-2 Year	2-3 Years	3-4 Years	4-5 years
AA	0.02%	0.04%	0.09%	0.16%	0.22%
A	0.05%	0.13%	0.24%	0.36%	0.50%
BBB	0.14%	0.38%	0.65%	0.97%	1.24%
Council	0.01%	0.02%	0.00%	0.00%	0.00%

The maximum risk of default that the Council accepts across its portfolio is as follows.

	Target
Historic risk of default	0.25% (max)

Table 11 Security Benchmark Target

Maturity structure of borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing (fixed rate and variable rate) borrowing are shown below.

Maturity structure of fixed & variable interest rate borrowing		
	Lower	**Upper**
Under 12 months	0%	25%
12 months and within 24 months	0%	25%
24 months and within 5 years	0%	50%
5 years to 10 years	0%	50%
10 years to 20 years	0%	75%
20 years to 30 years	0%	75%
30 years to 40 years	0%	100%
40 years and above	0%	100%

Table 12 Limits on maturity structure of borrowing

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 total long-term principal sum invested to final maturities beyond the period end will be:

Maximum principal sums invested > 365 days from end of financial year					
	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m
Principal sums invested for longer than 365 days	35.0	20.0	20.0	10.0	10.0

Table 13 Maximum Principal Invested more than 365 days

Markets in Financial Instruments Directive: The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Chief Officer Finance and Performance believes this to be the most appropriate status.

Credit Outlook

The anticipated impact of the economic factors detailed above on interest rates is set out in the table below.

%	Dec 24	Mar 25	Jun 25	Sep 24	Dec 25	Mar 26	Jun 26	Sep 26
Bank Rate	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75
5yr PWLB Rate	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30
10yr PWLB Rate	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50
25yr PWLB Rate	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90
50yr PWLB Rate	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70

Table 14 Interest Rate Forecast Dec 2024 – Sept 2026

Present Position and Forecast

On 31 December 2024 the Council held £83.3m of borrowing and £79.9 of investments at market value; broken down as follows:

	31 December 2024 £m
Call Accounts	
Other Local Authorities / Registered Providers	54.5
Banks / Building Societies – rated	9.5
Banks / Building Societies – unrated	-
International Banks	11.0
Total managed in-house	75.0
Pooled Funds	4.9
Bonds and Certificates of Deposit	-
Total managed externally	**4.9**
Total Treasury Investments	**79.9**
PWLB	69.6
Other Long-Term Borrowing	13.7
Short Term Borrowing	-
Total External Borrowing	**83.3**
Net Treasury Investments / (Borrowing)	**(3.4)**

Table 15 Net Investments Summary

The balance sheet of the Council can be projected to estimate the amounts available for investments. Below is the current projected analysis of the balance sheet to illustrate the trajectory of the Council's funds.

Year End Resources	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Fund balances / reserves	(57.217)	(55.000)	(55.000)	(55.000)	(55.000)
Capital receipts	(14.572)	(8.493)	(7.819)	(7.819)	(7.819)
Provisions	(5.852)	(5.852)	(5.852)	(5.852)	(5.852)
Total core funds	**(77.641)**	**(69.345)**	**(68.671)**	**(68.671)**	**(68.671)**
Working capital (surplus) / deficit	**(5.042)**	**(5.042)**	**(5.042)**	**(5.042)**	**(5.042)**
Under/(over) borrowing	**3.467**	**21.242**	**29.424**	**29.424**	**29.424**
Expected Investments	**79.216**	**53.145**	**44.289**	**44.289**	**44.289**

Table 16 Balance Sheet Analysis 2023/24 – 2027/28

Section C Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Chief Officer Finance & Performance is a qualified accountant with over 15 years' experience and the Property Manager is a fellow of RICS with over 20 years of experience in commercial property. The Council will support junior staff to study towards relevant professional qualifications.

CIPFA require the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Appropriate treasury training will be offered to members on an annual basis. The training needs of treasury management officers are periodically reviewed.

Where Council staff do not have the knowledge and skills required, use is made of external advisers that are specialists in their field. The Council currently employs Link Group, Treasury Solutions as treasury management advisers.

The Council recognises that responsibility for treasury management decisions always remains with the organisation and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisors.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subject to regular review.

APPENDIX B

CAPITAL STRATEGY

2025/26 -2029/30

CONTENTS

1. INTRODUCTION

1.1 AIM

The overall aim of the Capital Strategy is to support delivery of the Corporate Strategy priorities and ensure support for the delivery of the Council's core functions.

The Capital Strategy for Rugby Borough Council provides a high-level overview of how capital expenditure, financing and treasury management activity supports the Council's Corporate Strategy for 2025-2035 and beyond. It sets out the principles to determine priorities for our capital investments, risks, monitoring and financing.

1.2 OVERVIEW

The Capital Strategy applies to a detailed five year medium term financial plan (MTFP) to align with the revenue MTFP and a ten year longer term outline financial plan. The strategy is also applied to longer term capital horizon planning up to thirty years. This strategy will serve as a useful point of reference when determining or reviewing the Council's Capital Programme.

This strategy document is not intended to repeat information held in other strategy and policy documents. References are made throughout this document and a list of the reference documents is included in Appendix B.

Reference is made throughout the document to a Budget Working Group or Programme Board. These are Leadership Team Boards with delegated authority to carry out the activities described in this Capital Strategy.

This Capital Strategy will play a key role in ensuring that we build for the future and ensure long term resilient economic growth and transformational change for the borough.

Information about the Rugby area is included in the Rugby Local Plan (adopted in 2019). To provide some context to this Capital Strategy, the area of Rugby covers:

- An area of 138 square miles within Warwickshire
- 41 parishes with over 114,400 residents
- Growth in the numbers of people over the age of 65
- A deprivation index value of 222 (in the Indices of Multiple Deprivation 2019) Rugby is ranked 222 out of 317 Local Authorities, no.1 being most deprived, 317 the leastA total of 57 designated Local Sites of which 3 are Local Geological Sites and 54 Local Wildlife Sites (as at 2016)
- 19 Conservation Areas, 6 Grade 1 Listed Buildings, 30 Grade II* Listed Buildings and 460 Grade II Listed Buildings. Spread throughout the Borough are 26 Scheduled Monuments and 5 Registered Gardens (as at 2018)

Rugby Borough Council also manages a housing stock in the region of 3,483 dwellings (22 January 2025).

STRATEGIC APPROACH

2.1 REGULATORY BACKGROUND

CAPITAL STRATEGY DEVELOPMENT

Rugby Borough Council's Capital Strategy has been developed in line with the Capital Strategy Guidance produced by CIPFA in 2021. The Capital Strategy will be reviewed annually to ensure it is kept up to date and references to other strategies and policies are accurately reflected.

CAPITAL FINANCE

Local authorities are required by regulation to have regard to the Prudential Code for Capital Finance in Local Authorities (2021). The Code requires that all Council's should have a capital investment strategy which aligns capital delivery plans to their organisational objectives, as well as demonstrating sound financial management and prudent borrowing.

TRANSPARENCY

Rugby Borough Council operates within the Local Government Transparency Code (2015) which requires local authorities in England to publish information related to specific themes. These include expenditure over £500, purchase orders over £5,000, local land assets and social housing asset value, all of which are relevant to capital expenditure and investments.

2.2 CORPORATE STRATEGY

This Capital Strategy aligns with the Corporate Strategy and the Medium-Term Financial Strategy. It is also closely linked to the Treasury Management Strategy to ensure capital expenditure is affordable and appropriately funded.

The medium-term capital strategy and long-term horizon planning will also consider the Local Development Plan (2019) for Rugby which outlines the type of place we aspire to be in the future and provides a framework that will manage change and growth until 2031.

2.3 CAPITAL STRATEGY MAIN PRINCIPLES

The capital programme will be developed and maintained along the following principles:

REPORTING

- Annual reporting of the five year medium term financial plan and the ten year long term plan for the capital programme. This annual report will not introduce new capital expenditure but will forecast the expenditure for existing approved schemes and projects along with the planned financing of that expenditure.
- There will be a presentation to the Budget Working Group of the anticipated thirty year horizon planning for capital expenditure, how it fits with corporate strategy and an outline of the potential financing options. This is not a fixed plan and is expected to change over time to reflect the completion of current projects and changes in the corporate approach and financing.
- Annual reporting of capital outturn, reprofiling, savings and pressures, and the impact on the current and future programme.

- Quarterly reporting for quarters 1, 2 and 3 on performance against budget, forecast, variances and impact on future year budgets.
- Monthly exception reporting between the quarters will also take place on an informal basis to the Leadership Team.

APPROVAL

- All new proposals for capital expenditure will undergo a rigorous capital appraisal and must be presented as a business case with proposed financing. All new proposals, up to £75,000 will require Cabinet approval. Those over £75,000 will require Council approval. Where the expenditure is a new project, appraisals must follow the relevant Project Management arrangements.
- Where an approved project has not commenced within two financial years. The scheme must be brought back, for reapproval, to the appropriate committee with revised costings and revenue implications.
- All proposals for additional financing on existing programmes will require Cabinet approval and must include a summary business case and proposed financing.
- The capital programme will be flexible to allow the movement of expenditure and financing across years without needing recourse to further member approval. Movement across years will be subject to any financing restrictions imposed on the Council e.g. capital grant funding restricted to a single financial year. Movement across years will also be subject to approval from the Chief Officer-Finance and Performance. This will ensure adequate cash availability in terms of the timing of expenditure and allow investments to be maximized and/or other schemes to be accelerated or slipped.
- At each financial year end, financing of the capital expenditure will be reviewed to ensure optimum use of the overall resources available to the Council. Any changes will be determined by the Chief Officer-Finance and Performance. Additional member approval is not specifically required. Details will be reported to Cabinet in the Council's financial outturn report.
- Continuation Programmes that are not project based e.g. annual budgets for IT development or vehicle purchase, will be reviewed every two years. The current list of continuation programmes is included in Appendix A. See also the Continuation Programmes section of this strategy for further details. In summary, these reviews will need to consider:
    a. past spending patterns and the effectiveness on services
    b. how the expenditure supports the relevant corporate plans
    c. whether changes could be implemented to reduce costs, increase effectiveness or better meet the Council's corporate strategy

BUDGET MANAGEMENT

- All capital expenditure and projects must have a designated budget manager who is accountable for the approved budget and delivery of the programme.
- Where projects/capital expenditure has been identified but financing is not available, an outline business case will need to be developed. This will then be held on an 'unapproved capital proposals' register and allocated a priority rating in accordance with pre-determined criteria. This register will be managed by the Budget Working Group Board. As financing is identified, schemes will be selected on a priority basis to proceed to full business case for approval.
- Prioritisation and acceleration of schemes on the 'unapproved capital proposals' register will be the responsibility of the Budget Working Group/ Programme Board.

2.4 CAPITAL PROGRAMME

Rugby Borough Council will have a single Capital Programme covering both General Fund and HRA Projects. This will provide an overview of the capital expenditure and investment for Rugby.

Within the overall programme, the General Fund and HRA elements will have specifically identified financing to enable those elements to be reported on separately. The Capital Programme will be included in the annual budget setting and rent setting reports for information. Annual approval will not be required for the Capital Programme as any additions and adjustments will be managed and approved as outlined elsewhere within this strategy. New proposals and additional expenditure will require separate Cabinet approval.

The Capital Programme is a dynamic document and is not included as part of this strategy. A snapshot of the Capital Programme and financing will be reported each quarter and included in the quarterly financial monitoring reports.

2.5 LONG-TERM INVESTMENT NEEDS

Rugby Borough Council will continue to develop the long-term investment needs for the area, and this will inform the thirty year horizon planning. This long term view is informed by:

- Consultation and engagement with businesses and residents, such as the 2024 Air Quality Status report and the public engagement on enhanced street and spaces.
- The Rugby Regeneration Strategy which sets out a vision for the future, setting out guiding principles for redevelopment and a number of 'big idea' projects which have a vital role to play in revitalising the town centre.
- The Council's Local Development Plan which includes Rugby's spatial vision for a prosperous town with a strong economy, including the development of sustainable housing, employment, leisure facilities and public transport. The Plan also includes a commitment to protect natural species present in the Borough by improving habitats and to meet the challenges of climate change.

2.6 MANAGEMENT OF RISKS

The resilience of the capital programme depends on the longer term planning and a joined up Corporate Strategy across the different strategies and plans. It also depends on strong financial planning, project appraisals, funding sources and other available resources.

Risks beyond the control of the Council (such as criminal acts, environmental risks, political risks and health crises) will be considered for each project during the planning phase. If external events raise risks for the Council, this will be managed through the usual risk management processes.

The Council is exposed to a range of risks that may impact on the capital programme and these include:

- Financial risks related to the investment of the Council's assets
- Macroeconomic risks related to the growth or decline of the economy. Local as well as national or global. Interest rates, inflation, continuing impact of Brexit, etc.
- Credit risks related to investments and loans to other institutions
- Reputational risks related to the Council's actions
- Environmental and social risks

- Governance risks related to ensuring that the Council has the correct level of oversight and scrutiny
- Changes in Government policy

The Council's Risk Management Strategy sets out the governance framework for managing risk. framework. The Strategic and Operational Risk Registers consider the risks around capital investment, including the areas outlined above. Detailed risks for each project will be considered on a case-by-case basis and documented and managed through the use of project risk registers. The strategic risk register informs the medium term and horizon planning for capital.

3. OPERATIONAL APPROACH

3.1 SKILLS AND KNOWLEDGE

Management of an effective capital programme requires managers with the appropriate level of skills and expertise. To ensure this is in place, the Financial Services Team will:

- Employ suitably qualified and knowledgeable team members to co-ordinate the overall capital programme and financing, support the monitoring of progress across the schemes, highlight variances and prepare the relevant consolidated reports.
- Provide financial support to budget managers in preparing project appraisals and business cases for new projects.
- Provide an annual training event for budget managers to ensure they are aware of their responsibilities and have the skills to carry them out.
- Ensure one-off training is provided to any new budget managers. This may be carried out by the Financial Services Team or existing budget managers who will be able to also impart their experiences.

3.2 PLANNING AND MONITORING

The Financial Services Team is responsible for co-ordinating, managing and maintaining the overall capital programme and financing. Individual capital schemes and purchases are the responsibility of the designated budget manager. The planning process is as follows:

1. Initially, each month, all capital budget managers will receive an expenditure report for their existing approved scheme(s) showing the agreed annual profile of spend, expenditure against budget for the year and, for projects, expenditure to date since the start of the project.
2. Training has been provided to budget managers, they are expected to run their own reports from the finance system and monitor their expenditure monthly. Budget managers will be provided with guidance on their responsibilities. Support will be provided by the relevant Finance Business Partner.
3. Budget managers are expected to review their monthly report in conjunction with their Finance Business Partner and where appropriate, provide a revised forecast and/or profile of expenditure for the year and/or the remaining life of the project.
4. It is important that delays or acceleration of a project is clearly distinguished from savings or pressures. Reprofiling a budget does not require member approval but needs to be highlighted as early as possible with the relevant Finance Business Partner for cash management purposes.
5. The default funding for additional pressures will be the relevant revenue budget and will require member approval. Budget managers will need to identify equivalent savings elsewhere or alternative funding.
6. The revised forecast will feed back into the next iteration of the report and expenditure will be monitored regularly. As long as the expenditure remains within the approved envelope of spend for that scheme or project, and any financing criteria continues to be met, no further action will be required.
7. Budget managers are responsible for providing all forecast information to their Finance Business Partners in accordance with the quarterly reporting timetable to ensure it can be included in the quarterly dashboards that are provided to budget managers, Chief Officers and Cabinet.
8. Where budget managers are forecasting project savings or pressures, this will be included in the quarterly financial report to Cabinet along with an up to date snapshot of the capital programme. Budget managers are responsible for providing explanations for the overall variances and the

impact on services. Where additional spending is forecast on existing projects, refer to the section above Capital Strategy Main Principles (Approvals). The Financial Services Team is responsible for ensuring that the overall Council financing requirements are appropriately adjusted.

9. Each quarter, the Financial Services Team will prepare a snapshot of the full capital programme and financing schedule for the four year medium term financial plan. Annually, this will also include a ten year longer term outline plan and financing in addition to information on the direction of travel for the 30 year horizon plan. This will ensure the availability of up to date information for decision making purposes.
10. Where additional financing is available, the quarterly Cabinet report will include options to accelerate potential projects from the reserve list in priority order. A priority rating will be provided following consideration of the outline business case, and this will be managed by the Budget Working Group.
11. Where unexpected variances mean that more resource than expected will need to be used, the quarterly report will include options to defer projects and schemes where possible.

3.3 PROJECT APPRAISAL

CURRENT PROCESS

The current process for including projects in the Capital Programme requires a report to be presented to Cabinet/Council. The report should include:

- Project details
- The reason for the request including evidence to support the business case
- How it delivers on the Corporate Strategy delivery plan
- Demonstration of best value/value for money
- Financial implications, both capital and revenue and how the project is to be funded
- Implications of not approving the project

Prior to the report being presented to members, the financial implications need to be reviewed by the Financial Services Team and be appraised by the Budget Working Group.

3.4 INVESTMENTS – CAPITAL LOANS

The Council can lend money in limited circumstances to support local public services and stimulate local economic growth. This is expected to be relatively infrequent, and all such proposals will be assessed in terms of risk. The Council will use external advisors if felt appropriate by the Chief Officer- Finance and Performance. All loans will be subject to a contract agreed by Chief Officer-Legal and Governance and must be approved by full Council.

To limit risk the current limit on the outstanding exposure is set at £20m. A loss allowance will be provided for in accordance with accounting policy.

All capital loans will be included in the Council’s Capital Programme and financing must be identified as with other capital projects and procurement. All repayments of capital loans will be treated as capital receipts. Where financing of the capital loan was from borrowing, those capital receipts will be prioritised for the repayment of the Council’s debt.

Further details for loans and other investments, including property investments, are included in the Treasury Management Strategy.

3.5 CONTINUATION PROGRAMMES

This is where the Council has an annual programme of capital expenditure that is not a specific project or scheme. The current approved continuation programmes are included in Appendix A with the current annual budget levels. Whilst there are current budget differences across years, it is anticipated that this stabilises to a consistent annual value.

This list is subject to review every two years, as mentioned in the principles section above. This will be reviewed throughout the financial year, so any changes are implemented prior to the budget setting process. The review will be presented as a report to the Budget Working Group with changes highlighted for approval. For each of the continuation programmes, the review will include:

1. A brief outline of what the programme is for and how it supports corporate plans
2. The relevant Portfolio, Chief Officer and budget manager
3. The annual budget and any external financing that offsets the cost to Rugby BC
4. How it will be financed and whether it is General Fund or HRA
5. Last three year's expenditure and what the impact on services was
6. Alternative options, the potential to reduce costs, increase effectiveness or better meet the Council's strategy

The review will be co-ordinated by the Financial Services Team and the programme information will be provided by the budget managers. The review would recommend any proposed changes to the annual budget value which would come into effect from the following financial year. The approved, revised values will then be included in the capital programme presented in the budget and rent setting reports.

The budget values may be reprofiled to future years or accelerated, subject to the Council's cash requirements. This does not require member approval but will be reported to Cabinet through the quarterly Finance and Performance report. The overall total may not be increased without specific Cabinet approval.

3.6 PROCUREMENT

Any procurement exercise should start with the early engagement of the Procurement Team to ensure compliance with current legislation and Contract Standing Orders. Procurement can advise on the most suitable route to market to attaining value for money and compliance.

Link to Sharepoint guidance documents

Procurement Toolkit

3.7 FINANCING

In any report or review of the capital programme or schemes, it must be clear how that expenditure will be financed and what revenue implications there will be. Financing will be included at the point the proposal is approved, following the relevant project appraisal process. All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing or leasing).

TREASURY MANAGEMENT STRATEGY

The Council's capital expenditure plans are the key driver of treasury management activity and the two documents are closely related. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

- **Capital Financing Requirement (CFR)** – This is the total capital expenditure which is not paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and is the underlying borrowing need. Any capital expenditure which has not immediately been paid for through a revenue or capital resource, will increase the CFR.
- **Minimum Revenue Provision (MRP)** – This is the statutory annual revenue charge which charges the economic consumption of capital assets to revenue as they are used. It broadly reduces the indebtedness in line with each asset's life.
- **Voluntary Revenue Provision (VRP)** – This is similar to MRP but is voluntary. Currently Rugby BC do not make any VRP, but this will be kept under review.
- **Depreciation** – There is no requirement for the HRA to make MRP but there is a requirement for depreciation to be charged. This is done in line with accounting policy.
- **Financing of capital expenditure** – Financing of capital expenditure can come from revenue, reserves, external grant funding, capital receipts or borrowing. All borrowing will be managed in accordance with the Treasury Management Strategy. Most borrowing is arranged to support overall cash requirements rather than specific capital projects although there may be exceptions.

FINANCING CONSIDERATIONS

- External financing such as grant funding is likely to have specific requirements and obligations that the Council must meet. Before accepting such funding, the Council must be confident of meeting those obligations. If those obligations include the provision of matched funding, the financing of the matched funding must be identified prior to the bid for grant funding being submitted. Such requirements and obligations will form part of the ongoing project monitoring by the budget manager.
- The Council's current de-minimis level for capital expenditure is £10,000. Even if the expenditure meets all of the other definitions for capital expenditure, it will be charged to revenue if it is under that value.
- Joint ventures and partnership arrangements must be thoroughly appraised prior to being entered into and, if required by the Chief Officer–Finance and Performance, external advice must be sought. This must be part of the overall project appraisal and in accordance with guidance from the Capital Programme Board.
- Leasing guidance is provided by the Treasury function in the Financial Services Team. All proposals that include any lease agreements must be agreed with the Financial Services Team to ensure the financial implications are thoroughly assessed and accounting implications determined in accordance with IFRS16.
- As a general default, all unringfenced funding will be pooled to support the overall capital programme. There will be specific exceptions from this such as HRA financing, restricted grant funding and other specific obligations that need to be managed. Use of capital receipts to fund capital expenditure will be determined based on Treasury management advice and is also subject to the relevant regulations regarding the application of capital receipts (e.g. limits on the use of RTB receipts for new builds).
- Section 106 monies come from developer contributions through the planning system. Most have restrictions on use defined in the agreements. Where this is not the case, the monies should be

used to support existing Council priorities and commitments and be allocated in line with Council's capital scheme priorities.
- Revenue contributions can either be made during the year, e.g. a capital purchase funded from a revenue budget, or revenue contributions made be added to a reserve each year for later use.

FINANCING OF UNPLANNED CAPITAL SPEND

There may be occasions where unplanned capital expenditure occurs (e.g. emergencies, necessary purchases with prices increases that tip over the £10,000 revenue de minimis, etc.). Each case must be brought to the attention of the Chief Officer–Finance and Performance as soon as possible and approved through an urgent decision.

3.8 REVENUE CHARGES

REVENUE IMPLICATIONS

During the project appraisal process, any revenue implications will need to be identified so they can be included in the revenue medium term financial plans (i.e. General Fund or Housing Revenue Account). These are likely to include the following:

- Ongoing revenue implications of maintaining the asset. For example, the ongoing maintenance of a new apartment block.
- Impact on other future service budgets. For example, a new apartment block may increase cost of grounds maintenance, housing benefit subsidy, etc.
- The minimum revenue provision (MRP). An estimate of the MRP should be made during the appraisal process.
- Where depreciation is charged, that should be calculated during the appraisal process
- The impact on the net cost of borrowing (NCoB) and the debt cap
- Revenue budget availability and coverage
- Cash flow implications
- Implications of accounting rules (e.g. for projects that include leasing)
- Tax implications
- External revenue funding – timing, value and any obligations

MRP

Briefly, this is an amount charged to revenue to pay off the capital spend funded from borrowing. It is calculated according to the capital financing requirement (CFR) so only relates to borrowing and debt. If capital expenditure is funded from revenue or grant funding, this does not increase the MRP. This applies only to the general fund capital expenditure and is in place of a depreciation charge. See the Treasury Management Strategy for further details.

NCOB

The net cost of borrowing is calculated by the Financial Services Team. In summary, it represents investment income and interest received less interest on borrowing and some reserves. It is not a revenue implication in itself, but capital expenditure funded from borrowing will impact on this calculation and the overall financial cost to the Council.

4. PROJECT COMPLETION

4.1 PROJECT COMPLETION

Practical completion of a project occurs when (for example) the build is complete, and the asset is in use. At that point, a completion report should be compiled by the Project Manager to include:

- Has the project met the desired objective(s)?
- Will the outcomes be different to those originally planned?
- Financial report of actuals compared to budget and variances, with changes explained.
- What could have been done better?
- What worked really well?
- What points can usefully help other projects?
- What is the outstanding retention, timescale and conditions?

As mentioned in the Project Appraisal section above, developments are underway to improve project management processes and that may impact on the requirements outlined here.

4.2 FINANCIAL COMPLETION

This is when the last payment/financial transaction occurs on the capital project and is often the payment of the last retention. Once in operation, there may be ongoing revenue costs, but these will form part of the annual revenue budget.

On financial completion, the total project spend should be recorded and the project closed on the capital programme. This will be noted in the next quarterly report.

4.3 LEARNING POINTS

Learning points from capital schemes may be varied but they should be noted along with actions and a responsible person. They may include actions such as:

- Changes to the risk register
- Changes to processes
- Changes to the responsible person
- Changes in reporting
- Changes in the timing of decision making
- Seeking new funding opportunities and/or partnership arrangements
- Etc.

The Learning Points Register should be maintained and monitored quarterly by the Financial Services Team. Once the action has been taken, the outcome should be noted. It does not require reporting to members as it is an internal management process.

5. SALES AND DISPOSALS

An asset will be identified as surplus to requirements and suitable for disposal if, in its current condition, it does not meet any of the corporate objectives outlined in the policy and strategy documents listed in Appendix B. Information will need to be provided as to why the asset cannot be brought to a condition where it could otherwise meet Council objectives.

Assets to be considered for disposal will be identified through periodic review of the Asset Register.

Authorisation of disposals will be in accordance with the Council's constitution.

5.1 LAND AND PROPERTY

The Council has a general power of disposal of land, contained in Section 123 of the Local Government Act 1972. Local authorities are not permitted to dispose of land for a consideration which is less than the best which is reasonably obtainable, unless they first obtain consent from the Secretary of State.

It will need to be established whether there are any legal constraints, such as restrictions on land that would prevent disposal. All negotiations for disposals should be advised by a suitably qualified property professional, preferably a member of the Royal Institution of Chartered Surveyors. This will include the production of Market Appraisals to demonstrate best consideration where appropriate.

The Council will aim to maximise its capital receipts, where possible, by enhancing the land prior to disposal; for example, by obtaining planning permission if this would result in a reasonable uplift in capital receipt after costs are taken into account.

A business case will be drafted and follow the appropriate governance arrangements. A communication plan will also be considered to ensure residents and other stakeholders are aware of the Councils plans for site disposal when appropriate. The Local Government Act 1972 and Town and Country Planning Act 1990 require a public consultation by placing advertising its intentions to dispose of public open space. Any objections will need to be considered prior to any final decisions on disposal.

Land asset disposal, if being considered, must be undertaken in accordance with Government guidance published by the Department for Levelling Up, Housing and Communities. Guidance published in 2016 by the Department for Communities and Local Government can be found at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/508307/160316_Land_disposal_guidance.pdf

The Council will dispose of land and property assets by:

- Tender (Formal / Informal): by advertising and inviting sealed bids
- Private Treaty: In the case of limited interest, a marketing exercise would still need to be completed.
- Public Auction: If appropriate a reserve price will be set.

5.2 OTHER ASSETS

Disposal of assets other than land and property is expected to be minimal. This would include, for example, vehicles, plant and operational equipment. Any assets identified for disposal will require a business case to be drafted and follow the appropriate governance arrangements.

Officers must take into consideration all legislative requirements before undertaking any disposal. These include, but are not limited to:

- The WEEE (Waste Electrical & Electronic Equipment) Regulations
- Health and Safety considerations:
    - Equipment which may be contaminated with hazardous substances must be cleaned appropriately before being disposed of and a signed decontamination statement provided contact the Health & Safety Office.
- Any internal policy guidance on the disposal of IT equipment

The Council will dispose of other assets by:

- Tender (Formal / Informal): by advertising and inviting sealed bids
- Private Sale: In the case of limited interest, a marketing exercise would still need to be completed.
- Public Auction: If appropriate a reserve price will be set.

Where public disposal options are unsuccessful, consideration may be given to employee offers. This would need to be subject to any health and safety issues.

Gifting to charity may be considered if other options have been exhausted. This will be subject to health and safety considerations and assessment of any financial or legal risks and implications.

Scrapped, obsolete and damaged assets may be disposed of as waste. Evidence of their state must be retained for audit purposes and the Financial Services Team must be informed so the asset is removed from the asset register and the relevant accounting entries completed.

Damaged, destroyed, lost or stolen assets must be communicated to the Financial Services Team for insurance and accounting purposes. In appropriate circumstances a police report must be made. These assets will need to be removed from the asset register and the relevant accounting entries completed.

APPENDIX A: CONTINUATION PROGRAMMES

This is a list of the capital continuation programmes and the value of the annual budget. Some of the annual values have been approved at different amounts. From 2025/26 this annual value will be stabilised.

Reprofiling may occur in accordance with the approval processes described in the capital strategy. The overall total spend cannot be increased without further Cabinet approval.

Programme	2025/26	2026/27	2027/28	2028/29	2029/30
	£000s	£000s	£000s	£000s	£000s
General Fund					
ICT Refresh Programme – Desktop	114	114	114	114	114
ICT Refresh Programme – Infrastructure	90	90	90	90	90
ICT Refresh Programme – AV Equipment	18	18	18	18	18
Digitalisation and Development Programme	45	45	45	45	45
Disabled Facilities Grants*	768	768	768	768	768
Vehicle Replacement	357	357	357	357	357
Waste Bins	88	88	88	88	88
Open Spaces Refurbishment – Street Furniture	42	42	42	42	42
Open Spaces Refurbishment – Leisure Facilities	150	150	150	150	150
Open Spaces Refurbishment – Safety Improvements	50	50	50	50	50
Memorial Safety	30	30	30	30	30
Housing Revenue Account					
Improvements and Capitalised Repairs**	2,812	2,812	2,812	2,812	2,812
Housing Management System	60	60	60	60	60
Disabled Adaptations	250	250	250	250	250
Lifeline Renewal Programme	60	60	60	60	60
Purchase of Council Homes	1,685	1,685	1,685	1,685	1,685

* Dependent on external funding

** As included in the HRA capital programme. The ongoing annual value to be reviewed.

OTHER APPROVED CAPITAL SCHEMES

Other approved capital schemes for 2025/26

For further details, portfolio and funding information, please refer to the capital programme.

Financial Management

Scheme	2025/26 £'000
Purchase of Food Waste Vehicles	1,265
Purchase of Food Waste Caddies	419

POTENTIAL NEW SCHEMES

Other pipeline schemes which may have business cases presented to Cabinet during 2025/26

Scheme	Description	Indicative costs £000
Changing rooms for the Community room at GEC	Community Room at GEC Changing rooms, to put in place a community room for creative health opportunities play / outdoor education and team training and allowing youth work to take place making it a hub for community	250
Community Supermarket	To look to address inequalities in the borough	300
Customer access	Boosting the customer charter	100
Avon Mill Roundabout	Work with partners to understand what leading role we can play to deliver the scheme	TBC

APPENDIX B: REFERENCE DOCUMENTS

This is a list of other documents to be read in conjunction with the Capital Strategy

Corporate Strategy 2025-35	The Council's overriding strategy
Property Acquisition and Disposal Policy	Policy for delivering, increasing, managing and maintaining the supply of quality affordable housing.
Housing Strategy 2022-2024	Strategy for the provision of social housing for the borough.
Local Plan 2011-2031 (adopted in 2019)	The Council's policies and proposals to support the development of the Borough through to 2031
Medium Term Financial Plan (MTFP)	The financial plan for the Council for revenue and capital spending
Procurement Toolkit	Guidance on the appropriate procurement routes for expenditure
Risk Management Strategy	The Council's Risk Management Strategy sets out the governance framework for managing risk

Rugby Regeneration Strategy	The Council's vision for the future, setting out guiding principles for redevelopment and revitalising the town centre
Treasury Management Strategy	Capital financing and general treasury management