Gedling Borough Council

Report to Cabinet

Subject: Prudential and Treasury Indicators and Treasury Management Strategy Statement (TMSS) 2026/27

Date: 19 February 2026

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Wards Affected

All

Purpose

To present for Members' approval the Council's Prudential Code Indicators and Treasury Strategy for 2026/27, for referral to Full Council on 4 March 2026.

Key Decision

This is a key decision because it is likely to result in the Council incurring expenditure or savings, which are significant having regard to the budget for the service or function concerned.

Recommendations:

Members are recommended to:

1. Approve the Prudential and Treasury Indicators and Treasury Management Strategy Statement (TMSS) 2026/27, which includes the key elements below, and refer it to Full Council on 4 March 2026 for approval as required by the Regulations:

   a. The Minimum Revenue Provision (MRP) Policy Statement (2.2);
   b. The Borrowing Strategy (2.3.4).
   c. The Annual Investment Strategy (2.3.8), including 2.3.8 (a) increasing the Money Market Fund Limits from £4m to £5m
   d. Capital Affordability Prudential Indicators for 2026/27 through to 2027/28 (Appendix 1).
   e. Treasury Indicators including affordability limits to borrowing for 2026/27 through to 2028/29 (Appendix 1).
2. Note the indicative Prudential Indicators for 2029/30 and 2030/31 (Appendix 1).
3. Approve the Treasury Management Policy Statement and Treasury Management Practices (Combined Principles & Schedules) as set out in Appendix 5.

Background

1.1 Introduction

1.1.1 CIPFA defines Treasury Management as *"the management of the local authority's borrowing, investments and cash flows, its banking, money-market and capital-market transactions; the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks."*

"Investments" in the definition above include all the Council's financial assets (treasury investments) which are defined as the placement of cash in relation to the *S12 Local Government Act 2003* investment powers (ie. they represent the residual cash left in the Council's bank account as a result of its day-to-day activities). However, investments <u>also</u> include other "non-financial assets" (non-treasury investments) which are held primarily for financial returns, for example commercial investment property portfolios and loans to third parties. Whilst commercial initiatives and loans to third parties will have an impact on the Treasury Management function, these activities are generally classed as "non-treasury activities" (as they usually arise from capital expenditure), and are separate from day to day Treasury Management activities.

However, <u>all</u> investments require appropriate risk management under the *Treasury Management Code*, and the key principle of the control of risk and optimisation of returns should be applied across <u>all</u> investment activities, including those that are more commercially based.

1.1.2 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 service is to ensure that cashflow is adequately planned, with cash available when it is needed. Surplus cash is invested in low-risk counterparties and instruments commensurate with the Council's low risk appetite, providing adequate liquidity before considering investment return.

A further Treasury Management function is the funding of the Council's capital plans. These plans provide a guide to the Council's borrowing needs and require longer-term cashflow planning to ensure that the Council can meet its spending obligations. The management of longer-term cash may involve arranging long or short-term loans or the use of longer-term cashflow surpluses. On occasion, debt previously drawn may be restructured to meet the Council's risk or cost objectives.

The contribution made by the Treasury Management function is critical as the balance of debt and investment operations ensure liquidity, i.e.. the ability to meet spending commitments as they fall due. Treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits impacting on the overall 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 General Fund Balance.

1.2 Statutory reporting requirements

1.2.1 CIPFA published the updated *Treasury Management and Prudential Codes* on 20 December 2021. CIPFA stated that, after a soft introduction of the Codes, local authorities are expected to fully implement the required reporting changes within their TMSS reports from 2026/27.

The Ministry of Housing, Communities and Local Government (MHCLG) (formerly the Department for Levelling Up, Housing and Communities) has tightened up regulations around local authorities financing capital expenditure on investments in commercial projects for yield and has closed access to all Public Works Loan Board (PWLB) borrowing if such schemes are included in an authority's capital programme. The CIPFA codes have adopted a similar outlook to discourage further capital expenditure on commercial investments for yield.

However, this does not mean that local authorities may not currently have the legal powers to undertake such capital expenditure despite such guidance and regulation, but each authority should take its own legal advice on such matters before proceeding.

The main objective of the updated *Treasury Management and Prudential Codes* was to respond to the major expansion of local authority investment activity in recent years on the purchase of non-financial investments, particularly property. The Codes require a local authority to:

- define its risk appetite and its governance processes for managing risk;
- set out, at a high level, its investment policy in relation to environmental, social and governance aspects;
- adopt a new liability benchmark treasury indicator to support the risk management of the capital financing requirement (CFR); this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained;
- ensure it does not borrow to finance capital expenditure to invest primarily for commercial return;
- ensure that increases in the CFR and borrowing are undertaken solely for purposes directly and primarily related to the functions of the authority; where any financial returns are related to the financial viability of the project in question, they should be incidental to its primary purpose;
- conduct an annual review to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt;
- ensure its capital plans and investment plans are affordable and proportionate;
- ensure all borrowing and other long-term liabilities are within prudent and sustainable levels;

- ensure risks associated with commercial investments are proportionate to overall financial capacity in order to sustain losses;
- ensure that treasury management decisions are made in accordance with good prefessional practice;
- ensure that reporting to Members is conducted quarterly, including updates of prudential indicators;
- assess the risks and rewards of significant investments over the long-term as opposed to the usual three to five years that most local authority financial planning has been conducted over to ensure the financial sustainability of the authority;
- ensure it has access to the appropriate level of expertise to be able to operate safely in all areas of investment and capital expenditure and to involve Members adequately in making properly informed decisions on such investments.

In addition, all investments and investment income must be attributed to one of the following three purposes:

Treasury Management

Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service Delivery

Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is *"either related to the financial viability of the project in question or otherwise incidental to the primary purpose".*

Commercial Return

Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – ie. that "plausible losses" could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

There is now an explicit requirement to prepare a Capital Strategy to provide a longer-term focus to capital planning, and to meet the greater reporting requirements for any commercial activity undertaken under the Localism Act 2011. The Council's Capital Strategy is reported separately, but its purpose and content is summarised below for completeness.

1.2.2 Capital Strategy

The CIPFA 2021 *Prudential and Treasury Management Codes* require all local authorities to prepare a Capital Strategy report which will provide the following:

- A high-level long-term overview of how capital expenditure, capital financing and Treasury Management activities contribute to the provision of services.
- An overview of how the associated risk is managed.
- The implications for future sustainability.

The aim of the Capital Strategy report is to ensure that all elected Members, i.e Full Council, fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite. The Capital Strategy is reported separately from the TMSS.

Members are advised that whilst the Council does not currently have a Commercial Property Investment Strategy (CPIS) any future "non-treasury" investments would be reported through the Capital Strategy to ensure the separation of the core treasury function under security, liquidity and yield principles, and any policy and commercialism investments usually driven by expenditure on an asset.

The Capital Strategy would show:

- The corporate governance arrangements for these types of activities.
- Any service objectives relating to the investments.
- The expected income, costs and resulting contribution.
- The debt related to the activity and the associated interest costs.
- The payback period (MRP policy).
- For non-loan type investments, the cost against the current market value.
- The risks associated with each activity.

Should any non-treasury investment sustain a loss during the final accounts and audit process, the strategy and revenue implications would be reported through the same procedure as the Capital Strategy.

1.2.3 Treasury Management Reporting

As a minimum, the *Treasury Management Code* requires that the Full Council receives and approves three main reports each year, which incorporate a variety of policies, estimates and actuals.

a) Prudential and Treasury Indicators and Treasury Management Strategy Statement (TMSS) - this report:

This first, and most important report is forward-looking and covers:

- The capital plans (including prudential indicators);
- A Minimum Revenue Provision (MRP) policy (how residual capital expenditure is charged to revenue over time);

- The Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators;
- An Investment Strategy (the parameters on how investments are to be managed).

b) Mid-Year Treasury Management Report:

This is primarily a progress report and updates Members on the capital position, amending prudential indicators as necessary, and whether the treasury strategy is appropriate or whether any policies require revision.

The Council has adopted a policy of presenting periodic Treasury Management progress reports to Members (either three or four monthly), and this exceeds the minimum requirement.

c) Annual Treasury Report:

This is a backward looking review and provides details of a selection of actual prudential and treasury indicators, and actual treasury operations compared to the estimates within the strategy.

1.2.4 Scrutiny

All Treasury Management reports must be adequately scrutinised before being recommended to Council, and this role is undertaken by Cabinet. The TMSS is part of the Council's Budget and Policy Framework and accordingly the Chair of the Overview and Scrutiny Committee must also be consulted. Any comments received will be taken into account before referral to Council.

In addition to the three major reports detailed above, further reports will be reported to Cabinet periodically throughout the year in line with the Revenue budget monitoring reporting cycles.

1.3 Treasury Management Strategy for 2026/27

The treasury management strategy for 2026/27 covers two main areas:

Capital issues including:

- The Council's capital expenditure plans, and the prudential indicators;
- The minimum revenue provision (MRP) policy.

Treasury management issues including:

- The current treasury position;
- Treasury indicators which limit the treasury risk and activities of the Council;
- Prospects for interest rates;

The borrowing strategy:

- The policy on borrowing in advance of need;
- Debt rescheduling;
- The investment strategy;
- The Creditworthiness policy;
- The policy on the use of external service providers.

These elements cover the requirements of the *Local Government Act 2003*, *MHCLG Investment Guidance, MHCLG MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.*

1.4 Training

The CIPFA *Treasury Management Code* requires the responsible officer to ensure that Members with responsibility for Treasury Management receive adequate training. This especially applies to Members responsible for the scrutiny of Treasury Management, ie. Cabinet.

Pages 47 and 48 of the *Treasury Management Code* state that they expect *"all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.*

The scale and nature of this will depend on the size and complexity of the organisation's treasury management needs. Organisations should consider how to assess whether treasury management staff and board/ council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/council members.
- Require treasury management officers and board/council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis."

The Chief Financial Officer will arrange training for Members as required. The Council's Treasury Management advisers, MUFG Corporate Markets (Formerly

Link Asset Services), also provide more detailed training sessions for Members as appropriate. The latest training session was held during 2025/26 and it is currently intended that a further training session will be arranged during 2026/27.

The training needs of officers involved with Treasury Management are reviewed periodically. A formal record of the training received by these officers will be maintained by the Chief Financial Officer. Similarly, a formal record of the treasury management/capital finance training received by Members will be maintained by Democratic Services.

1.5 Treasury Management Consultants

The Council uses MUFG Corporate Markets (Previously Link Asset Services) as its external treasury management advisers.

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

The Council 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 appointment and the methods by which value will be assessed are properly agreed and documented, and subjected to regular review.

The scope of the Council's investments currently includes only conventional treasury investments (the placing of residual cash from Council functions), following the withdrawal of the Commercial Property Investment Strategy which covered more commercial type investments. Commercial investment requires additional specialist advice and the Council will obtain this should it become necessary in the future.

2.1 The Capital Prudential Indicators 2026/27 to 2028/29

The Council's capital expenditure plans are the key driver of treasury management activity.

The output of the Council's capital expenditure plans is reflected in prudential indicators, which are designed to assist Members to overview and confirm such plans. The indicators for the three years 2026/27 through to 2028/29 are attached at Appendix 1 and these must be referred to Full Council for approval in accordance with the regulations.

Indicative indicators for 2029/30 and 2030/31 are also included in Appendix 1, to reflect the 5-year period of the Medium-Term Financial Plan. The purpose of this is to ensure that longer-term forecasts for capital expenditure and borrowing are fully considered, and that they can be demonstrated to be prudent and affordable. The inclusion of these indicators aligns with the Capital Programme and Capital Investment Strategy elsewhere on this agenda.

2.1.1 Capital Expenditure and Financing

The indicator includes a summary of the proposed capital expenditure plans for 2026/27 through to 2028/29, including those schemes agreed previously and those forming part of this budget cycle. The Capital Programme includes only "service-related" expenditure.

Capital Expenditure:	**2026/27 Estimate £000s**	**2027/28 Estimate £000s**	**2028/29 Estimate £000s**
Service Investment	10,194.0	4,696.0	4,562.0
Total Capital Expenditure	**10,194.0**	**4,696.0**	**4,562.0**

The table below analyses the capital expenditure plans by portfolio.

Portfolio Capital Expenditure:	**2026/27 Estimate £000s**	**2027/28 Estimate £000s**	**2028/29 Estimate £000s**
Lifestyles, Health & Well-being	2,670.0	380.0	0.0
Public Protection	2,058.4	1,400.0	1,400.0
Environmental Services	2,065.5	343.0	720.0
Climate Change and Natural Habitat	267.0	222.0	222.0
Sustainable Growth and Economy	1,056.2	1,786.0	1,655.0
Corporate Resources and Performance	2,076.9	565.0	565.0
Total Capital Expenditure	**10,194.0**	**4,696.0**	**4,562.0**

The table below summarises the above capital expenditure plans and how these are being financed by capital or revenue resources. Any shortfall of resources results in a net borrowing need (all service related).

Financing of Capital Expenditure:	**2026/27 Estimate £000s**	**2027/28 Estimate £000s**	**2028/29 Estimate £000s**
Capital Expenditure (above):	**10,194.0**	**4,696.0**	**4,562.0**
Financed by:			
Capital Receipts	707.5	125.0	125.0
Capital Grants & Contributions	4,159.8	3,336.0	3,205.0
Direct Revenue Financing	1,423.0	22.0	22.0
Net Borrowing Need	**3,903.7**	**1,213.0**	**1,210.0**

2.1.2 The Council's Borrowing Need – the Capital Financing Requirement (CFR)

The CFR represents 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 "underlying borrowing need". Any capital expenditure in the tables above, which has not immediately been paid for by way of capital receipts, grants or contributions, will increase the Council's CFR.

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

The CFR can include any other long-term liabilities, for example finance leases. Whilst these would increase the CFR, and therefore the borrowing requirement, such schemes would include their own borrowing facilities and the Council would not be required to separately borrow for them. The Council has no such schemes within its CFR.

Capital Financing Requirement (CFR)	**2026/27 Estimate £000s**	**2027/28 Estimate £000s**	**2028/29 Estimate £000s**
Closing CFR:	22,194.0	21,920.0	21,600.4
Movement in CFR within the year	**+2,556.9**	**-224.0**	**-269.6**
Represented by:			
Net financing need	+3,903.8	+1,213.0	+1,210.0
MRP	-1,346.9	-1,437.0	-1,479.6
Movement in CFR within the year	**+2,556.9**	**-224.0**	**-269.6**

The predominantly private-sector based concept of "gearing" provides an opportunity to compare the total underlying borrowing need to the Council's total fixed assets. The gearing ratio can provide an early indication where debt levels are rising relative to the long-term assets held.

The Council's treasury advisers, MUFG Corporate Markets, have analysed the balance sheets of over 200 authorities and established that average gearing is around 36% for councils similar in size to Gedling. The table below demonstrates that, on the basis of current assumptions, Gedling sits close to this average. The gearing levels are estimated to reduce even closer to the average by 2028/29, as the long term assets increase and CFR reduces.

Gearing:	**2026/27 Estimate £000s**	**2027/28 Estimate £000s**	**2028/29 Estimate £000s**
Estimated closing Long Term Assets: (Property, Plant, Equipment & Investment Assets)	51,887	55,363	58,705
Closing CFR (above)	22,194	21,970	21,700
Gearing Ratio	**43%**	**40%**	**37%**

2.1.3 Liability Benchmark

A fourth prudential indicator is the Liability Benchmark (LB). The Council is required, as a minimum, to estimate and measure the LB for the forthcoming financial year and the two following financial years.

There are four components to the LB:

- Existing Loan Debt Outstanding – The Council's existing loans that are still outstanding in future years;
- Loans CFR – Calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP;
- Net Loans Requirement – The Council's gross loan debt less treasury management investments at the last financial year end, projected into the future and based on approved prudential borrowing, planned MRP and any other major cash flow forecasts;
- Liability Benchmark (or Gross Loans Requirement) – The net loans requirement plus a short-term liquidity allowance.

The Council's estimated liability benchmark is as follows:

	2026/27 £	**2027/28 £**	**2028/29 £**
Liability Benchmark	6,464,128	5,027,155	3,547,477

The estimated liability benchmark is a positive figure due to the Council's investments being under its borrowings over the period shown.

2.1.4 Other Capital Affordability Prudential Indicators

Sections 2.1.1, 2.1.2 and 2.1.3 above cover the Prudential Indicators for overall "capital" and "control of borrowing", but within the Prudential framework additional indicators are required to further assess the affordability of the Council's capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances and are detailed below. A summary of the indicators can be found at Appendix 1.

- **Ratio of financing costs to net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs, net of investment income) against the net revenue stream.

Financing costs represent the element of the Council's budget to which it is committed even before providing any services, because they reflect the current costs of previous and planned capital financing decisions. Furthermore, if the net revenue stream falls as funding sources decline and cuts are made to expenditure, financing costs may be fixed, increasing the ratio of financing costs to the net revenue stream. If for example the ratio of financing costs to the net revenue stream is 8%, that leaves 92% with which to provide all the Council's other services. If the ratio rises to 10%, only 90% is available for services.

Estimates of financing costs include current commitments and the proposals included in the General Fund Revenue Budget report elsewhere on this agenda.

Financing costs and the net revenue stream:	2026/27 Estimate £000s	2027/28 Estimate £000s	2028/29 Estimate £000s
Net revenue stream	16,882.3	18,635.4	18,997.8
Financing costs (net)	920.4	1,310.5	1,354.1
Ratio to net revenue stream	**4.66%**	**2.61%**	**2.55%**

- **Maximum Gross Debt** - The Council must ensure that its gross debt does not, except in the short term, exceed the total of the opening capital financing requirement, plus estimates of any additional CFR for the year in question and the following two financial years. This allows flexibility for early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes. Please see 2.3.1 below.

The 2026/27 Capital Programme and Capital Investment Strategy report provides full details of the proposed capital programme. All the capital prudential indicators can be found at Appendix 1, and represent capital investment plans that have been fully factored into the Council's Medium Term Financial Plan, and are assessed as affordable, prudent and sustainable, subject to securing the commitment to delivering an efficiency programme in the medium term, as proposed in the General Fund Revenue Budget report.

Maximum Gross Debt:	2026/27 Estimate £000s	2027/28 Estimate £000s	2028/29 Estimate £000s
Opening CFR (ie. closing CFR in preceding year)	19,637.2	22,194.0	21,970.0
Additions (only) in-year + following 2 years	2,556.8	0	0
Maximum Gross Debt	**22,194.0**	**22,194.0**	**20,649.2**
Estimated total GBC debt outstanding at 31 March	10,811.6	10,811.6	10,811.6
Under/(over) borrowing	**11,382.4**	**11,382.4**	**11,382.4**

All the estimated total debt figures above relate to service-related activities.

2.2 Minimum Revenue Provision (MRP) Policy Statement

The Council is required to pay off an element of the accumulated General Fund capital spending (CFR) each year by way of a minimum revenue provision (MRP). It is also allowed to make an additional voluntary revenue provision if it so wishes

(VRP).

MHCLG regulations require the full Council to approve an MRP Statement in advance of each year. A variety of options is provided to councils, but there must be "prudent provision". The guidance does not define "prudent", instead making recommendations on the interpretation of the term. It is the responsibility of each authority to decide upon the most appropriate method of making a prudent MRP, having had regard to the guidance and its own circumstances, the broad aim being to ensure that borrowing is repaid over a period that reflects the useful lives of the assets acquired. The guidance seeks to ensure that local authorities make borrowing and investment decisions in a way that is commensurate with their statutory responsibilities, and their best value duty. The Council is obliged to have regard to the MHCLG guidance, but it is not prescriptive.

The Council is recommended to approve the following Statement for 2026/27:

MRP Statement 2026/27

a. The Council will assess MRP in accordance with the recommendations within the guidance issued under *section 21(1A) of the Local Government Act 2003*.

b. The CFR method will be used for calculating MRP in respect of all capital expenditure incurred up to and including 31 March 2008. This is the simplest approach available, being calculated as a straightforward 4% of the relevant element of the CFR at the end of the previous year. In the current economic climate, the Chief Financial Officer considers that use of the CFR Method is prudent.

c. The Asset Life Method will be used for calculating MRP in respect of all capital expenditure incurred on and after 1 April 2008. From 1 April 2019 an annuity approach has been adopted in making this calculation, allowing for a slightly lower MRP charge in the early years than under the previously used equal instalment approach. This is considered prudent because it better reflects the time value of money, whereby £100 paid ten years hence represents less of a burden than paying £100 today.

d. The Chief Financial Officer will determine estimated asset lives. Where expenditure of different types is involved, it will be grouped together in a manner which best reflects the nature of the main component of expenditure. It will only be divided up in cases where there are two or more major components, with significantly different asset lives.

e. MHCLG guidance provides that any charge made over and above the statutory MRP, ie. a voluntary revenue provision (VRP) or "overpayment", can be reclaimed in later years if deemed necessary or prudent, providing the cumulative overpayment made to date is disclosed in this policy statement. In view of the economic climate and significant budgetary pressures, the Council will not provide for an additional voluntary contribution to MRP in 2026/27, and neither has it done so in previous years.

f. Based on the above policy, the net MRP charge for 2026/27 has been calculated as **£1,346,872** as detailed below, and this sum has been included in the Council's 2026/27 budget proposals. The exact amount of MRP will be subject to change should capital financing decisions alter during the year.

Minimum Revenue Provision (MRP)	**2026/27 £s**
CFR Method - up to 31 March 2008	166,122
Asset Life Method (annuity approach) - from 1 April 2008	1,180,750
Total MRP	**1,346,872**

MHCLG conducted a consultation on amending MRP regulations and guidance for England. These changes came into force from April 2025.

2.3 Treasury Strategy 2026/27 - Borrowing and Investment

The capital expenditure plans set out above provide details of the Council's service activity. The Treasury Management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this activity. This will involve both the organisation of the cash flow and, where necessary, the organisation of approporiate borrowing facilities. The Treasury Strategy covers the relevant treasury indicators, the current and projected debt positions and the annual investment strategy.

2.3.1 Projected Portfolio Position

The Council's forward projection on its treasury portfolio position is summarised below. This shows the projected external debt, ie. the treasury management operations, against the underlying total capital borrowing need, ie. the Capital Financing Requirement (CFR), highlighting any expected over or under borrowing.

Projected Gross Debt compared to CFR	**2026/27 Estimate £000s**	**2027/28 Estimate £000s**	**2028/29 Estimate £000s**
Estimated Debt 1 April	10,811.6	10,811.6	10,811.6
Estimated change in debt	0.0	0.0	0.0
Other long-term liabilities	0.0	0.0	0.0
Estimated Gross Debt 31 March	**10,811.6**	**10,811.6**	**10,811.6**
Estimated Closing CFR	22,194.0	21,970.0	21,700.4
Under/Internal / (Over) borrowing	**11,382.4**	**11,158.4**	**10,888.8**
Internal borrowing as % of estimated closing CFR	**45%**	**45%**	**40%**

Under-borrowing represents the extent of the Council's "internal borrowing" position, ie. the use of reserves and balances that are being used as a short-term alternative to taking external debt. This represents the Council's exposure to interest rate movements (whilst internal balances are used, PWLB rates may rise) and the element of borrowing that is being undertaken at variable rates (ie. rates equivalent to lost investment income).

Balance sheet reviews undertaken by MUFG have established that the average level of internal borrowing is around 20%. The table above shows that Gedling's ratio is estimated to be between 40% and 45% over the next three years, which benefits the Council as it lessens the risk of interest rate movements.

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. As detailed at 2.1.4 above, to comply with the "gross debt" indicator, the Council must ensure that its gross debt does not, except in the short term, exceed the total of the closing CFR in the preceding year plus the estimates of any additional CFR for 2026/27 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 for speculative purposes.

The Chief Financial Officer can report that the Council has complied with this prudential indicator during the current year, 2025/26, and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

2.3.2 Treasury indicators – affordability limits to borrowing (Appendix 1)

a. The Operational Boundary for external debt

This is the limit which external debt is not "normally" expected to exceed. In most cases, this would be a similar figure to the CFR, but it may be lower or higher depending on the levels of actual debt.

b. The Authorised Limit for external debt

This is a key prudential indicator and represents a control on the "maximum" level of borrowing. It is the statutory limit determined under s3 (1) of the Local Government Act 2003 and represents the limit beyond which external debt is prohibited. The Authorised Limit must be set, and revised if necessary, by Full Council. It reflects a level of external debt which, while not desirable, could be afforded in the short term, but is not sustainable in the longer term. The Government retains an option to control either the total of all Councils' plans, or those of a specific Council, although this power has not yet been exercised.

2.3.3 Prospects for Interest Rates

The Council's Treasury Management advisors MUFG Corporate Markets have assisted the Council to formulate a view on interest rates. The following table and commentary gives the latest MUFG forecast at December 2025 and reflect PWLB "certainty rates" for which the Council qualifies. Further information on interest rates can be found at Appendix 2.

MUFG Corporate Markets Interest Rate View 22.12.25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28	Mar-29
BANK RATE	3.75	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	3.80	3.50	3.50	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	3.80	3.50	3.50	3.40	3.30	3.30	3.30	3.40	3.40	3.40	3.40	3.40	3.40
12 month ave earnings	3.90	3.60	3.60	3.50	3.40	3.50	3.50	3.50	3.50	3.50	3.60	3.60	3.60
5 yr PWLB	4.60	4.50	4.30	4.20	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10
10 yr PWLB	5.20	5.00	4.90	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60	4.60	4.70
25 yr PWLB	5.80	5.70	5.60	5.50	5.50	5.40	5.30	5.30	5.30	5.20	5.20	5.20	5.20
50 yr PWLB	5.60	5.50	5.40	5.30	5.30	5.20	5.10	5.10	5.10	5.00	5.10	5.00	5.00

MUFG's forecast for interest rates shows that the Bank Rate will see a further reduction to 3.5% by June 2026 and falling to 3.25% by December 2026 and will remain at that level.

Significant downside risks to the forecasts include:

- Labour and supply shortages proving more enduring and disruptive and depressing economic activity;
- The MPC acting against the forecast and freezing or increasing the Bank Rate, causing United Kingdom economic growth to be weaker than currently anticipated;
- United Kingdom/European Union trade arrangements – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in resolving significant remaining issues;
- Geopolitical risks such as, for example, the situation in Ukraine and Russia leading to increasing flows to safe havens.

Significant upside risks to the forecasts include:

- The MPC acting against the forecast and decreasing the Bank Rate, thereby enabling faster economic growth;
- The Government acting too quickly to cut taxes and/or increase expenditure in response to the cost of living crisis;
- The pound weakening because of a lack of confidence in the Government's fiscal policies and leading to investors pricing in a risk premium for holding United Kingdom sovereign debt;
- Long term United States treasury yields rising strongly and pulling gilt yield up higher than currently forecast;
- Projected gilt issues being too much for the market comfortably digest without higher yields.

2.3.4 Borrowing Strategy 2026/27

The Council is currently maintaining an under-borrowed position (see 2.3.1 above). This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This represents “internal borrowing”. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy.

As always, against this background and the risks within the economic forecast outlined above, and the potential cost of carrying debt, caution will be adopted with the 2026/27 treasury operations. The Chief Financial Officer 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 long and short term rates (e.g. due to a marked increase of risks around a relapse into recession, or a risk of deflation), then long term borrowing will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- If it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the UK and US, an increase in world economic activity or a sudden rise in inflation risk, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any new borrowing will be discussed with MUFG, and any decisions will be reported to Cabinet at the next available opportunity. The Council is currently closely reviewing it’s borrowing in requirements for 2026/27 and future years.

2.3.5 Policy on Borrowing in Advance of Need

The Council will not borrow more than, or in advance of, its needs purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance of need will be within the forward-approved CFR estimates and will be considered carefully to ensure value for money can be demonstrated, and that the Council can ensure the security of such funds.

In determining whether borrowing will be undertaken in advance of need, the Council will ensure that there is a clear link between the capital programme and the maturity profile of the existing debt portfolio which supports the need to take funding in advance of need. It will ensure that the on-going revenue liabilities created, and the implications for future plans and budgets have been considered and evaluate the economic and market factors that might influence the manner and timing of any decision to borrow. The advantages and disadvantages of alternative forms of funding will be considered, together with the most appropriate periods over which to fund.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

2.3.6 Debt Rescheduling

Reasons for rescheduling to be considered include:

- The generation of cash savings and / or discounted cash flow savings;
- Helping to fulfil the Treasury Strategy;
- Enhancement of the portfolio balance (amend the maturity profile and/or the balance of volatility).

When the current day PWLB rate for the same term is higher than that being paid on an existing loan there is the potential for a discount to be available if the loan is repaid prematurely.

MUFG will advise on the availability and merit of any rescheduling opportunities and any rescheduling will be reported to Cabinet at the earliest meeting following action.

2.3.7 New Financial Institutions as a Source of Borrowing

Currently the PWLB certainty rate is set at gilts plus 80 basis points, however consideration may be given to alternative sources of funding, including:

- Local authorities (primarily shorter dated maturities);
- Financial institutions (primarily insurance companies and pension funds but also some banks);

The extent to which these funding options may prove cheaper than PWLB would be subject to comparison at the appropriate time. The Council may make use of these sources of borrowing if appropriate, but only following advice from MUFG.

2.3.8 Annual Investment Strategy 2026/27

a. Investment Policy – management of risk

MHCLG and CIPFA have extended the meaning of "investments" to include both financial (placement of surplus cash) and non-financial (primarily for financial return, i.e.. commercial) investments. The TMSS report deals solely with financial investments managed by the Treasury Management team. Non-financial investments such the purchase of income-yielding assets and service investments are managed by the Property Services team and are covered in the Capital Strategy.

The Council's investment policy has regard to:

- MHCLG's *Guidance on Local Government Investments* ("the Guidance");

- CIPFA *Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021* ("the CIPFA TM Code");
- CIPFA *Treasury Management Guidance Notes 2021*.

The Council's investment priorities will be security first, portfolio liquidity second, and then yield (return).

The MHCLG and CIPFA guidance places a high priority on the management of risk. The Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

i. Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus the avoidance of "concentration risk". The Council utilises the MUFG Creditworthiness Methodology, whereby banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications. The Council has clearly stipulated its creditworthiness policy at 2.3.8 (b) below.

ii. Ratings will not be the sole determinant of the quality of an institution, as it is important to continually assess and monitor the financial sector 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, and the Council will engage with its treasury advisers to maintain a monitor on market pricing.

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

iv. The Council has defined the types of financial investment instruments that are authorised for use and these are classified as either "Specified Investments" or "Non-Specified Investments" (see Appendix 3):

- **Specified Investments** are those with a high level of credit quality, subject to a maximum maturity limit of one year (365 days), and not defined as capital expenditure. Only minimal reference is given to specified investments in the Annual Investment Strategy, and they will generally be used for cash-flow management.

- **Non-Specified Investments** are all those not meeting the criteria for specified investments above, i.e.. those with a lower credit quality, for periods in excess of one year (365 days), or more complex instruments, e.g. property funds, which require greater consideration by Members and officers before being authorised for use. Once an investment is classified as non-specified it remains non-specified through to maturity, i.e. an 18-month deposit would still be a non-specified investment even when it had only 11 months left until maturity. If used, non-specified investments will tend to be used for the longer-term investment of core balances.

Appendix 3 also sets out:

- The advantages and associated risk of investments under the non-specified category.
- The upper limit to be invested in each non-specified category.
- Those instruments best used only after consultation with the Council's treasury advisers.

v. Investment counterparty limits for 2026/27 will generally be **£3m** per individual counterparty. A current higher limit of **£4m** per Money Market Fund is in place and was considered prudent since such funds are already by definition highly diversified investment vehicles. It is proposed that the Money Market Fund limits are now increased to **£5m** for 2026-27, this will allow additional flexibility with investments, particularly if a large, expected capital receipt is received from the sale of land.

A limit of **£4m** currently applies to **Santander**, which offers the Council preferential rates on its 35, 95 and 180-day notice accounts, and has to give 60 days of notice of any change (other than Bank Rate changes). The MUFG methodology indicates that investments for up to 6 months are appropriate.

A limit of **£4m** also currently applies to **CCLA**, represented by a maximum of £3m in the Public Sector Deposit Fund (PSDF) money market fund, plus £1m in the Local Authorities Property Fund (LAPF) property fund.

No limit is placed on deposits with the **Debt Management Office (DMO)**, since these represent lending to the UK Government.

The CFO has delegated authority to amend investment limits as they see fit and will report any such amendments to Cabinet for information as part of the next quarterly Treasury Management Report following the change.

Regarding the Council's own banker, HSBC, for transactional purposes if the bank was to fall below the standard creditworthiness criteria below, cash balances would be minimised both in monetary size and in duration of deposit.

vi. The Council will set a limit on the amount of its investments placed with an initial term longer than one year (365 days).

vii. Investments will only be placed with approved counterparties from the UK, or those from other countries with a minimum sovereign rating (see Appendix 4).

viii. The Council has engaged external consultants (see para 1.5) to provide expert advice on how to optimise the appropriate balance of security, liquidity and yield

– given the risk appetite of the Council in the context of the expected level of cash balances and the need for liquidity throughout the year.

ix. All investments will be denominated in sterling.

x. As a result of a change in accounting standards for 2022/23 under IFRS9, whereby movements in the value of investments are charged immediately to the revenue accounts, the Council have considered the implications of investment instruments that could result in an adverse movement in the value of the amount invested, and resultant charges to the General Fund at the end of the year.

In November 2018, MHCLG concluded its consultation on a temporary override to allow English authorities time to adjust their portfolio of pooled investments by announcing a statutory override to delay the implementation of IFRS9 for 5 years commencing 1 April 2018 and ending on 31 March 2023. This was extended to 31 March 2025 and then a further extension was applied to 31 March 2029 and has the effect of allowing any unrealised capital gains or losses arising from qualifying investments to be held on the balance sheet until 31 March 2029.

The Council has an investment of £1m in the CCLA Property Fund which is subject to the statutory override. If the override is not extended past 31 March 2029, then all movements in the capital value of this investment, both positive and negative, will have to be charged to the General Fund, creating volatility which is a risk that will have to be carefully managed.

The initial value of the Council's £1m investment in the CCLA Property Fund in December 2017 was £0.937m. The latest value as at 31 December 2025 is £0.895m. However, this investment is regarded as a long-term commitment and fluctuations are expected. It must be noted that the Council still receives dividend payments of circa £38k per year into revenue from this investment.

An earmarked reserve has been set aside to mitigate the risk to the General Fund.

xi. The Council will pursue value for money in Treasury Management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

b. Creditworthiness Policy

To reiterate, the primary principles governing the Council's creditworthiness criteria are:

- Security of capital – the categories of investment instruments to be used (specified and non-specified) are set out at Appendix 3.

- Liquidity of capital – regular cashflow monitoring determines the optimum period for which funds may be prudently committed at any particular time, and the creditworthiness methodology below determines the maximum time for which funds may be prudently committed with individual counterparties;
- Return on investment (yield).

i. Counterparty selection:

The Chief Financial Officer maintains a “counterparty list” and this is monitored constantly. The CFO has delegated authority to amend the minimum criteria as they see fit and will report any such amendments to Cabinet for information as part of the next quarterly Treasury Management Report following the change.

The Council applies the creditworthiness methodology provided by MUFG for the selection of investment counterparties. This employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies (Fitch, Moody’s and Standard & Poor). The credit ratings of counterparties are supplemented with overlays for:

- Credit watches and credit outlooks from rating agencies.
- Credit default swap (CDS) spreads which give early warnings of likely changes in credit ratings.
- Sovereign ratings to select counterparties from only the most creditworthy countries.

The MUFG modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the output is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested maximum duration of investments with a given counterparty. The colour bandings used by MUFG and the Council are as follows:

- Yellow 5 years (UK government debt or its equivalent)
- Dark pink 5 years for Ultra Short Dated Bond Funds (credit score 1.25)
- Light pink 5 years for Ultra Short Dated Bond Funds (credit score 1.50)
- Purple 2 years
- Blue 1 year (nationalised or semi nationalised UK banks only)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

The MUFG creditworthiness service uses a wider array of information than just “primary” ratings. Furthermore, by using a risk weighted scoring system it does not place undue reliance on one agency’s rating. All credit ratings are monitored weekly, the Council is also alerted to interim changes via its use of the MUFG creditworthiness online service. If a downgrade deems counterparties no longer acceptable, their use for new investments will be withdrawn immediately.

Ratings under the MUFG methodology will not necessarily be the sole determinant for the use of a counterparty. Other information sources used will include market data, the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

ii. Ringfencing:

Ringfencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail deposits from investment banking in order to improve resilience. In general, ringfenced banks will focus on lower risk day to day core transactions, whilst more complex and riskier activities will be the domain of an entirely separate non-ringfenced bank. Whilst the structure of banks included in this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the newly formed entities under the MUFG creditworthiness methodology.

iii. Property Funds:

Property Funds are not credit-rated, due to their diverse portfolios and structures. There are inherent risks associated with Property Fund investment in that the capital value is not guaranteed, and past dividend performance is not a guarantee of future returns. Investments should therefore be made with a time horizon of at least five years, to accommodate potential reductions in property values in the short to medium term. Evidence from recent years suggests that over time, property has been a positive long-term investment, however the market is undeniably cyclical, and investing for less than five years, may pose a significant risk.

The timing of property fund investments represents some degree of risk both in terms of the dividend and the capital sum. The key unknown is the future performance relative to the risk. If an investment is made at or near the bottom of a cycle, significant benefits might accrue from subsequent upturn, with rising dividends and increasing capital value. Conversely, should the cycle turn downwards for a significant proportion of the investment period, dividends might be lower than would be acceptable given the additional risks taken, and the capital sum returned might be **less** than that originally invested – see 2.3.8(a)(x).

Property is not a liquid asset, and it can take time to realise an investment. A 90-day notice period for redemptions from the CCLA LAPF was introduced during 2020 following the temporary suspension of the fund due to the Covid-19 pandemic. This was done to align the dealing terms of the fund with the liquidity of the underlying assets, and to ensure resilience during periods of market stress.

Whilst Property Funds must hold a proportion of their assets as cash, in practice there may be a delay whilst assets are sold to realise the cash with which to make a redemption payment. Investment in Property Funds should be from core cash that is not likely to be required for at least five years, and even then not on demand.

iv. Country limits:

The Council will use approved **UK** counterparties subject to their individual credit ratings under the MUFG methodology (see above). The Council **may** also use approved counterparties from countries with a minimum sovereign credit rating of **AA minus**. No more than **£3m** will be placed with **each** non-UK country at any time. The list of countries that currently qualify is shown at Appendix 4, however this list will be adjusted by officers in accordance with this policy should ratings change. The CFO has delegated authority to amend the minimum sovereign credit rating as they see fit, and will report any such amendment to Cabinet for information as part of the next quarterly Treasury Management Report following the change.

***The ultimate decision on what is prudent and manageable for the Council will be taken by the Chief Financial Officer under the approved scheme of delegation*.**

c. Investment Strategy

The Council's in-house managed funds are mainly cash-flow derived however, there has for some time been a core balance available for investment over a longer period if appropriate.

If it is thought that Bank Rate is likely to rise significantly within the relevant time horizon, consideration will be given to keeping most investments short term or variable. Conversely, if it is thought that Bank Rate is likely to fall, consideration will be given to locking in to the higher rates currently obtainable for longer periods.

As discussed at 2.3.3 above MUFG forecast that the bank rate will remain at 3.75% until June 2026, falling to 3.5% and then a further reduction to 3.25% by December 2026. MUFG consider that it is prudent to assume investment earnings from market-related instruments up to around 3 months will be approximately 3.75% for 2026/27 before falling later in the year. The Council's investment interest estimate for 2026/27 is currently based on the investment income received in 2025/26 and assumptions on the bank rates and projected investment earnings. Any returns are based on a mixture of short term deposits offering slightly better returns, and money market funds for liquidity. These will be kept under review.

Investments will be made with careful reference to any remaining core balance, to cash-flow requirements, and to the outlook for short-term interest rates (ie. for investments up to 365 days).

For its cashflow generated balances, the Council will seek to utilise its money market funds, notice accounts and short dated deposits in order to benefit from the compounding of interest.

An Investment treasury indicator and limit must be set for the total principal funds invested for periods in excess of one year (365 days) in the forthcoming and two subsequent years (ie. new non-specified investments). The limit for each year is set with regard to the Council's liquidity requirements. As at 3 February 2025 the Council's **total** non-specified investment is £1,000,000 - represented by the £1,000,000 investment in the CCLA property fund.

The treasury indicator and limit for new non-specified investments to be made in each of 2026/27, 2027/28 and 2028/29 is **£3m**, as detailed at Appendix 1 (treasury indicators) however this is subject to an overall limit of **£5m** for the total non-specified investments held by the Council at any one time (see Appendix 3). The overall individual counterparty limit of **£3m or £4m** (see 2.3.8 (v) above, revision to **£5m** for Money Market Funds) also applies, including both specified and non-specified investments.

In accordance with the CIPFA *Treasury Management Code 2021*, a statement in the TMSS stating how interest rate exposure is managed and monitored is required, and this is set out below:

"The Council has a general preference for fixed rate borrowing in order to minimise uncertainty and ensure stability in the charge to revenue, however it is acknowledged that in certain circumstances, some variable rate borrowing may be prudent, for example if interest rates are expected to fall. The Council's investments are generally for cashflow purposes and accordingly a mix of fixed and variable rates will be used to maximise flexibility and liquidity. Interest rate exposure will be managed and monitored on a daily basis by the Chief Financial Officer."

d. Investment risk benchmarking

Publication of official LIBOR (and related LIBID) calculations ceased on 31 December 2021. The Council now uses Sterling Overnight Index Average (SONIA) rates to benchmark its own equated investment rate. These are the risk-free rates for sterling markets administered by the Bank of England, and are the official rates. MUFG provides SONIA rates in its regular reporting templates and advice will be sought as to the most appropriate benchmark rate.

e. Investments defined as capital expenditure

The acquisition of share capital or loan capital in a body corporate is defined as capital expenditure under *regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003*. Such investments will have to be funded out of capital or revenue resources and will be classified as non-specified investments.

A loan or grant or financial assistance by this Council to another body for capital expenditure by that body will be treated as capital expenditure.

Investments in Money Market Funds, which are collective investment schemes, and bonds issued by "multilateral development banks", both defined in *SI 2004 No 534*, will not be treated as capital expenditure.

f. Provision for credit-related loss

If any of the Council's investments appear to be at risk of loss due to default, this is a "credit-related loss" and not a loss resulting from a fall in price due to movements in interest rates. In such an instance, the Council will make revenue provision of an appropriate amount.

g. End of Year Investment Report

At the end of the year, the Council will report on its investment activity as part of its Annual Treasury Report.

h. Policy on the use of external service providers

The Council uses MUFG as its external Treasury Management advisers, however it recognises that responsibility for Treasury Management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon the external service providers.

The Council 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.

i. Environmental, Social and Governance (ESG) considerations

The ESG agenda is becoming a major focus for local authorities. While around two thirds of councils have declared a "climate emergency", this has not yet led to the inclusion of anything more formal within treasury-related investment strategies, ie the TMSS.

The *Treasury Management Code* suggests that the credit and counterparty policies for an organisation like the Council *"should set out its policy and practices relating to ESG investment considerations. This is still a developing area, and it is not implied that the organisation's ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level".*

The CIPFA *Treasury Management Code 2021* also goes on to state that *"ESG issues are increasingly significant for investors and investment managers. This is better developed in equity and bond markets than for short-term cash* *deposits, and there is a diversity of market approaches to ESG classification and analysis. This means that a consistent and developed approach to ESG for public service organisations is currently difficult. Organisations are therefore recommended to consider their credit and counterparty policies in light of ESG information and develop their own ESG investment policies and treasury management practices consistent with their organisation's own relevant policies, such as environmental and climate change policies."*

MUFG view is that the most important issue is ensuring that there is a clear understanding of what "environmental, social and governance (ESG)" investment considerations **mean**. It is about understanding the ESG "risks" that an entity like the Council is exposed to, and evaluating how well it manages those risks, as all entities will be subject to them to some extent. ESG is **not** the same as Socially Responsible Investing, (typically where "negative screens" are applied to investment counterparties), and equally, it is **not** the same as Sustainable Investing, (investing in products or companies based on expected sustainable and beneficial societal impact, alongside a financial return).

There is huge potential for misunderstanding, and this could have material unintended consequences, i.e.. <u>limiting</u> the Council's potential counterparty options and thus <u>decreasing</u> diversification. This could then lead to the Council widening its credit criteria to take on more names, or those with a stronger ESG performance, which could then <u>increase</u> credit risk - which would place its cornerstone of "prudent investing" at risk.

Many local authorities can, or already do, take ESG considerations into account via the use of ratings from credit rating agencies. All the agencies now stress how they incorporate ESG risks <u>alongside</u> more traditional financial risk metrics when assessing counterparty ratings. The Council uses the MUFG creditworthiness service which is a sophisticated model including data from all three major agencies, and therefore <u>does</u> take ESG considerations into account to some extent.

ESG risks are about potential impact on an entity's enterprise value - the "G" (Governance) is the most important factor when considering treasury investments, the majority of which will be shorter-term in nature. This is because poor governance can have a more immediate impact on the financial circumstances of an entity, and the potential for a default event that would impact the amount the local authority receives back from its investments. Those financial institutions that are viewed as having poor or weak corporate governance are generally less well rated in the first instance or have a higher propensity for being subject to negative rating action. So, this element of ESG is of high importance to an investor that is following investment guidance with the security, liquidity and yield (SLY) principle at its core. Environmental and social factors are also important, but more for the long-term impact, <u>unless</u> an authority is specifically going down the "impact" or "sustainable" type investment route - and there are not many options for that in respect of short-term investments.

MUFG emphasise the use of SMART (specific, measurable, appropriate, realistic and timely) criteria in investment decisions. This approach seems more relevant than ever in view of perceived weaknesses in the ability of many fund managers to accurately report on the degree to which their funds or products are ESG compliant.

MUFG continues to look at ways in which these factors can be incorporated into its creditworthiness assessment service. However, the lack of consistency, as well as uncertainty as to how the *Treasury Management Code* may develop TMP1, means that they continue to review the options and will update clients as progress is made. MUFG's advice is therefore that it is not practicable to include ESG into its TMSS template for 2026/27 at the current time.

2.3.9 Gedling Borough Council scheme of delegation

Full Council is responsible for:

- Receiving and reviewing reports on Treasury Management policies, practices and activities.
- Approval of the annual Strategy (TMSS);
- Annual budget approval.

Cabinet is responsible for:

- Approval of, and amendments to, the Council's adopted clauses, Treasury Management Policy Statement and Treasury Management Practices.
- Budget consideration and virement approval.
- Approval of the division of responsibilities.
- Receiving and reviewing regular Treasury Management monitoring reports (the scrutiny role), and acting on recommendations.

Audit Committee is responsible for:

- Reviewing the Treasury Management policy and procedures and making recommendations to the responsible body through the Internal Audit process.

2.3.10 The role of the Section 151 Officer (Chief Finance Officer)

The role of the Section 151 (responsible) Officer includes the following:

- Recommending clauses, Treasury Management Policy and Practices for approval, reviewing these regularly and monitoring compliance.
- Submitting regular Treasury Management policy reports.
- Submitting budgets and budget variations;
- Receiving and reviewing management information reports.
- Reviewing the performance of the Treasury Management function.

- Ensuring the adequacy of Treasury Management resources and skills, and the effective division of responsibilities within the Treasury Management function.
- Ensuring the adequacy of internal audit, and liaising with external audit.
- Approving the selection of external service providers and agreeing terms of appointment.

The above list of the specific responsibilities of the Section 151 Officer as set out in the CIPFA *Treasury Management Code 2021* are as per the 2017 Code. However, implicit in the changes to both the CIPFA *Prudential and Treasury Management Codes* was a major extension of the function of the Section 151 Officer role, especially in respect of non-financial investments (which CIPFA has defined as being part of treasury management). The Section 151 officer role is also now responsible for:

- Preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management over a long-term timeframe.
- Ensuring that the capital strategy is prudent, sustainable and affordable in the long term, and provides value for money.
- Ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority.
- Ensuring that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing.
- Ensuring the proportionality of all investments so that the authority does not undertake a level of investment which exposes it to an excessive level of risk compared to its financial resources.
- Ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities.
- Provision to Members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees.
- Ensuring that Members are adequately informed and understand the risk exposure taken on by the authority.
- Ensuring that the authority has adequate expertise, either in-house or externally provided, to carry out any non-financial investments.
- The creation of Treasury Management Practices which specifically deal with how non-financial investments will be carried out and managed.

3. Alternative Options

An alternative option is to fail to present a Treasury Management Strategy Statement (TMSS), however this would contravene the requirements of the relevant Regulations.

4. Financial Implications

As set out throughout this report.

5. Legal Implications

To comply with the requirements of the *Local Government Act 2003*, the CIPFA *Prudential Code*, MHCLG *MRP guidance*, the CIPFA *Treasury Management Code* and the MHCLG *investment guidance*, the Council is required to have a strategy as set out in this report.

6. Equalities Implications

There are no equalities implications arising from this report.

7. Carbon Reduction/Environmental Sustainability Implications

These are set out in paragraph 2.3.8 under the heading "Environmental, Social and Governance (ESG) considerations.

8. Appendices

1. Prudential and Treasury Indicators 2026/27 through to 2028/29 for approval, and Indicative Indicators for 2029/30 and 2030/31.
2. Interest rate forecasts.
3. Specified and non-specified investments.
4. Approved countries for investment.
5. Treasury Management Principles (TMPs)

9. Background Papers

None identified.

10. Reasons for Recommendations

To comply with the requirements of the *Local Government Act 2003*, the CIPFA *Prudential Code*, MHCLG *MRP guidance*, the CIPFA *Treasury Management Code* and MHCLG *investment guidance*.

Statutory Officer approval:

Approved by: Chief Financial Officer

Date: **11** February 2026

Approved by: Monitoring Officer

Date: **11** February 2026