

Meeting of:	<b>Governance and Audit Committee</b>
Date of Meeting:	<b>Monday, 23 February 2026</b>
Relevant Scrutiny Committee:	Resources Scrutiny Committee
Report Title:	Treasury Management and Investment Strategy 2026/27 and Update for 2025/26
Purpose of Report:	To provide an interim report on the Council's Treasury Management operations for the period 1st April to 31st December 2025 and to submit for consideration the proposed 2026/27 Treasury Management and Investment Strategy and Treasury Management Policy
Report Owner:	Report of the Director of Corporate Resources
Responsible Officer:	Head of Finance/Section 151 Officer
Elected Member and Officer Consultation:	None
Policy Framework:	This is a matter for Executive decision by Cabinet and for referral to Full Council for Approval
<p>Executive Summary:</p> <ul style="list-style-type: none"> <li>This interim report provides an update on the Council's Treasury Management operations for the period 1st April to 31st December 2025 with updated prudential and treasury indicators set out at Appendix 1 including estimates for other long term liabilities as part of the IFRS16 leasing standard.</li> <li>The report also outlines the proposed 2026/27 Treasury Management, Annual Minimum Revenue Provision and Investment Strategy set out in Appendix 2.</li> <li>All activities undertaken in 2025/26 were in accordance with the Council's approved strategy on Treasury Management.</li> </ul> <p><b>Technical Changes</b></p> <ul style="list-style-type: none"> <li>IFRS16 which is the accounting standard that brings the assets and liabilities associated with the Council's lease assets on to the balance sheet was implemented on the 1<sup>st</sup> April 2024. This continues to be incorporated into the performance indicators for 2025/26 and the Treasury Management, Minimum Revenue Provision and Investment Strategy 2026/27.</li> </ul>	

### **Borrowing Strategy and Position**

- Total external borrowing as of the 31st of December 2025 was £178.872M at an average rate of 4.35%.
- New external borrowing totalling £11.000M was borrowed from the Public Works Loan Board (PWLB) during the first 9 months of 2025/26, £5.000M at a rate of 4.68% which utilised the special project rate for Housing Revenue Account schemes and £6.000m at an average 4.56% certainty rate.
- An additional £3.5 million was borrowed from a Local Authority at an interest rate of 4.30% for a term of one year.

### **Investment Strategy and Position**

- The Council invested with the Debt Management Deposit Facility, Local Authorities, Money Market Funds and a Lloyds Bank Call Account. Total investments as of the 31st of December 2025 stood at £51.650M at an average rate of 4.15% over the nine-month period.

### **Treasury Management Strategy 2025/26**

- The Council must ensure that the Prudential Code is complied with, which has been developed and written by CIPFA as a professional code of practice, last published in December 2021. To demonstrate that the Council has fulfilled these objectives, when preparing the annual strategy, the Code sets out a list of Prudential and Treasury indicators that should be calculated together with other factors that must be considered. These indicators are in the body of the Strategy out at Appendix 2.
- The Council also has a legal requirement to comply with the Welsh Government Guidance on Investments and has taken this guidance into consideration when developing the Strategy.
- New Borrowing in the period to 2026/27 to 2030/31 is expected to be £261.098M for new Capital Expenditure, and a further £45M of borrowing to replace maturing loans and reflect the Council's reducing ability to internally borrow over the period.
- Capital expenditure when financed by long term debt incurs two elements of cost, interest and repayment of the principal sum borrowed. The resources the Council must put aside in each year to repay the principal sum borrowed is known as Minimum Revenue Provision (MRP) and the Council's policy for the calculation is detailed in the report.
- This is the draft Treasury Management Strategy, budget consultation on the Capital Programme Proposals is currently being undertaken and therefore any revision to the programme resulting from the consultation will necessitate changes to the final Treasury Management Strategy presented to Cabinet 26th February 2026.

## Recommendations

1. That Committee is recommended to note the Treasury Management interim report for the period 1st April to 31st December 2025.
2. That Committee is recommended to note the policy for making Minimum Revenue Provision in 2026/27.
3. That Committee is recommended to note the proposed 2026/27 Treasury Management and Investment Strategy including the following specific resolutions (detailed in Appendix 2).
  - The Authorised Limit for External Debt be set at £265.800M for 2025/26, £308.472M for 2026/27, £370.857M for 2027/28 and £435.486M for 2028/29.
  - The Operational Boundary for External Debt be set at £237.168M for 2025/26, £278.201M for 2026/27, £339.237M for 2027/28 and £402.998M for 2028/29.
  - The Section 151 Officer be given delegated authority within the total Authorised Limit and Operational Boundary as estimated for individual years to effect movement between the separately agreed limits for borrowing and other long-term liabilities.
  - An upper limit of £0M for 2025/26, £10M in 2026/27, £10M in 2027/28 and £10M in 2028/29 is set for total principal sums invested for over 364 days.
  - The amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate be set as shown below and further detailed in appendix 1.

**Table 1 – Upper and lower Limits for fixed rate borrowing**

	Upper Limit	Lower Limit
Under 12 months	20%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	40%	0%
10 years and above	100%	0%

- Any breaches of the Prudential Indicators will be reported through to the next meeting of Cabinet, with the exception of the Authorised Limit for External Debt which would require prior Council approval.
4. That Committee is recommended to note the Prudential Indicators set out in Appendix 1 and 2.

## **Reasons for Recommendations**

1. To present the Treasury Management Interim Report.
2. To agree the basis of the Minimum Revenue Provision calculation for 2026/27 onwards.
3. In order for the Treasury Management and Annual Investment Strategy as prepared be considered as required by the Local Government Act 2003.
4. In order for the Prudential Indicators set out in Appendix 1 and 2 to be considered.

## **1. Background**

### **Capital Strategy**

- 1.1 The Council is required to operate a balanced budget, which broadly means that cash income raised during the year will meet cash expenditure. A key function 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 with minimum risk counterparties in various financial instruments commensurate with the Council's low risk appetite, providing security and adequate liquidity initially before considering investment return.
- 1.2 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 to do so, any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.3 The contribution the Treasury Management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity to meet spending commitments as they fall due, either for 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 General Fund Balance.
- 1.4 The Welsh Government provides the Council with a General Capital Funding Grant, and the Council is also advised of a level of borrowing that Welsh Government is prepared to fund via the Revenue Support Grant Settlement (supported borrowing). If the Council wishes to borrow more than this level to increase its capital expenditure, then it can. However, it will either fund the additional costs of borrowing through revenue savings in other services or increases in Council Tax.

**1.5** To manage this increased flexibility, Part 1 of the Local Government Act 2003 requires local authorities to have regard to the Prudential Code, which has been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) as a professional code of practice.

**1.6** The key objectives of the fully revised Prudential Code are to ensure that:

- The capital investment plans of local authorities are affordable;
- All external borrowing and other long-term liabilities are within prudent and sustainable levels; and
- Treasury management decisions are taken in accordance with professional good practice.

The key objectives of the revised Treasury Management Code are to meet the need of Local Authorities to provide a clear definition of the treasury activities. The update reflects the changes in an increasingly complex environment and regulations, increasing the need for documenting and retaining knowledge and skills, as well as developing areas such as environmental, social and governance considerations.

## **2. Key Issues for Consideration**

**2.1** On 20th December 2021 CIPFA published its revised edition of The Prudential Code together with the revised Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes. The Authority formally adopted this new legislation at Full Council on 5th December 2022 Minute No 500. Together with the Welsh Government revised guidance on Local Government Investments (April 2010), the Authority is required to receive and approve as a minimum three main treasury reports each year which incorporate a variety of policies, estimates and actuals. All reports will be reviewed at Cabinet and Governance & Audit Committee before being reported to Council. These are as follows:

### **Treasury Management & Investment Strategy**

**2.2** A report presented and approved before the start of the financial year which is forward looking and covers the Authority's:

- Capital Plans (including prudential indicators)
- Minimum Revenue Provision (MRP)
- The Borrowing Strategy
- Investment Strategy

### **Mid-Year Treasury Management Report**

**2.3** A progress report which updates members on Council's treasury activities to date and to provide an opportunity to revise policy or prudential indicators if required.

## **Annual Treasury Management Report**

- 2.4** A backward-looking review report comparing actual outturn to estimates together with a selection of actual prudential and treasury indicators.
- 2.5** In addition, the 2021 revised Treasury Management Code requires the Council to implement the following all of which are addressed in either the Treasury Management Strategy, (Appendix 2) Treasury Management Policy Statement or the Capital Strategy (a separate report on the same agenda as this report).
- Calculate a liability benchmark treasury indicator to support the financing risk management of the capital financing requirement. This is shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained.
  - Include Pooled funds in the indicator for principal sums maturing in years beyond the initial budget year.
  - Prepare quarterly reporting to members. The Head of Finance/Section 151 Officer is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The s151 Officer is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and should be reported as part of the authority's integrated revenue, capital, and balance sheet monitoring.
  - Amend the knowledge and skills register for officers and members involved in the treasury management function so that it is proportionate to the size and complexity of the treasury management conducted by the Authority.
  - Address Environmental, social and governance (ESG) issues within the Authority's treasury management policies and practices
- 2.6** The proposed Treasury Management and Investment Strategy for 2026/27, is attached at Appendix 2. The Treasury Management Strategy itself covers a rolling period of three years and is intended to link into the Medium-Term Financial Planning process. The Investment Strategy covers the next financial year. The document also includes several statutory Prudential Indicators that may be used to support and record local decision making.

## **Economic Updates**

- 2.7** Economic updates and the interest rates forecast in relation to the third quarter are detailed within the Treasury Management Strategy in Appendix 2 of this report.

## **Interim Report To 31st December 2025**

- 2.8** All Treasury Management activities for the period 1st April to 31st December 2025 were in accordance with the Council's approved strategy on Treasury Management. The following table sets out the monies borrowed and repaid during the period.

**Table 2 – Actual External Loan Debt as at 31st December 2025**

Loan Type	Opening Balance	Received	Repaid	Closing Balance
	01/04/2025			31/12/2025
	£M	£M	£M	£M
PWLB	165.952	11.000	(6.016)	170.936
Local Authorities	2.000	3.500	0.000	5.500
WG Government Loans	1.050	1.000	(0.125)	1.925
Salix Loans	0.849	0.000	(0.338)	0.511
<b>Total</b>	<b>169.851</b>	<b>15.500</b>	<b>(6.479)</b>	<b>178.872</b>

- 2.9** PWLB loans are all at fixed rates of interest. The rate paid on each loan is largely dependent upon the original duration of the loan and date taken out. The average interest rate on all the Council's outstanding PWLB debt has moved over the period 1st April to 31st December 2025 from 4.38% to 4.39%.
- 2.10** New external borrowing from the PWLB totalling £11.000M was undertaken during the first 9 months of 2025/26, £6.000M at a rate of rate of 4.68% which utilised the special project rate for Housing Revenue Account schemes and £6.000M at an average 4.56% certainty rate.
- 2.11** An additional £3.500M was borrowed from a Local Authority at a rate of 4.30% for a term of 1 year.
- 2.12** Maturing Loans with the PWLB totalled £6.016M and were repaid at a rate of 4.44%.
- 2.13** Welsh Government loans consist of a Concessionary Loan of £0.500M and a Town Centre Loan of £0.550M, both advanced by the Welsh Government. Principal repayment of £0.125M has been made on the Concessionary loan during 2025/26. An additional loan of £1M has been advanced from the Welsh Government for Town Transformation.
- 2.14** Two loans are included which were advanced by Salix for £0.834M and £0.015M respectively. These have been borrowed to fund energy management schemes, primarily street lighting. Principal repayments of £0.338M have been made on these loans during 2025/26. Both loans are interest free.
- 2.15** The Council's investments for the period to 31st December 2025 are set out in the following table.

**Table 3 – Actual Investment Balance as of 31st December 2025**

Investment Counterparty	Opening Balance	Invested	Repaid (Matured)	Closing Balance
	01/04/2025			31/12/2025
	£M	£M	£M	£M
Local Authorities	2.000	46.000	(25.500)	22.500

Debt Management Office (DMO)	5.625	789.105	(787.580)	7.150
Federated Hermes MMF	6.050	3.950	(0.000)	10.000
CCLA MMF	3.150	6.850	(0.000)	10.000
Lloyds Deposit Account	0.365	17.055	(15.420)	2.000
<b>Total</b>	<b>17.190</b>	<b>862.960</b>	<b>(828.500)</b>	<b>51.650</b>

- 2.16** Interest at an average rate of 4.22% and with an estimated yield of £0.410M (including accrued interest from 2024/25) has been received from maturing Local Authority Investments for the first 9 months of 2025/26.
- 2.17** Interest at an average rate of 4.10% and with an estimated yield of £0.752M (including accrued interest from 2024/25) has been received from maturing Debt Management Deposit Facility investments for the first 9 months of 2025/26.
- 2.18** The average rate of return on the CCLA Money Market Fund was 4.16% and on the Federated Hermes Money Market Fund 4.22% with estimated yields of £0.311M and £0.316M respectively.
- 2.19** The estimated yield on the Lloyds Instant Access Account was £0.033M at an average rate of 3.89%. The rate applicable to the account was amended 3 times during the period under review and is currently 3.51%.
- 2.20** So far in 2025/26 the Council has not invested any funds in Treasury Bills as yields have been unfavourably low and there have been better investment opportunities available on the market.

### **Proposed Strategy 2026/27**

#### **Balance Sheet Projections**

- 2.21** To assist the Treasury team in arriving at their Borrowing and Investment strategies for 2025/26 balance sheet projections have been prepared. These projections reflect the Draft Capital Proposals for the period 2026/27 to 2030/31.
- 2.22** On 31st March 2025 Capital Financing Requirement was £199.235M of which 15% or £29.384 was internally borrowed. The Council had total external borrowings of £169.851M.
- 2.23** It is important that the level of Internal Borrowing as a percentage of the total borrowing requirement is kept under review by the Council to monitor the interest rate risk that the Council is exposed to.
- 2.24** As well as monitoring the use of internal borrowing these projections consider the levels of funds available for investment and the levels of external borrowing required in future years. The level of external borrowing is projected to increase as the Council commits to further prudential borrowing, repays existing debt and the balances available to fund current supported borrowing reduces.

**Table 4 – Projected Investment Balance**

<b>Scheme</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>	<b>2029/30</b>	<b>2030/31</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
Capital Financing Requirement	244.566	305.346	372.754	407.909	430.025
Less Projected External Loans	-232.709	-298.560	-366.393	-405.677	-427.057
<b>Internal Borrowing</b>	<b>11.857</b>	<b>6.786</b>	<b>6.361</b>	<b>2.232</b>	<b>2.968</b>
Internal Borrowing as % of CFR	4.85%	2.22%	1.71%	0.55%	0.69%
Reserves, Capital Balances and Provisions	34.213	29.783	29.468	29.931	29.931
<b>Total Cash Backed Reserves and Provisions</b>	<b>35.816</b>	<b>30.533</b>	<b>29.968</b>	<b>30.431</b>	<b>30.431</b>
Less External Investments Target	-20.000	-20.000	-20.000	-20.000	-20.000
Balance Available for Internal Borrowing	<b>15.816</b>	<b>10.533</b>	<b>9.968</b>	<b>10.431</b>	<b>10.431</b>
Working Capital	-2.000	-2.000	-2.000	-2.000	-2.000
Projected External Investments	23.959	23.747	23.607	28.199	27.463
<b>Total Projected Investments Balance</b>	<b>21.959</b>	<b>21.747</b>	<b>21.607</b>	<b>26.199</b>	<b>25.463</b>

**Borrowing Strategy**

- 2.25** The Council's approach to the borrowing requirements in recent years on the advice of the Council's Treasury Management adviser has been to adopt a policy of avoiding new external borrowing by running down spare cash balances and reserves to finance capital expenditure. This policy has been based on the high levels of reserves held by the Council. The Council will continue to internally borrow to finance the capital programme for as long as it has the capacity to do so, however most of the Council's balances are much reduced, and most of the new borrowing will be financed externally.
- 2.26** The Council's Final Capital Proposals 2026/27 to 2030/31 forecast borrowing (supported and unsupported borrowing) in the period as set out in the table below which totals £42.043M for the Council Fund and £219.055M for HRA.

**Table 5 – Forecast New Borrowing**

Scheme	2026/27	2027/28	2028/29	2029/30	2030/31	Total
	£M	£M	£M	£M	£M	£M
<b>General Fund</b>						
Supported Borrowing	3.369	3.369	3.369	3.369	3.369	16.845
Local Government Borrowing Initiative Highways Resurfacing	1.810	0.000	0.000	0.000	0.000	1.810
Education Unsupported Borrowing	3.278	0.463	0.595	0.000	0.000	4.336
Education PIPELINE Unsupported Borrowing SCFL	0.000	4.652	0.078	0.000	0.000	4.730
Social Services Older Person Accommodation	0.000	0.000	0.261	1.284	0.321	1.866
Structures Unsupported Borrowing	0.000	0.072	0.386	1.000	1.000	2.458
Fleet Parking Unsupported Borrowing	1.880	0.000	0.000	0.000	0.000	1.880
Levelling UP Unsupported Borrowing	0.535	0.516	0.000	0.000	0.000	1.051
Civic Offices Unsupported Borrowing	0.000	0.000	0.161	0.000	0.000	0.161
City Deal Unsupported Borrowing	0.438	0.640	3.313	2.515	0.000	6.906
<b>Total General Fund</b>	<b>11.310</b>	<b>9.712</b>	<b>8.163</b>	<b>8.168</b>	<b>4.690</b>	<b>42.043</b>
<b>HRA Account</b>						
Housing Revenue Account	<b>28.564</b>	<b>58.057</b>	<b>67.477</b>	<b>36.797</b>	<b>28.160</b>	<b>219.055</b>
<b>Total New Borrowing</b>	<b>39.874</b>	<b>67.769</b>	<b>75.640</b>	<b>44.965</b>	<b>32.850</b>	<b>261.098</b>

**2.27** The Council is also projecting to use £7.265M of general fund Capital receipts between 2026/27 and 2030/31. In addition, as part of the Final Revenue Proposals for 2025/26 the Council sets out a reduction in its reserves of 55% or approximately £35M to 31 March 2031. This reduces the Council's ability to finance capital programme through internal borrowing.

**2.28** Another factor influencing the Council's borrowing strategy is the high level of maturing debt on the Council's existing borrowing over the coming years which is £71.785M between 2026/27 and 2030/31.

**2.29** Taking these factors into account and the Council's requirement to hold approximately £20M in investment balances, the Council's additional external borrowing requirement will be £306.098M over the coming five years as set out in the table below.

**Table 6 – Forecast External Borrowing**

Scheme	2026/27	2027/28	2028/29	2029/30	2030/31	Amount
	£M	£M	£M	£M	£M	£M
New Borrowing	39.874	67.769	75.640	44.965	32.850	261.098
Replacement Borrowing	15.000	15.000	5.000	5.000	5.000	45.000
<b>Total External Borrowing</b>	<b>54.874</b>	<b>82.769</b>	<b>80.640</b>	<b>40.965</b>	<b>37.850</b>	<b>306.098</b>

**2.30** The accuracy of these estimates will be impacted by the utilisation of reserves as planned and the delivery of the capital programme as profiled. There is a cost of

carry associated with borrowing in advance of a borrowing requirement so the Treasury team will need to keep these factors under review as well as having regard to interest rate projections to minimise the financing costs of the proposed external borrowing. Whilst it is highly likely that any new borrowing will be carried out with the PWLB, shorter term financing and alternative providers will be considered.

### **Investment Strategy 2026/27**

- 2.31** As set out in the Council's Balance Sheet projections in paragraphs 2.21 to 2.22, the Council, following discussions with Arlingclose Treasury Services, will seek to maintain an investment balance of approximately £20M in addition to any working capital surplus during the period, where this is not possible the £20M target should be restored in the following financial year. The accuracy of these estimates will again be impacted using reserves as planned and the delivery of the capital programme as profiled.
- 2.32** The Council's primary objectives for the investment of its surplus funds are to protect the principal sums invested from loss and to ensure liquidity. Investment income is important but a secondary objective.
- 2.33** The Council policy is to end each day with a nil current bank account closing balance ensuring all surplus cash is always appropriately invested and investment returns are maximised.
- 2.34** The Debt Management Account Deposit Facility (DMADF) introduced an online portal in January 2026 for placing new investments. To ensure the smooth management of daily cash flow balances, and given the time constraints when placing investments, it is recommended that delegated authority be granted to designated officers to place investments with the Debt Management Account Deposit Facility (DMADF) in accordance with the daily cash flow projections. A list of the officers authorised to place deposits are held by the Accountancy department. These officers are experienced in treasury management activities and maintain their professional competence through ongoing continuing professional development, in accordance with their roles and the requirements of MiFID II
- 2.35** The Council will continue to take the "Investment Ladder" approach when placing any investments during 2026/27 which ensures that maturities are spread out throughout the financial year.
- 2.36** In 2026/27 the Council will consider placing any funds available for investment with the counterparties below. Although Council may also consider the use of other deposit arrangements in accordance with the investment limits and counterparties set out within this strategy.
- Debt Management Account Deposit Facility (DMADF) of the Bank of England
  - UK Treasury Bills
  - UK Local Authorities (including Police and Fire Authorities)
  - Money Market Funds
  - Bank Call Accounts

**2.37** The Council will continually review the financial stability of all parties with whom it places investments.

**2.38** Although not guaranteed by the UK Government, if a Local Authority with whom the Council has placed an investment were to default on repayment, the Council would have recourse to UK Government under the Local Government Act 2003 to collect any outstanding sums.

In 2026/27 the Treasury Management section will retain the maximum principal investment at £5M in any one counterparty and normally will invest up to a period of 12 months with Local Authorities (including Fire and Police Authorities). Where appropriate the Council will consider opportunities to invest for a longer period not exceeding two years in consultation with the Treasury Management Advisers. Any change on this position will be brought to Cabinet as part of future Treasury Management monitoring reports.

**2.39** CCLA Investment Management Ltd and Federated Hermes UK operate Money Market Funds on behalf of the Council. Both are domiciled in the UK. The maximum investment in each is £10M.

**2.40** The bank call account is held with Lloyds Bank PLC. The account is lower interest yielding but has the benefit of instant access to the funds deposited. The maximum investment in this account is £10M.

**2.41** The table summarises the Council’s counterparty limits, showing maximum investment periods, individual exposure, and overall sector limits, designed to manage credit, liquidity, and concentration risk.

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	5 years	£5m	Unlimited
Banks (unsecured) *	n/a	£10m	£10m
Building societies (unsecured) *	n/a	£10m	£10m
Money market funds *	n/a	£10m	£20m

**2.42** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. 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 taken into account.

## **Annual Minimum Revenue Provision Statement 2026/27**

- 2.43** Capital expenditure when financed by long term debt incurs two elements of cost being interest and repayment of the principal sum borrowed. The resource the Council must put aside in each year to repay the principal sum borrowed is known as the Minimum Revenue Provision (MRP).
- 2.44** The Guidance issued by Welsh Ministers under section 21(1A) of the Local Government Act 2003 [Revised 2018] require the full Council to approve a MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The broad aim of the Welsh Government Guidance is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.
- 2.45** The following statement incorporates options recommended in the Guidance.
- 2.46** The Council proposes to apply the Asset Life method to calculate MRP on outstanding supported borrowing incurred up to 31 March 2025 using a straight-line calculation over 50 years. The Council will apply the Asset Life Method to calculate MRP on supported borrowing incurred on or after 1 April 2025 using a straight-line calculation over an appropriate number of years (using the average asset life as at February in the current financial year), dependent on the period of time that the capital expenditure is likely to generate benefits which is equivalent to the asset's life.
- 2.47** For unsupported capital expenditure incurred after 31st March 2008, the Council will also implement the "Asset Life method". MRP will be determined by charging the expenditure over the expected useful life of the relevant asset (50 years) in equal instalments, starting in the year after the asset becomes operational.
- 2.48** MRP will be charged at 2% of the outstanding Housing Revenue Account (HRA) Capital Financing Requirement in respect of housing asset incurred pre 2021/22. For debt incurred from 2021/22 onwards the HRA will move to an Asset Life method (50 years) for calculating the Minimum Revenue Provision.
- 2.49** Capital expenditure incurred during 2025/26 will not be subject to an MRP charge until 2026/27.
- 2.50** For the education pipeline schemes it has been assumed that MRP will not be charged until the schemes have completed in 2028/29.
- 2.51** The estimates associated with the Council's lease liability are now reflected in these MRP estimates in line with CIPFA requirements. IFRS16 is the accounting standard that will bring the assets and liabilities associated with the Council's leased assets onto the balance sheet.
- 2.52** Based on the Council's latest estimate of its Capital Financing Requirement on 31st March 2025, the budget for MRP has been set as follows:

**Table 7 – Forecast Minimum Revenue Payment**

	<b>01.04.2025</b>	<b>2025/26</b>	<b>31.03.2026</b>	<b>2026/27</b>
	<b>Estimated</b>	<b>Estimated</b>	<b>Estimated</b>	<b>Estimated</b>
	<b>CFR</b>	<b>MRP</b>	<b>CFR</b>	<b>MRP</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
<b>General Fund</b>				
Unsupported Borrowing - Council Fund	112.894	3.335	114.692	3.447
Supported Borrowing - Council Fund	3.358	0.494	6.537	0.532
<b>Total General Fund</b>	<b>116.252</b>	<b>3.829</b>	<b>121.229</b>	<b>3.979</b>
Unsupported Borrowing -Housing Revenue Account Borrowing	78.820	1.700	86.053	1.879
Supported Borrowing -Housing Revenue Account Borrowing	3.315	0.108	3.206	0.112
<b>Total HRA</b>	<b>82.135</b>	<b>1.808</b>	<b>89.259</b>	<b>1.991</b>
Interest Free Council Fund	0.849	0.338	0.511	0.338
Leasing Council Fund	2.920	1.061	3.429	1.036
<b>Grand Total</b>	<b>202.156</b>	<b>7.036</b>	<b>214.428</b>	<b>7.344</b>

**2.53** The Head of Finance/Section 151 Officer considers that the estimated costs of unsupported borrowing are both prudent and sustainable.

### **3. How do proposals evidence the Five Ways of Working and contribute to our Well-being Objectives?**

- 3.1** The Treasury Management and Investment Strategy ensures that the financial plans of the Council are sustainable into the future and do not adversely impact on future generations.
- 3.2** The Treasury Management and Investment Strategy underpins the financial management of the Council and its ability to achieve its Well Being objectives as set out in the Corporate Plan.

### **4. Climate Change and Nature Implications**

- 4.1** Councils and the UK Government are widely implemented on policy on the response the Climate change.
- 4.2** Money Market Funds selected by the Council regularly monitor the environmental, social and governance (ESG) risk management activities with whom they invest
- 4.3** ESG policy: Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Authority's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds,

the Authority will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

## **5. Resources and Legal Considerations**

### **Financial**

- 5.1** Money is borrowed for capital purposes and interest charged to revenue accounts.

### **Employment**

- 5.2** There are no direct employment issues relating to this report

### **Legal (Including Equalities)**

- 5.3** Compliance with the Local Government Act and CIPFA'S Code of Practice for Treasury Management in the Public Services is mandatory.

## **6. Background Papers**

- 6.1** CIPFA'S Code of Practice for Treasury Management in the Public Services (2021 Edition), and WG guidance on local authority investments.

## Appendix 1

### Quarter 3 Treasury Management Prudential Indicators 2025/26

- The following tables are a summary of the reporting requirements for Prudential and Treasury Indicators, as per the 2021 CIPFA Prudential Code for Capital Finance in Local Authorities and 2021 CIPFA Treasury Management in the Public Services Code of Practice and Cross-sectoral Guidance Notes. The indicators are required to help Members understand and evaluate the prudence and affordability of the Authority's capital expenditure plans and the borrowing and investment activities undertaken in support of this.

Prudential Indicators
Estimates of capital expenditure
Actual capital expenditure
Estimates of CFR
Actual CFR
Authorised limit for external debt
Operational boundary for external debt
Actual external debt
Gross debt and the CFR
Estimates of financing costs to net revenue stream
Actual financing costs to net revenue stream

Treasury Indicators
Liability Benchmark
Maturity Structure of borrowing
Limits for long-term treasury management investment
Quarterly Investment Yield

#### 1. Capital Expenditure

The purpose of this indicator is to provide a summary of the Council's capital expenditure. It reflects the capital programme that is being requested to be approved within the quarter 3 Capital Monitoring report which is on the same agenda as this report. A supplementary table is included detailing the resources to be applied to finance the capital spend and so highlight any net financing need over the reporting period.

- This table shows a comparison of the capital programme as agreed by Cabinet with the latest updated Capital Programme which is reported as part of the Quarter 3 Capital Monitoring.

**Table 1 – Capital Expenditure**

<b>Capital Expenditure</b>	<b>2025/26 Original Estimate £M</b>	<b>2025/26 Revised Estimate £M</b>	<b>2026/27 Estimate £M</b>	<b>2027/28 Estimate £M</b>	<b>2028/29 Estimate £M</b>
Non HRA	76.246	67.408	93.590	42.282	25.779
HRA	30.460	23.347	45.336	73.920	79.220
<b>Total Capital Expenditure</b>	<b>106.706</b>	<b>90.755</b>	<b>138.926</b>	<b>116.202</b>	<b>104.999</b>
IFRS16 Leasing New Advances	0.000	0.905	0.000	0.000	0.000
<b>Total Capital Expenditure</b>	<b>106.706</b>	<b>91.660</b>	<b>138.926</b>	<b>116.202</b>	<b>104.999</b>

<b>Capital Expenditure by Service</b>	<b>2025/26 Original Estimate £M</b>	<b>2025/26 Revised Estimate £M</b>	<b>2026/27 Estimate £M</b>	<b>2027/28 Estimate £M</b>	<b>2028/29 Estimate £M</b>
Learning & Skills	19.342	38.869	33.989	18.658	11.871
Social Services	1.373	4.593	2.254	1.730	2.865
Environment & Transport	16.784	14.514	18.532	6.235	4.785
Place	14.889	6.292	24.576	0.546	0.000
Corporate Resources	0.312	1.337	0.709	0.423	0.653
City Deal	0.157	0.000	0.438	0.640	3.313
Pipeline Schemes	23.389	1.803	13.092	14.050	2.292
Housing Revenue Account (HRA)	30.460	23.347	45.336	73.920	79.220
<b>Total Capital Expenditure</b>	<b>106.706</b>	<b>90.755</b>	<b>138.926</b>	<b>116.202</b>	<b>104.999</b>
IFRS16 Leasing New Advances	0.000	0.905	0.000	0.000	0.000
<b>Total Capital Expenditure</b>	<b>106.706</b>	<b>91.660</b>	<b>138.926</b>	<b>116.202</b>	<b>104.999</b>

**Changes to the Financing of the Capital Programme**

- The table below shows the main sources of funding for the capital expenditure plans of the Authority shown above, highlighting the original supported and unsupported elements of the capital programme and the expected financing arrangements of this capital expenditure.
- The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt the Minimum Revenue Provision (MRP). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

**Table 2 – Net Financing Need**

Sources of Capital Financing	2025/26 Original Estimate £M	2025/26 Revised Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M
Total Capital Expenditure					
Financed by:					
GCF Grant	4.229	4.229	4.370	4.370	4.370
General Fund Reserves & Revenue	7.811	4.864	8.822	1.970	1.200
HRA Reserves & Revenue	6.979	7.797	6.657	7.841	2.866
S106	1.935	3.290	5.680	1.640	0.000
Grants	50.164	49.847	69.257	30.411	18.366
Capital Receipts (General & HRA)	3.194	2.989	4.266	2.201	2.557
<b>Total Financing</b>	<b>74.312</b>	<b>73.016</b>	<b>99.052</b>	<b>48.433</b>	<b>29.359</b>
Net Financing need for the year					
<b>Supported Borrowing Requirement GF</b>	<b>6.076</b>	<b>5.857</b>	<b>5.179</b>	<b>3.369</b>	<b>3.369</b>
<b>Prudential Borrowing Requirement - GF</b>	<b>9.652</b>	<b>2.949</b>	<b>6.131</b>	<b>6.343</b>	<b>4.794</b>
<b>Prudential Borrowing Requirement - HRA</b>	<b>16.666</b>	<b>8.933</b>	<b>28.564</b>	<b>58.057</b>	<b>67.477</b>
<b>IFRS16 New Advances</b>	<b>0.000</b>	<b>0.905</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>
<b>Total Borrowing Requirement</b>	<b>32.394</b>	<b>18.644</b>	<b>39.874</b>	<b>67.769</b>	<b>75.640</b>
<b>Total Financing Need</b>	<b>106.706</b>	<b>91.660</b>	<b>138.926</b>	<b>116.202</b>	<b>104.999</b>

## Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

### 2. Capital Financing Requirement

- The table below shows the CFR, which is the underlying external need for the Council to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary. The Authority has revised the Capital Financing Requirement estimate for 2025/26 downwards which primarily reflects a decrease in the estimated borrowing for the Housing Revenue Account (HRA), Vehicles, City Deal & The Sustainable Communities for Learning Programme.

**Table 3 – Capital Financing Requirement**

	2025/26 Original Estimate £M	2025/26 Revised Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M
<b>Prudential Indicator – the Capital Financing Requirement</b>					
CFR – Non-Housing	130.000	121.740	128.733	134.020	137.681
CFR - HRA	111.101	89.259	115.833	171.326	235.073
<b>Total CFR excl Other Long Term Liabilities (OLTL)</b>	<b>241.101</b>	<b>210.999</b>	<b>244.566</b>	<b>305.346</b>	<b>372.754</b>
Non HRA OLTL CFR	4.403	3.429	2.393	1.767	1.474
<b>Total CFR</b>	<b>245.504</b>	<b>214.428</b>	<b>246.959</b>	<b>307.113</b>	<b>374.228</b>
Net Financing Need for the Year	32.395	17.739	39.874	67.769	75.640
Net Financing Need for OLTL	(0.423)	0.905	0.000	0.000	0.000
Less Minimum Revenue Provision	(6.251)	(5.975)	(6.307)	(6.990)	(8.231)
Less Minimum Revenue Provision Leasing	(1.009)	(1.061)	(1.036)	(0.626)	(0.293)
Less OLTL Disposals	0.000	(0.025)	0.000	0.000	0.000
<b>Net movement in CFR</b>	<b>24.712</b>	<b>11.583</b>	<b>32.531</b>	<b>60.153</b>	<b>67.116</b>

**Table 4 – General Fund Capital Financing Requirement**

<b>Non HRA Capital Financing Requirement</b>	2025/26 Original Estimate £M	2025/26 Revised Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M
Opening CFR	118.401	117.100	121.739	128.732	134.018
Non HRA OLTL CFR	5.835	2.920	3.429	2.393	1.767
Net Financing Need for the Year	15.729	8.806	11.310	9.712	8.163
Net Financing Need for the Year OLTL	(0.423)	0.905	0.000	0.000	0.000
Net Financing Need for Remeasurements	0	0.690	0.000	0.000	0.000
Less Minimum Revenue Provision	(4.129)	(4.167)	(4.317)	(4.426)	(4.501)
Less Minimum Revenue Provision Leasing	(1.009)	(1.061)	(1.036)	(0.626)	(0.293)
Less Lease Disposals	0.000	(0.025)	0.000	0.000	0.000
<b>Closing Non HRA CFR</b>	<b>134.404</b>	<b>125.168</b>	<b>131.125</b>	<b>135.785</b>	<b>139.154</b>

**Table 5 Housing Revenue Account Capital Financing Requirement**

HRA Capital Financing Requirement	2025/26 Original Estimate £M	2025/26 Revised Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M
Opening CFR	96.557	82.135	89.260	115.834	171.326
Net Financing Need for the Year	16.666	8.933	28.564	58.057	67.477
Less Minimum Revenue Provision	(2.122)	(1.808)	(1.990)	(2.565)	(3.729)
<b>Closing HRA CFR</b>	<b>111.101</b>	<b>89.260</b>	<b>115.834</b>	<b>171.326</b>	<b>235.074</b>

### 3. Borrowing Activity

- A key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2025/26 and next two financial years. This allows some flexibility for limited early borrowing for future years. In line with CIPFA guidance 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 will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. The figure shown below reflects the Council's current strategy in respect of maximising internal borrowing. This will be kept under review in consultation with the Council's Treasury Management advisers.

### 4. The Authorised Limit

- The Authorised Limit represents that limit beyond which borrowing is prohibited, and this needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

**Table 6 Authorised Limit**

Authorised limit for external debt	2025/26 Original Estimate £M	2025/26 Revised Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M
Borrowing	286.207	255.800	298.472	360.857	425.486
Other long-term liabilities	10.000	10.000	10.000	10.000	10.000
<b>Total</b>	<b>296.207</b>	<b>265.800</b>	<b>308.472</b>	<b>370.857</b>	<b>435.486</b>

## 5. Operational Boundary

- The Operational Boundary is the limit beyond which external debt is not normally expected to exceed. Unlike the Authorised Limit, the Operational Boundary is not an absolute limit, but it reflects the Authority's expectations of the level at which external debt would not ordinarily be expected to exceed.
- The Council will also set for the forthcoming financial year and the following two financial years an Operational boundary for its total gross external debt, separately identifying borrowing from other long-term liabilities.

**Table 7 Operational Boundary**

Operational Boundary for External Debt	2025/26 Original Estimate £M	2025/26 Revised Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M
Borrowing	260.831	231.739	273.808	335.560	399.524
Other Long-Term Liabilities	3.083	5.429	4.393	3.767	3.474
<b>Total Debt (Year End Position)</b>	<b>263.914</b>	<b>237.168</b>	<b>278.201</b>	<b>339.327</b>	<b>402.998</b>

## 6. Gross Debt and the Capital Financing Requirement

- An authority should only borrow to support a capital purpose, and borrowing should not be undertaken for revenue or speculative purposes.
- To ensure that over the medium-term debt will only be for a capital purpose the Council should ensure that debt does not, except in the short term, exceed the total Capital Financing Requirement in the preceding year plus the estimates of any additional Capital Financing Requirement for the current and next two financial years.

- The Council must disclose the closing balance for actual gross borrowing in respect of the financial period just ended. This will clarify to Members the Authority's overall level of external debt and allow comparison to the Authority's actual borrowing need as provided by the Gross debt and the CFR Indicator.

**Table 8 Gross External Debt and CFR**

	2025/26	2025/26	2026/27	2027/28	2028/29
	Original Estimate	Estimate	Estimate	Estimate	Estimate
	£M	£M	£M	£M	£M
CFR	245.504	214.428	246.959	307.113	374.228
Gross borrowing	(205.595)	(194.412)	(232.710)	(298.561)	(366.394)
Other long term liabilities	(4.403)	(3.429)	(2.393)	(1.767)	(1.474)
<b>Under/(over) borrowing (Loans)</b>	<b>35.506</b>	<b>16.587</b>	<b>11.856</b>	<b>6.785</b>	<b>6.360</b>

**Table 9 Gross Borrowing at Year End**

	2025/26	2025/26	2026/27	2027/28	2028/29
	Original Estimate	Estimate	Estimate	Estimate	Estimate
	£M	£M	£M	£M	£M
Loans at start of year	162.554	169.851	194.412	232.709	298.560
Lease/PFI liabilities at start of year	4.514	2.920	3.429	2.393	1.767
<b>Total gross borrowing at start of year</b>	<b>167.068</b>	<b>172.771</b>	<b>197.841</b>	<b>235.102</b>	<b>300.327</b>
New borrowing for capital spends	32.395	17.739	39.874	67.769	75.640
New borrowing for maturing debt	17.000	14.500	15.000	15.000	5.000
New lease/PFI liabilities	0.000	1.595	0.000	0.000	0.000
WG Loan	0.000	1.000	0.000	0.000	0.000
Loan repayments	(6.354)	(8.678)	(16.576)	(16.918)	(12.807)
Lease & PFI repayments	(1.431)	(1.061)	(1.036)	(0.626)	(0.293)
Lease Disposals	0.000	(0.025)	0.000	0.000	0.000
<b>Loans at end of year</b>	<b>205.595</b>	<b>194.412</b>	<b>232.710</b>	<b>298.560</b>	<b>366.393</b>
<b>Lease/PFI liabilities at end of year</b>	<b>3.083</b>	<b>3.429</b>	<b>2.393</b>	<b>1.767</b>	<b>1.474</b>
<b>Total gross borrowing at end of year</b>	<b>208.678</b>	<b>197.841</b>	<b>235.103</b>	<b>300.327</b>	<b>367.867</b>

**Table 10 Gross Debt / Internal Borrowing**

	<b>2025/26 Original Estimate £M</b>	<b>2025/26 Revised Estimate £M</b>	<b>2026/27 Estimate £M</b>	<b>2027/28 Estimate £M</b>	<b>2028/29 Estimate £M</b>
External Net Borrowing	205.595	194.412	232.710	298.560	366.393
Other Long-Term Liabilities	3.083	3.429	2.393	1.767	1.474
Total Debt	208.678	197.841	235.103	300.327	367.867
<b>CFR (Year End Position)</b>	<b>245.504</b>	<b>214.428</b>	<b>246.959</b>	<b>307.113</b>	<b>374.228</b>
<b>CFR (Year End Position excl OLTL)</b>	<b>241.101</b>	<b>210.999</b>	<b>244.566</b>	<b>305.346</b>	<b>372.754</b>
<b>Estimated Internal Borrowing</b>	<b>35.506</b>	<b>16.587</b>	<b>11.857</b>	<b>6.786</b>	<b>6.361</b>

- No difficulties are envisaged for the current or future years in complying with this prudential indicator.

## **7. Ratio of Relevant Financing Costs to Net Revenue Stream**

- This Indicator shows the trend in the cost of capital borrowing and other long term obligation costs against the net revenue stream i.e., Council Tax and Social Housing rent income.
  - The higher the ratio, the higher the proportion of resources tied up just to service net capital costs and which represent a potential affordability risk.
  - The Council will estimate for the forthcoming year and the following two financial years the proportion of financing costs to net revenue stream.
  - After the year end, the proportion of financing costs to net revenue stream will be calculated directly from the Council's income and expenditure statement.

**Table 11 Ratio of Financing Costs to Net Revenue Stream**

	<b>2025/26 Original Estimate</b>	<b>2025/26 Revised Estimate</b>	<b>2026/27 Estimate</b>	<b>2027/28 Estimate</b>	<b>2028/29 Estimate</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Non-HRA	<b>2.93</b>	<b>2.81</b>	<b>2.96</b>	<b>3.06</b>	<b>3.03</b>
Maximum Non-HRA	<b>5.00</b>	<b>5.00</b>	<b>5.00</b>	<b>5.00</b>	<b>5.00</b>
HRA	<b>24.21</b>	<b>23.93</b>	<b>21.05</b>	<b>27.25</b>	<b>38.65</b>
Maximum HRA	<b>40.00</b>	<b>40.00</b>	<b>40.00</b>	<b>40.00</b>	<b>40.00</b>

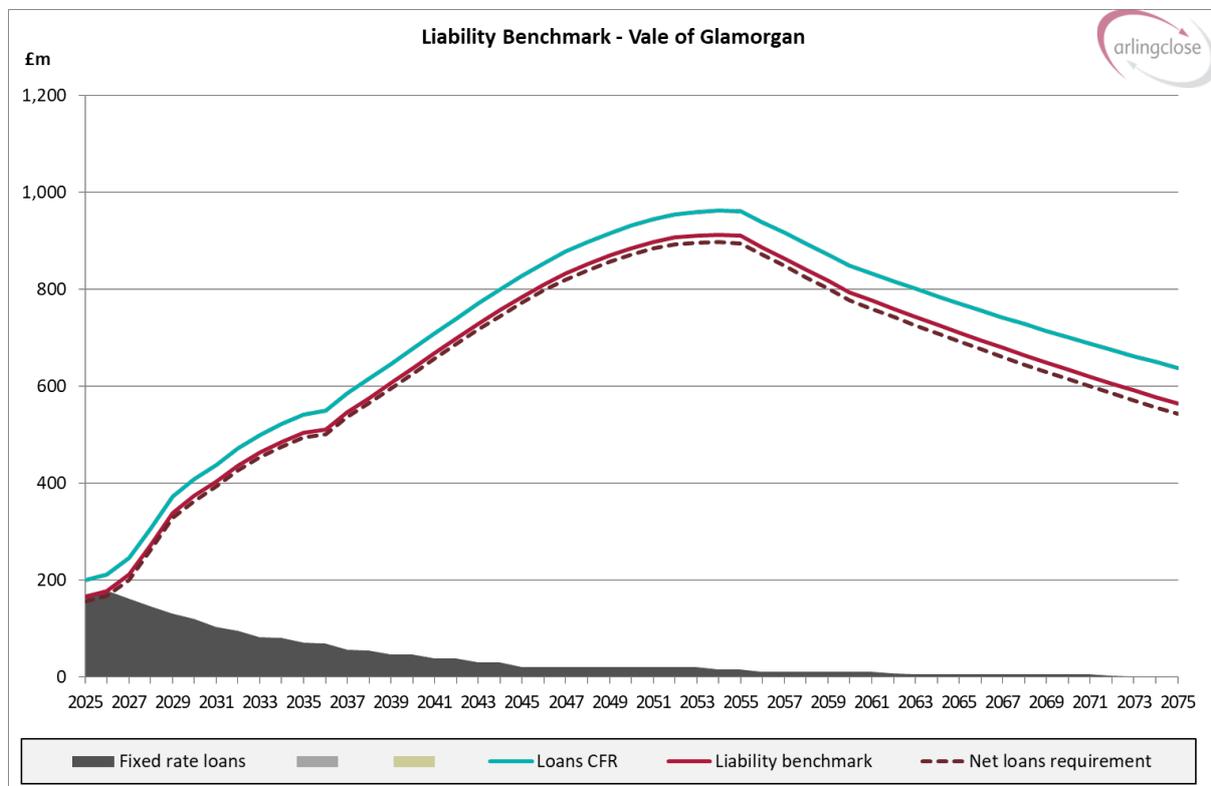
- The analysis above shows the Council Fund implications remain relatively stable throughout the period. The HRA cost is increasing over the period in line with the aspirations for maintenance and regeneration set out in the draft Housing

Business Plan. The plan demonstrates that this level of investment is affordable over the 30-year period of the plan.

## 8. The Liability Benchmark

- The revised prudential code (December 2021) requires the Council to adopt a debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement.
- The Council is required to provide a comparison of the existing loan portfolio against the committed borrowing needs. This is to provide evidence that it has a strong grasp of both its existing debt maturity profile and how MRP and other cash flows affect the future debt requirement.
- This indicator should cover as a minimum the forthcoming financial year and the following two years. However, CIPFA strongly recommend that it is produced for at least ten years and should ideally cover the full debt maturity profile.
- The presentation should be in the form of a chart covering the following four areas:
  - Existing Loan Debt (current external debt borrowing portfolio split by type of loan and presented as a stacked bar chart).
  - Loans CFR (excluding any part of the CFR relating to other long-term liabilities).
  - Net loans requirement (loan debt less Treasury Management Investments at the last financial year end and projected into the future based on approved prudential borrowing, planned MRP and other major cash flow forecasts).
  - Liability Benchmark (net loans requirement plus any short term liquidity allowance).
- The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance. In its simplest form, it is calculated by deducting the amount of resources available for investment on the balance sheet (reserves, cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day to day cash flow.
- CIPFA recommends that the optimum position for external borrowing should be at the level of the Liability Benchmark where all balance sheet resources are used to maximise internal borrowing.
- The chart below shows the long-term borrowing impact of the current 30 year capital programme. For illustration, the assumption here is that no new external borrowing is undertaken during this period under review which would not be the case.

**Graph A - LIABILITY BENCHMARK GRAPH INCLUDING 30 YEAR HOUSING BUSINESS PLAN**



**Table 12 – Liability Benchmark (Includes 30 Year Business Plan)**

Year	Projected CFR	Projected External debt	Under/Over Borrowing
	£m	£m	£m
2025/26	210.999	194.413	16.586
2026/27	244.566	177.837	66.729
2027/28	305.346	160.919	144.427
2028/29	372.754	148.112	224.642
2029/30	407.934	137.431	270.503
2030/31	438.025	120.961	317.064
2031/32	471.158	112.334	358.824
2032/33	499.820	99.869	399.951
2033/34	521.523	98.388	423.135
2034/35	542.042	88.902	453.140
2035/36	549.257	85.77	463.487

2036/37	585.197	74.298	510.899
2037/38	615.709	71.802	543.907
2038/39	646.213	63.721	582.492
2039/40	677.821	63.638	614.183
2040/41	709.829	55.553	654.276
2041/42	740.552	55.466	685.086
2042/43	771.142	47.376	723.766
2043/44	800.452	47.284	753.168
2044/45	828.325	37.19	791.135
2045/46	854.591	37.19	817.401
2046/47	877.852	37.19	840.662
2047/48	897.446	37.19	860.256
2048/49	916.101	37.19	878.911
2049/50	932.255	37.19	895.065
2050/51	945.878	37.19	908.688
2051/52	955.461	37.19	918.271
2052/53	959.954	37.19	922.764
2053/54	962.532	32.995	929.537
2054/55	961.198	32.995	928.203

- The chart shows that external borrowing falls below the liability benchmark. For as long as usable reserve balances are available the Council will maintain this under borrowed position.
- This means that the capital borrowing need of the Council will not be being fully financed with external loan debt as cash supporting the Council's reserves, balances and cash flow will be used as an interim measure to finance the Council's borrowing requirement. This is considered prudent as interest rates are predicted to fall over the short term. Council reserve balances are projected to reduce over the period under review and the Council will need to borrow externally up to and above the LB (as not all reserve balances can be used to finance capital expenditure) in order to finance the capital programme, it has committed to throughout the 30 year period
- The Council's current investments balances are detailed later in this report. These investments are expected to reduce further as reserves are utilised.

The Council have forecast that in the worst-case scenario a buffer of £20M will be required to manage the day-to-day cash flow and therefore this amount is included as part of the treasury management liquidity benchmark. The value of this buffer will need to be kept under review in the context of the current inflationary factors.

The graph (graph B) below shows the approved five-year capital program, with the subsequent 25 year HRA business plan removed.

### LIABILITY BENCHMARK GRAPH INCLUDING 5 YEAR HOUSING BUSINESS PLAN

Graph B

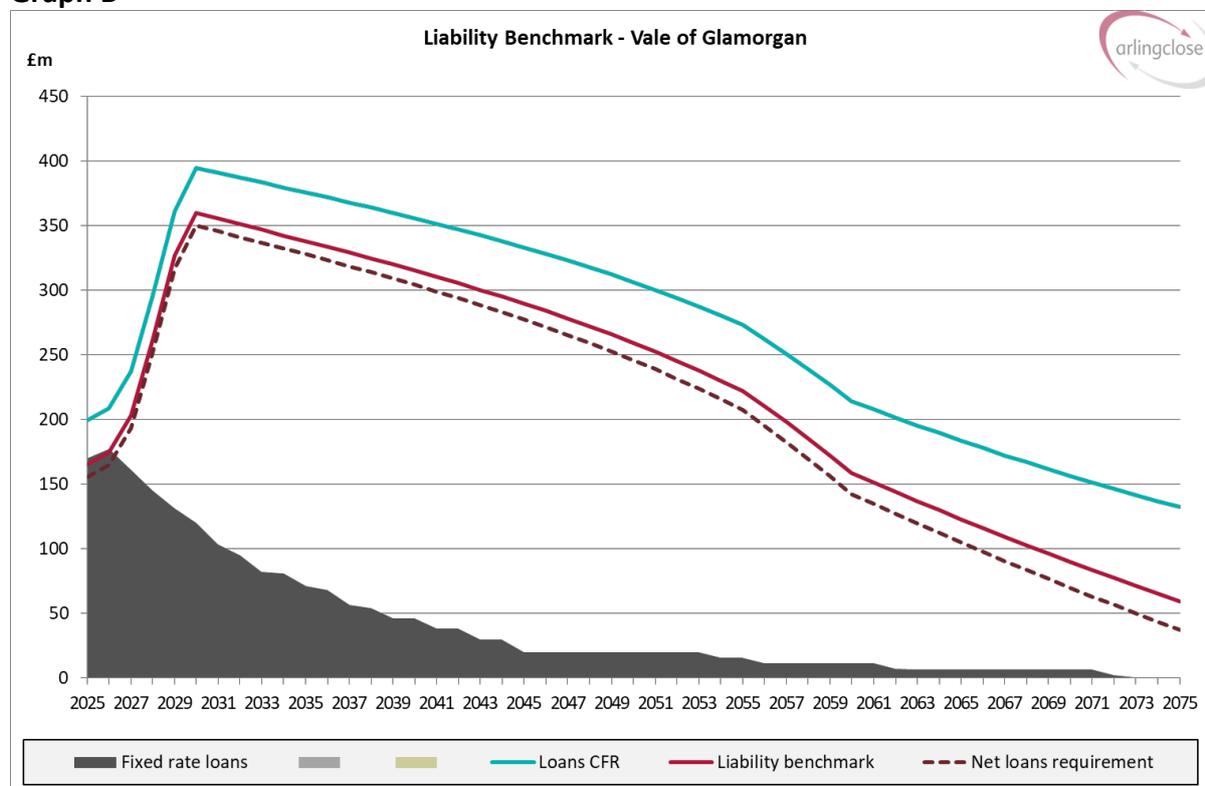


Table 13 (Includes 5 Year Business Plan)

Year	Projected CFR	Projected External debt	Under/Over Borrowing
	£m	£m	£m
2025/26	210.999	194.413	16.586
2026/27	244.566	177.837	66.729
2027/28	305.346	160.919	144.427
2028/29	372.754	148.112	224.642
2029/30	407.934	137.431	270.503
2030/31	438.025	120.961	317.064
2031/32	439.250	112.334	326.916
2032/33	443.092	99.869	343.223
2033/34	449.551	98.388	351.163
2034/35	450.249	88.902	361.347
2035/36	463.329	85.77	377.559
2036/37	433.789	74.298	359.491

2037/38	438.496	71.802	366.694
2038/39	437.769	63.721	374.048
2039/40	435.892	63.638	372.254
2040/41	434.695	55.553	379.142
2041/42	435.193	55.466	379.727
2042/43	434.526	47.376	387.150
2043/44	435.016	47.284	387.732
2044/45	435.676	37.19	398.486
2045/46	436.523	37.19	399.333
2046/47	438.814	37.19	401.624
2047/48	441.827	37.19	404.637
2048/49	442.118	37.19	404.928
2049/50	444.009	37.19	406.819
2050/51	445.969	37.19	408.779
2051/52	449.509	37.19	412.319
2052/53	454.192	37.19	417.002
2053/54	455.731	32.995	422.736
2054/55	459.339	32.995	426.344

Graph B shows a position similar to graph A including the 30-year HRA business plan, but removes the uncertainty surrounding the borrowing requirement over the five-year period.

## 9. Maturity Structure of Borrowing

- The Council is required to set gross limits on maturities for the periods shown and covers both fixed and variable rate borrowings. The reason being to try and control the Council's exposure to large sums falling due for refinancing.
- The Council will set for the forthcoming year both upper and lower limits with respect to the maturity structure of external borrowing. The periods to which these limits will apply are as follows:
  - Under 12 months
  - 12 Months and within 24 months
  - 24 months and within 5 years
  - 5 years and within 10 years
  - 10 years and above
- As of 31<sup>st</sup> December 2025, the maturity breakdown of the Council's borrowing based on financial year is set out in the table below.

**Table 14 Maturity Structure of Borrowing**

	Actual	Lower Limit	Upper Limit
	%	%	%
Under 12 months	1.23	0	20
12 months and within 24 months	9.04	0	40
24 months and within 5 years	21.89	0	40
5 years and within 10 years	25.97	0	40
10 years and above	41.87	0	100

- Due to the elevated levels in interest rates currently prevailing in the market the Council as advised by its treasury consultants, Arlingclose, has borrowed externally over shorter maturity dates as interest rates are forecast to fall in the shorter term. This is considered a prudent course of action which will benefit the Council in the longer term.

## 10. Limits for Long Term Treasury Management Investments

- This Indicator is seeking to support control of liquidity risk. The limits should be set regarding the Authority's liquidity needs and also reduce the potential need to have to make early exit from an investment in order to recover funds.
- The indicator relates solely to the Authority's investments for treasury management purposes.
- Where a Council invests, or plans to invest, for periods longer than a year, the Council will set an upper limit for each forward financial year period for the maturing of such investments.

**Table 15 – Limits for Long Term Treasury Management Investments**

	2025/26 Probable £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M
Limit for investments > a year	£0m	£10m	£10m	£10m

## Investment Yields

- The average monthly yields from the Council’s investments for October to December 2025 are set out below. The 25-basis point fall in the Bank Base Rate to 4.25% in May 2025, followed by further falls to 4.00% in August 2025 and to 3.75% in December 2025, is reflected in the returns from the Council’s investments from October 2025.

**Table 16 – Average Monthly Interest**

<b>Average Monthly Interest</b>	<b>Local Authorities</b>	<b>Debt Management Office</b>	<b>Lloyds Bank</b>	<b>CCLA Money Market Funds</b>	<b>Federated Money Market Funds</b>
	%	%	%	%	%
<b>Oct-25</b>	4.19	3.96	3.77	4.01	4.07
<b>Nov-25</b>	4.22	3.94	3.77	3.98	4.06
<b>Dec-25</b>	4.22	3.90	3.70	3.91	4.00

## Appendix 2

### Treasury Management and Investment Strategy 2026/27

#### Introduction

- Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.
- The Treasury Management Strategy sets out the Council's plan for treasury management for the period 2026/27 to 2028/29. The plan forms an integral part of the Council's strategic planning process, linking in with the Medium-Term Financial Plan, Capital Strategy, and annual budget cycle.
- This Treasury Management Strategy has been prepared considering the following:
  - CIPFA Treasury Management in the Public Services Cross Sectional Guidance Notes 2021 Edition
  - CIPFA Prudential Code for Capital Finance in Local Authorities 2021 Edition
  - Local Government Act 2003
  - Welsh Government Guidance on Investments

#### Prudential Codes of Practice

- The key objectives of the Prudential Code are to ensure within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved and how the risks will be managed to levels that are acceptable to the organisation.
- To demonstrate the Council has fulfilled these objectives, the Code sets out prudential indicators that should be used and the factors that must be considered.
- The prudential indicators required by the Prudential Code are designed to support and record local decision making in a manner that is publicly accountable.

## **Welsh Government Investment Guidance**

- The Welsh Government revised 2019 guidance notes lay down the requirements regarding the need to set out the Council's policies for the prudential management of its investments giving regard to firstly security and secondly liquidity. It covers the definition of specified and non-specified investments and the approach to investment risk.
- The Council has a legal obligation under the Local Government Act 2003 to have regard to the Prudential Code and the Welsh Government guidance.
- In line with the Welsh Government Guidance this document has been prepared as a single strategy document covering both the requirements of the CIPFA Treasury Management Code and the Welsh Government's guidance.

## **Revised 2021 CIPFA Codes of Practice (Treasury Management and Prudential) and Guidance Notes**

- CIPFA published the revised Codes on 20th December 2021 and the Council, must have regard to these Codes of Practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and any related reports during the financial year, which are taken to Full Council for approval.
- The revised Treasury Management Code requires an authority to implement the following:
- Adopt a liability benchmark treasury indicator to support the financing risk management of the capital financing requirement. This is shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained.
- Class Long-term treasury investments, (including pooled funds) as commercial investments unless justified by a cash flow business case.
- Include Pooled funds in the indicator for principal sums maturing in years beyond the initial budget year.
- Amend the knowledge and skills register for officers and members involved in the treasury management function so that it is proportionate to the size and complexity of the treasury management conducted by the Authority.
- Prepare quarterly reporting to members. The Head of Finance/Section 151 Officer is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The HOF is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and

should be reported as part of the authority's integrated revenue, capital, and balance sheet monitoring.

- Address Environmental, social and governance (ESG) issues within the Authority's treasury management policies and practices.
- Confirm a requirement for local authorities to produce an annual Capital Strategy.

## 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 activity contribute to the provision of services.
  - an overview of how the associated risk is managed.
  - the implications for future financial sustainability.
- The aim of the strategy is to ensure that all the Authority's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite. The capital strategy is being reported to Cabinet on the same agenda as this report. The Strategy itself will be updated bi-annually and evolve over future years.

## Reporting Requirements Treasury

### Management Reporting

- The Authority is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.
  - a. **Prudential and Treasury indicators and Treasury Strategy** (this report) The first, and most important report is forward looking and covers:
    - Capital plans, (including prudential indicators)
    - Minimum Revenue Provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
    - Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators
    - Annual Investment Strategy, (the parameters on how investments are to be managed)
- **A Mid-Year Treasury Management report** – This is primarily a progress report which will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, this Authority will receive quarterly monitoring update reports.

- **An Annual Treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.
- **Quarterly Reports – providing updates on Treasury & Prudential Indicators.** These additional reports do not have to be reported to Full Council but do require to be adequately scrutinised. This role is also undertaken by the Governance and Audit Scrutiny Committee.

## Scrutiny

- The above reports are required to be adequately scrutinised before being recommended to Cabinet and Full Council. This role is undertaken by the Governance and Audit Scrutiny Committee.

## The Treasury Management Strategy

- The Strategy for 2026/27 covers two main areas:

### 1. Capital Issues

- \* Capital expenditure plans and the associated prudential indicators.
- \* Minimum Revenue Provision (MRP) policy statement.

### 2. Treasury Management

- \* Economic background
- \* Prospects for interest rates
- \* Current Treasury Position
- \* Borrowing Strategy
- \* Treasury indicators which limit the treasury risk and activities of the Council
- \* Policy on borrowing in advance of need
- \* Debt rescheduling
- \* Management of Housing Revenue Account (HRA) Debt
- \* Investment Strategy
- \* Creditworthiness policy
- \* Other investment tools
- \* External service providers

- \* Environmental, Social & Government (ESG) issues
  - \* Treasury Management Training
- These elements cover the requirements of the Local Government Act 2003, Welsh Government Investment Guidance and MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

## **Treasury Management Training**

### **Treasury Management Officers**

- It is a requirement of the CIPFA Code of Practice that the Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge, and skills. The Head of Finance / Section 151 Officer will recommend and implement the necessary arrangements, including the specification of the expertise, knowledge and skills required by each role or member of staff.
- The training needs of treasury management officers are periodically reviewed and are assessed as part of the staff appraisal process and from the in-house meetings between the Treasury Management Team and the Head of Finance/Section 151 Officer when required. Arlingclose provide regular online training seminars to ensure that changes to the Codes of Practice are incorporated into the framework of the Authority's Treasury Management & Investment strategies and are adhered to Treasury Management officers log all training courses attended in a training folder on the server.

### **Council Members**

- The CIPFA Treasury Management Code requires the Head of Finance/Section 151 Officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. The Code states that all local authorities are expected 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 Authority's treasury management needs. Local authorities should consider how to assess whether treasury management staff and 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.
- The Council's previous treasury advisor MUFG Corporate Markets provided treasury management training for Members in February 2025. The next training session is scheduled for 23<sup>rd</sup> February 2026 and will be provided by Arlingclose.
- Previous feedback from the sessions held indicated that they had full or some understanding of the following areas.

- Understanding of Treasury Management and the relationship to Revenue and Capital Budgets.
  - Current economic position and the outlook.
  - Council's Borrowing Strategy and borrowing need in future years.
  - Borrowing options available to the Council.
  - What Internal Borrowing is and why the Council utilises Internal Borrowing.
  - Understand the Liability Benchmark.
  - Understand why the Council invests prioritising Security, Liquidity and then Yield.
  - Understand where the Council currently holds investments.
  - Understand the risk profile of the Council's current investments.
- As a minimum, applicable to both officers and members, Councils 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 members.
  - Require treasury management officers and members to undertake self-assessment against the required competencies.
  - Have regular communication with officers and members, encouraging them to highlight training needs on an ongoing basis.

## **Treasury Management Consultants**

- The Council have appointed Arlingclose as its external Treasury Management consultants from October 2025, replacing MUFG Corporate Markets who held the position from September 2018. The services provided include:
  - Advice and guidance on relevant policies, strategies and reports.
  - Twice yearly strategy meetings
  - Balance Sheet Projections
  - Advice on investment decisions.
  - Notification of credit ratings and changes.
  - Other information on credit quality.
  - Advise on changes to the CIPFA Codes of Practice.
  - Advice on debt management decisions.
  - Advice and new accounting standards.

- Reports on treasury performance.
  - Forecasts of interest rates; and
  - Training courses.
- The Authority recognises that responsibility for treasury management decisions always remains with the Authority 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, the treasury management consultants.
  - It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Authority 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.

### Capital Expenditure Plans and 2026/27 -2030/31 Prudential Indicators

- The Council’s capital expenditure plans are the key driver of treasury management activity. The output of the draft capital expenditure plans is reflected in the prudential indicators, which are designed to assist members’ overview and confirm the funding arrangements for the Council’s capital expenditure plans.
- All prudential and treasury indicators are included in the Treasury Management and Investment Strategy and are approved at Full Council. The indicators are then reported and or updated quarterly as required by the Prudential Code of Practice. Any breaches in these indicators will be noted within next monitoring report. The one exception is the Authorised Limit which is 1 of 2 indicators that place limits on external debt, which if breached will be reported to Council at the earliest opportunity. The key difference between the Authorised Limit and the other indicators is that the Authorised Limit cannot be breached without prior approval of Full Council.

### Capital Expenditure and Financing

- The figures shown in tables 1 & 2 is a summary of the Council’s capital expenditure plans, both those agreed previously and those forming part of this budget cycle.

**Table 1**

<b>Capital Expenditure</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>	<b>2029/30</b>	<b>2030/31</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
Non HRA	93.590	42.282	25.779	13.738	10.260
HRA	45.336	73.920	79.220	45.351	37.421
<b>Total Capital Expenditure</b>	<b>138.926</b>	<b>116.202</b>	<b>104.999</b>	<b>59.089</b>	<b>47.681</b>

**Table 2**

<b>Capital Expenditure by Service</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>	<b>2029/30</b>	<b>2030/31</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
Learning & Skills	33.989	18.658	11.871	2.915	2.000
Social Services	2.254	1.730	2.865	2.850	2.850
Environment & Transport	18.532	6.235	4.785	5.310	5.310
Place	24.576	0.546	0.000	0.000	0.000
Corporate Resources	0.709	0.423	0.653	0.148	0.100
City Deal	0.438	0.640	3.313	2.515	0.000
Pipeline Schemes	13.092	14.050	2.292	0.000	0.000
Housing Revenue Account (HRA)	45.336	73.920	79.220	45.351	37.421
<b>Total Capital Expenditure</b>	<b>138.926</b>	<b>116.202</b>	<b>104.999</b>	<b>59.089</b>	<b>47.681</b>
IFRS16 Leasing New Advances	0.000	0.000	0.000	0.000	0.000
<b>Total Capital Expenditure</b>	<b>138.926</b>	<b>116.202</b>	<b>104.999</b>	<b>59.089</b>	<b>47.681</b>

- The estimates reflect the Housing Business Plan Proposals and figures also reflect the Final Capital Proposals.
- The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a need to increase borrowing.

**Table 3**

<b>Sources of Capital Financing</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>	<b>2029/30</b>	<b>2030/31</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
<b>Financed by:</b>					
GCF Grant	4.370	4.370	4.370	4.370	4.370
Ge General Fund Reserves & Revenue	8.822	1.970	1.200	1.200	1.200
HRA Reserves & Revenue	6.657	7.841	2.866	0.532	1.239
S106	5.680	1.640	0.000	0.000	0.000
Grants	69.257	30.411	18.366	7.570	7.570
Capital Receipts (General & HRA)	4.266	2.201	2.557	0.452	0.452
<b>Total Financing</b>	<b>99.052</b>	<b>48.433</b>	<b>29.359</b>	<b>14.124</b>	<b>14.831</b>
Net Financing need for the year					
<b>Supported Borrowing Requirement</b>	<b>5.179</b>	<b>3.369</b>	<b>3.369</b>	<b>3.369</b>	<b>3.369</b>
<b>Prudential Borrowing Requirement</b>	<b>34.695</b>	<b>64.400</b>	<b>72.271</b>	<b>41.596</b>	<b>29.481</b>

<b>Total</b>	<b>138.926</b>	<b>116.202</b>	<b>104.999</b>	<b>59.089</b>	<b>47.681</b>
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### Capital Programme and Borrowing

- A more detailed analysis of capital expenditure which is to be financed by borrowing is set out below.

**Table 4**

<b>Scheme</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>	<b>2029/30</b>	<b>2030/31</b>	<b>Total</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
<b>General Fund</b>						
Supported Borrowing	3.369	3.369	3.369	3.369	3.369	16.845
Local Government Borrowing Initiative Highways Resurfacing	1.810	0.000	0.000	0.000	0.000	1.810
Education Unsupported Borrowing	3.278	0.463	0.595	0.000	0.000	4.336
Education PIPELINE Unsupported Borrowing SCFL	0.000	4.652	0.078	0.000	0.000	4.730
Social Services Older Person Accommodation	0.000	0.000	0.261	1.284	0.321	1.866
Structures Unsupported Borrowing	0.000	0.072	0.386	1.000	1.000	2.458
Fleet Parking Unsupported Borrowing	1.880	0.000	0.000	0.000	0.000	1.880
Levelling UP Unsupported Borrowing	0.535	0.516	0.000	0.000	0.000	1.051
Civic Offices Unsupported Borrowing	0.000	0.000	0.161	0.000	0.000	0.161
City Deal Unsupported Borrowing	0.438	0.640	3.313	2.515	0.000	6.906
<b>Total General Fund</b>	<b>11.310</b>	<b>9.712</b>	<b>8.163</b>	<b>8.168</b>	<b>4.690</b>	<b>42.043</b>
<b>HRA Account</b>						
Housing Revenue Account	<b>28.564</b>	<b>58.057</b>	<b>67.477</b>	<b>36.797</b>	<b>28.160</b>	<b>219.055</b>
<b>Total New Borrowing</b>	<b>39.874</b>	<b>67.769</b>	<b>75.640</b>	<b>44.965</b>	<b>32.850</b>	<b>261.098</b>

- The Net Financing Requirement in year is reduced by the Minimum Revenue Provision to produce a lower annual change in Debt Liability/Capital Financing Requirement as set out below.

**Table 5**

	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>	<b>2029/30</b>	<b>2030/31</b>
	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
Prudential Borrowing Requirement	34.695	64.400	72.271	41.596	29.481
Supported Borrowing Requirement	5.179	3.369	3.369	3.369	3.369
Minimum Revenue Provision	(7.343)	(7.616)	(8.524)	(10.043)	(10.776)
<b>Adjusted Net Borrowing Requirement in Year</b>	<b>32.531</b>	<b>60.153</b>	<b>67.116</b>	<b>34.922</b>	<b>22.074</b>

- More detail concerning the Authority’s approach to and calculation of its MRP liability can be found later in this report.

## The Council’s Borrowing Need - Capital Financing Requirement (CFR)

- The Capital Finance Requirement (CFR) is 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 it’s 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 the 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 (e.g. PFI schemes, 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, PPP lease provider and so the Council is not required to separately borrow for these schemes.
- The Council’s CFR projections are listed below in Table 6 and the year-on-year movement in Table 7.

**Table 6**

	2024/25 Actual	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
	£M	£M	£M	£M	£M
Non HRA CFR	117.100	121.740	128.733	134.020	137.681
HRA CFR	82.135	89.259	115.833	171.326	235.073
<b>Total CFR excl OLTL</b>	<b>199.235</b>	<b>210.999</b>	<b>244.566</b>	<b>305.346</b>	<b>372.754</b>
Non HRA OLTL CFR	2.920	3.429	2.393	1.767	1.474
<b>Total CFR</b>	<b>202.155</b>	<b>214.428</b>	<b>246.959</b>	<b>307.113</b>	<b>374.228</b>

**Table 7**

In-Year Movement CFR	2024/25 Actual	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
	£M	£M	£M	£M	£M
Non HRA CFR	(1.365)	4.640	6.993	5.287	3.661
HRA CFR	1.808	7.124	26.574	55.493	63.747
<b>Total CFR excl OLTL</b>	<b>0.443</b>	<b>11.764</b>	<b>33.567</b>	<b>60.780</b>	<b>67.408</b>
Non HRA OLTL CFR	2.921	0.508	(1.036)	(0.626)	(0.293)
<b>Total CFR</b>	<b>3.364</b>	<b>12.272</b>	<b>32.531</b>	<b>60.154</b>	<b>67.115</b>

## Ratio of General Capital Financing Requirement to Net Revenue Budget

- This local indicator demonstrates the total loans the Council has raised to finance the General Fund Capital Programme as a percentage of the Net Revenue Budget as set out below in Table 8.

**Table 8**

	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>
	<b>£M</b>	<b>£M</b>
Net Revenue Budget	331.574	354.233
General Fund CFR	125.169	131.126
<b>%</b>	<b>37.75%</b>	<b>37.02%</b>

### Annual Minimum Revenue Provision Statement 2026/27

- Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The *Local Government Act 2003* requires the Authority to have regard to Welsh Government's *Guidance on Minimum Revenue Provision* (the WG Guidance) most recently issued in 2018.
- The broad aim of the WG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.
- The Minimum Revenue Provision Guidance issued by Welsh Ministers under section 21(1A) of the Local Government Act 2003 [Revised 2018] require the full Council to approve a MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.
- Section 35 of the above guidance on MRP commencement states:  
When borrowing to provide an asset, the authority may treat the asset life as commencing in the year in which the asset first becomes operational. It may postpone beginning to make MRP provision until the financial year following the one in which the asset becomes operational. "Operational" here has its standard accounting definition."
- MRP is calculated by reference to the capital financing requirement (CFR) which is the total amount of past capital expenditure that has yet to be permanently financed, noting that debt must be repaid and therefore can only be a temporary form of funding. The CFR is calculated from the Authority's balance sheet in accordance with the Chartered Institute of Public Finance and Accountancy's "Prudential Code for Capital Expenditure in Local Authorities, 2021 edition".

## Minimum Revenue Provision (MRP) Statement

- The Council's MRP Statement is set out below.
- For supported capital expenditure the Council will implement the "Asset Life" Method when calculating MRP. MRP on outstanding supported borrowing incurred up to 31 March 2025 using a straight-line calculation over 50 years. The Council will apply the Asset Life Method to calculate MRP on supported borrowing incurred on or after 1 April 2025 using a straight-line calculation over an appropriate number of years (using the average asset life as at February in the current financial year), dependent on the period of time that the capital expenditure is likely to generate benefits which is equivalent to the asset's life.
- For unsupported capital expenditure incurred after 31st March 2008, the Council will also implement the "Asset Life" method. MRP will be determined by charging the expenditure over the expected useful life (maximum 50 years) of the relevant asset in equal instalments, starting in the year after the asset becomes operational.
- MRP will be charged at 2% of the outstanding Housing Revenue Account Capital Financing Requirement in respect of housing assets for debt incurred before 2021/22
- From 2021/22 onwards Council will again implement the "Asset Life" method and MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments (50 years), starting in the year after the asset becomes operational.
- Loans advanced for Affordable Housing, Band B Schools and the Highway Net Resurfacing Programme under LGFI schemes are the exception where MRP is calculated on an annuity basis.
- Capital expenditure incurred during 2025/26 will not be subject to a MRP charge until at the earliest the next financial year.
- MRP for City Deal will be calculated over a period of 25 years.
- For the Pipeline schemes it has been assumed that MRP will not be charged until the schemes have completed.
- Based on the Authority's latest estimate of its Capital Financing Requirement on 31st March 2025, the budget for MRP has been set as follows:

**Table 9**

	<b>01.04.2025</b>	<b>2025/26</b>	<b>31.03.2026</b>	<b>2026/27</b>
	<b>Estimated CFR</b>	<b>Estimated MRP</b>	<b>Estimated CFR</b>	<b>Estimated MRP</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
<b>General Fund</b>				
Unsupported Borrowing - Council Fund	112.894	3.335	114.692	3.447
Supported Borrowing - Council Fund	3.358	0.494	6.537	0.532
<b>Total General Fund</b>	<b>116.252</b>	<b>3.829</b>	<b>121.229</b>	<b>3.979</b>

Unsupported Borrowing -Housing Revenue Account Borrowing	78.820	1.700	86.053	1.879
Supported Borrowing -Housing Revenue Account Borrowing	3.315	0.108	3.206	0.112
<b>Total HRA</b>	<b>82.135</b>	<b>1.808</b>	<b>89.259</b>	<b>1.991</b>
Interest Free Council Fund	<b>0.849</b>	<b>0.338</b>	<b>0.511</b>	<b>0.338</b>
Leasing Council Fund	<b>2.920</b>	<b>1.061</b>	<b>3.429</b>	<b>1.036</b>
<b>Grand Total</b>	<b>202.156</b>	<b>7.036</b>	<b>214.428</b>	<b>7.344</b>

## MRP Overpayments

- Under the MRP guidance, any charges made in excess of the statutory MRP can be made, known as voluntary revenue provision (VRP).
- VRP can be reclaimed in later years if deemed necessary or prudent. For these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.
- The Authority has made one cumulative VRP overpayment to date.

## External Context

### Economic Background

- The most significant impacts on the Authority's treasury management strategy for 2026/27 are expected to include:
  - The influence of the government's 2025 Autumn Budget.
  - Lower short-term interest rates alongside higher medium and longer-term rates.
  - Slower economic growth, together with ongoing uncertainties around the global economy, stock market sentiment and geopolitical issues.
- The Bank of England's (BOE) Monetary Policy Committee (MPC) cut Bank Rate to 3.75% in December 2025, as expected. The vote to cut was 5-4, with the minority instead favouring holding rates at 4.0%. Those members wanting a cut judged that disinflation was established while those preferring to hold Bank Rate argued that inflation risks remained sufficiently material to leave rates untouched at this stage.
- Figures from the Office for National Statistics showed that the UK economy expanded by 0.1% in the third quarter of the calendar year 2025, this was unrevised from the initial estimate. The most recent Monetary Policy Report (November 2025) projected modest economic growth, with Gross Domestic Product (GDP) expected to rise by 0.2% in the final calendar quarter of 2025. Annual growth is forecast to ease from 1.4% before improving again later, reflecting the delayed effects of lower interest rates, looser monetary conditions, stronger global activity, and higher consumer spending. The view of modest economic growth going forward was echoed by the Office for Budget Responsibility in its Economic and fiscal outlook published in line with the Autumn Statement in October 2025 which revised down its estimate of annual real GDP to around 1.5% on average between 2025 and 2030.
- Consumer Price Index (CPI) inflation was 3.2% in November 2025, down from 3.6% in the

previous month and below the 3.5% forecast. Core CPI eased to 3.2% , contrary to forecasts of it remaining at 3.6%. Looking forward, the MPC continues to expect inflation to fall to around 3% in calendar year Quarter 1 2026, before steadily returning to the 2% target by late 2026 or early 2027.

- The labour market continues to ease with rising unemployment, falling vacancies and flat inactivity. In the three months to October 2025, the unemployment rate increased to 5.1%, higher than the level previously expected by the BoE, while the employment rate slipped to 74.9%. Pay growth for the same period eased modestly, with total earnings (including bonuses) growth at 4.7% and while regular pay was 4.6%.
- At its December 2025 meeting the US Federal Reserve also continued to cut rates including reducing the target range for the Federal Funds Rate by 0.25% to 3.50%-3.75%, in line with expectations. The minutes of the meeting noted that most Federal policymakers judged that further rate cuts would be likely in 2026 if inflation continues to ease, however they were still divided in their assessment of the risks between inflation and unemployment.
- The European Central Bank (ECB) kept its key interest rates unchanged in December 2025 for a fourth consecutive meeting, maintaining the deposit rate at 2.0% and the main refinancing rate at 2.15%. The ECB maintained that future policy decisions will remain data-dependent, in that inflation is close to its 2% target and that the eurozone area economy continues to expand despite a challenging global environment, including heightened geopolitical risks and trade tensions.

## **Credit Outlook**

- Credit Default Swap (CDS) prices which spiked in April 2025 have since trended lower, returning to levels broadly consistent with their 2024 averages. Although CDS prices rose modestly in October 2025, the overall credit outlook remains stable, and credit conditions are expected to remain close to the range seen over the past two years.
- While lower interest rates may weigh on banks' profitability, strong capital positions, easing inflation, steady economic growth, low unemployment, and reduced borrowing costs for households and businesses all support a favourable outlook for the creditworthiness of institutions on the Authority's counterparty list. Arling close's advice on approved counterparties and recommended investment durations is kept under continuous review and will continue to reflect prevailing economic and credit conditions.

## **Interest Rate Forecasts (22<sup>nd</sup> December 2025)**

- The Council has appointed Arlingclose as its treasury advisors from October 2025 and part of their service is to assist the Council to formulate a view on interest rates.
- The current forecast is that the Bank of England's Monetary Policy Committee will continue to reduce Bank Rate in 2026, reaching around 3.25% at calendar year end. This forecast reflects amendments made following the Autumn Budget in October 2025 and an assessment of the fiscal measures and their market implications following the BOE MPC meeting held on 18<sup>th</sup> December 2025.
- Long-term gilt yields and therefore interest rates payable on long-term borrowing are expected to remain broadly stable on average and end the forecast period marginally lower than current levels. Yields are likely to stay higher than in the pre-quantitative tightening era,

reflecting ongoing balance sheet reduction and elevated bond issuance. Short-term fluctuations are expected to persist in response to economic data releases and geopolitical developments.

## **Underlying Assumptions**

- The Bank of England duly delivered on expectations for a December 2025 rate cut but despite softer economic data over the past two weeks the minutes highlighted increased caution surrounding both the inflation outlook and the speed of future easing. With a close vote of 5-4 in favour of a rate reduction, this suggests that the bar for further monetary easing may be higher than previously thought despite the possibility of the CPI rate falling to target in 2026.
- Budget policies and base effects are expected to reduce the CPI rate in 2026 on top of the downward pressure arising from soft economic growth and the looser labour market. However, many policymakers appear concerned that household and business inflation and pricing expectations are proving sticky following recent bouts of high price and wage growth, which may allow underlying inflationary pressure to remain elevated. While the Bank's measure of household expectations ticked lower in December 2025, it remains above levels consistent with the 2% target at 3.5%.
- While policymakers hold valid concerns, these appear somewhat out of line with current conditions; CPI inflation fell to 3.2% in November 2025, private sector wage growth continued to ease amid the highest unemployment rate since the pandemic, and the economy contracted in October 2025 after barely growing in quarter 3. Business surveys pointed to marginally stronger activity and pricing intentions in December 2025 but also suggested that the pre-Budget malaise was not temporary. These data are the latest in a trend suggesting challenging economic conditions are feeding into price and wage setting.
- Risks to the growth and inflation outlook lie to the downside, which may ultimately deliver lower Bank Rate than the central case forecast. However, the minutes suggest that the bar to further rate cuts beyond 3.25% is higher and the near-term upside risks to the Bank Rate forecast have increased. Having said that, it is believed that inflation expectations will naturally decline alongside headline inflation rates.
- Investors appear to have given the UK government some breathing space following the October 2025 Budget, with long-term yields continuing to trade at slightly lower levels than in late summer/early autumn. Even so, sustained heavy borrowing across advanced economies, the Debt Management Office (DMO) move towards issuing more short-dated gilts and lingering doubts about the government's fiscal plans will keep short to medium yields above the levels implied by interest rate expectations alone.

## **Forecast**

- In line with the long-held forecast, Bank Rate was cut to 3.75% in December 2025.
- Continuing disinflation, rising unemployment, softening wage growth and low confidence suggests that monetary policy will continue to be loosened.
- Arlingclose now expects Bank Rate to be cut to 3.25% by the middle of 2026. However, in the near term the upside risks to the forecast have increased.
- Medium and long-term gilt yields continue to incorporate premia for UK government credibility, global uncertainty and significant issuance. These issues may not be resolved quickly, and it is forecast that yields will remain higher.

The latest forecast, updated in December 2025, sets out a view that both short and long-dated interest rates will start to fall once it is evident that the Bank of England has been successful in eradicating excess inflation out of the economy, despite a backdrop of stubborn inflationary factors and a tight labour market.

**Table 10 - Forecast Rates December 2025**

	Jan 26	Mar 26	Jun 26	Sept 26	Dec 26	Mar 27	Jun 27	Sept 27	Dec 27	Mar 28	Jun 28	Sept 28	Dec 28
<b>Bank Rate</b>													
Upside Risk	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central Case	<b>3.75</b>	<b>3.50</b>	<b>3.25</b>										
Downside Risk	0.00	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
<b>3 Month Market Rate</b>													
Upside Risk	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central Case	<b>3.82</b>	<b>3.55</b>	<b>3.30</b>	<b>3.35</b>	<b>3.35</b>	<b>3.35</b>							
Downside Risk	0.00	-0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
<b>5 year Gilt</b>													
Upside Risk	0.40	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	<b>3.96</b>	<b>3.85</b>	<b>3.80</b>	<b>3.75</b>	<b>3.80</b>	<b>3.80</b>	<b>3.80</b>						
Downside Risk	-0.50	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
<b>10 Year Gilt</b>													
Upside Risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	<b>4.52</b>	<b>4.40</b>	<b>4.35</b>	<b>4.30</b>	<b>4.35</b>	<b>4.35</b>	<b>4.35</b>						
Downside Risk	-0.50	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
<b>20 Year Gilt</b>													
Upside Risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	<b>5.16</b>	<b>5.00</b>	<b>4.95</b>	<b>4.90</b>	<b>4.95</b>	<b>4.95</b>	<b>4.95</b>						
Downside Risk	-0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
<b>50 Year Gilt</b>													
Upside Risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	<b>4.74</b>	<b>4.65</b>	<b>4.60</b>	<b>4.65</b>	<b>4.65</b>	<b>4.65</b>							
Downside Risk	-0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85

To convert the gilts prices to Public Works Loan Board (PWLB) rate forecasts please see below.

- PWLB Standard Rate = Gilt yield + 1.00%
- PWLB Certainty Rate = Gilt yield + 0.80%
- PWLB HRA Rate = Gilt yield + 0.40%

## Current Portfolio Position

- On 31<sup>st</sup> December 2025, the Authority held £178.872M of borrowing and £51.650M of treasury investments. This is set out in further detail below.

**Table 11**

	<b>31<sup>st</sup> Dec 2025 Actual portfolio £M</b>	<b>31<sup>st</sup> Dec 2025 Average rate %</b>
<b>External borrowing:</b>		
Public Works Loan Board	170.936	4.39
Local authorities	5.500	4.39
Welsh Government Loans	1.925	1.54
Salix Loans	0.511	0.00
<b>Total external borrowing</b>	<b>178.872</b>	
<b>Other long-term liabilities:</b>		
Leases		
<b>Total gross external debt</b>	<b>178.872</b>	
<b>Treasury investments:</b>		
Debt Management Office	7.150	4.10
Local authorities	22.500	4.22
Federated Hermes Money Fund	10.000	4.22
CCLA Money Market Fund	10.000	4.16
Lloyds Bank Deposit Account	2.000	3.89
<b>Total treasury investments</b>	<b>51.650</b>	

## Balance Sheet Projections

- To assist the Treasury team in arriving at their Borrowing and Investment strategies for 2026/27 balance sheet projections have been prepared. These projections reflect the Final Capital Proposals 2026/27 to 2030/31. The Authority will continue the use of reserves and spare cash balances only when appropriate to finance capital expenditure (internal borrowing) as an alternative to borrowing externally.

- As well as monitoring the use of internal borrowing these projections consider the levels of funds available for investment and the levels of external borrowing required in future years.

**Table 12 – Balance Summary & Forecast**

	<b>31.3.25 Actual £M</b>	<b>31.3.26 Estimate £M</b>	<b>31.3.27 Forecast £M</b>	<b>31.3.28 Forecast £M</b>	<b>31.3.29 Forecast £M</b>
Capital Financing Requirement	<b>202.156</b>	<b>214.428</b>	<b>246.959</b>	<b>307.113</b>	<b>374.228</b>
Less: Leasing	(2.921)	(3.429)	(2.393)	(1.767)	(1.474)
<b>Loans Capital Financing Requirement</b>	<b>199.235</b>	<b>210.999</b>	<b>244.566</b>	<b>305.346</b>	<b>372.754</b>
Less: Projected External Borrowing	(169.851)	(194.412)	(232.709)	(298.560)	(366.393)
<b>Internal Borrowing</b>	<b>29.384</b>	<b>16.587</b>	<b>11.857</b>	<b>6.786</b>	<b>6.361</b>
Less: Balance sheet resources	(47.000)	(45.687)	(33.816)	(28.533)	(27.968)
<b>Projected Treasury investments / New Borrowing</b>	<b>(17.616)</b>	<b>(29.100)</b>	<b>(21.959)</b>	<b>(21.747)</b>	<b>(21.607)</b>

- 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 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 speculative purposes.
- The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.
- The Authority has an increasing CFR due to the capital programme but has a reducing level of investments and will therefore be required to borrow up to £306.098m over the forecast period to fund the capital programme and maturing debt.

### **Gross Debt and the Capital Financing Requirement**

- The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

**Table 13**

	<b>2025/26 Estimate £M</b>	<b>2026/27 Estimate £M</b>	<b>2027/28 Estimate £M</b>	<b>2028/29 Estimate £M</b>
External Debt as at 1 <sup>st</sup> April	169.851	194.412	232.709	298.560
Expected Change In Debt	(8.678)	(16.577)	(16.918)	(12.807)
New Advances	17.739	39.874	67.769	75.640
Replacement Borrowing	14.500	15.000	15.000	5.000
WG Loan	1.000	0.000	0.000	0.000
<b>Gross Debt 31<sup>st</sup> March</b>	<b>194.412</b>	<b>232.709</b>	<b>298.560</b>	<b>366.393</b>
Capital Financing Requirement	(210.999)	(244.566)	(305.346)	(372.754)
<b>Internal Borrowing</b>	<b>16.587</b>	<b>11.857</b>	<b>6.786</b>	<b>6.361</b>

**Table 14**

	<b>2025/26 Estimate £M</b>	<b>2026/27 Estimate £M</b>	<b>2027/28 Estimate £M</b>	<b>2028/29 Estimate £M</b>
External Debt Leasing				
External Debt Leasing as at 1 <sup>st</sup> April	<b>2.920</b>	<b>3.429</b>	<b>2.393</b>	<b>1.767</b>
Expected Change OLTL	(0.396)	(1.036)	(0.626)	(0.293)
New Advances OLTL	<b>0.905</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>
<b>Gross Debt 31<sup>st</sup> March</b>	<b>3.429</b>	<b>2.393</b>	<b>1.767</b>	<b>1.474</b>

- The Head of Finance/Section 151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes account of current commitments, existing plans and the proposals in this budget report.

### Limits on External Debt

- CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. This is monitored using prudential indicators.

### The Operational Boundary

- This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.
- The proposed Operational Boundary for external debt is based upon estimates of

the most likely, prudent, but not worst-case scenario. The Operational Boundary links to the Council's plans for capital expenditure, estimates of capital financing requirement and the estimate of cash flow requirements for the year. This is the expected maximum limit for external debt.

- It is lower than the Authorised Limit and cash flow variations may lead to the occasional breach of the Operational Boundary which would be noted as part of routine monitoring reports.

**Table 15**

<b>Operational Boundary</b>	<b>2025/26 Estimate £M</b>	<b>2026/27 Estimate £M</b>	<b>2027/28 Estimate £M</b>	<b>2028/29 Estimate £M</b>
Debt	231.739	273.808	335.560	399.524
Other Long Term Liabilities	5.429	4.393	3.767	3.474
<b>Total</b>	<b>237.168</b>	<b>278.201</b>	<b>339.327</b>	<b>402.998</b>

### The Authorised Limit

- 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. 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.
- The Authorised Limit is the affordable borrowing limit determined in compliance with section 3 (1) of the Local Government Act 2003. It is not a limit that the Council will expect to borrow up to on a regular basis and provides headroom over and above the Operational Boundary. If the Authorised Limit is breached this will be reported to the next Council meeting.
- These authorised limits set out below are consistent with the Council's current commitments and proposals for capital expenditure and financing and with its Treasury Management Policy. The estimates are based on most likely prudent but not the worst-case scenario for external debt with sufficient headroom over and above this to allow for operational management (e.g. unusual cash movement).

**Table 16**

<b>Authorised Limit</b>	<b>2025/26 Estimate £M</b>	<b>2026/27 Estimate £M</b>	<b>2027/28 Estimate £M</b>	<b>2028/29 Estimate £M</b>
Debt	255.800	298.472	360.857	425.486
Other Long Term Liabilities	10.000	10.000	10.000	10.000
<b>Total</b>	<b>265.800</b>	<b>308.472</b>	<b>370.857</b>	<b>435.486</b>

## Liability Benchmark

- The revised prudential code (December 2021) requires the Council to adopt a debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement.
- CIPFA notes in the 2021 TM Code: “The liability benchmark should be analysed as part of the annual treasury management strategy, and any substantial mismatches between actual loan debt outstanding and the liability benchmark should be explained. Any years where actual loans are less than the benchmark indicate a future borrowing requirement; any years where actual loans outstanding exceed the benchmark represent an overborrowed position, which will result in excess cash.
- The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance. In its simplest form, it is calculated by deducting the amount of resources available for investment on the balance sheet (reserves, cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day to day cash flow.
- There are four components to the Liability Benchmark: -
  - Existing Loan Debt Outstanding
  - Loans Capital Financing Requirement (CFR) calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on only approved prudential borrowing and planned Minimum Revenue Provision (MRP). treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
  - Net loans requirement, detailing the Authority’s gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
  - Liability benchmark (or gross loans requirement) which equals net loans requirement plus short-term liquidity allowance.
- The Council is required to provide a comparison of the existing loan portfolio against the committed borrowing needs. This is to provide evidence that it has a strong grasp of both its existing debt maturity profile and how MRP and other cash flows affect the future debt requirement.
- Therefore, to compare the Council’s actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 13 above, but that cash and investment balances are kept to a minimum level of £20m at each year-end to maintain sufficient liquidity but minimise credit risk.
- The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to

fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

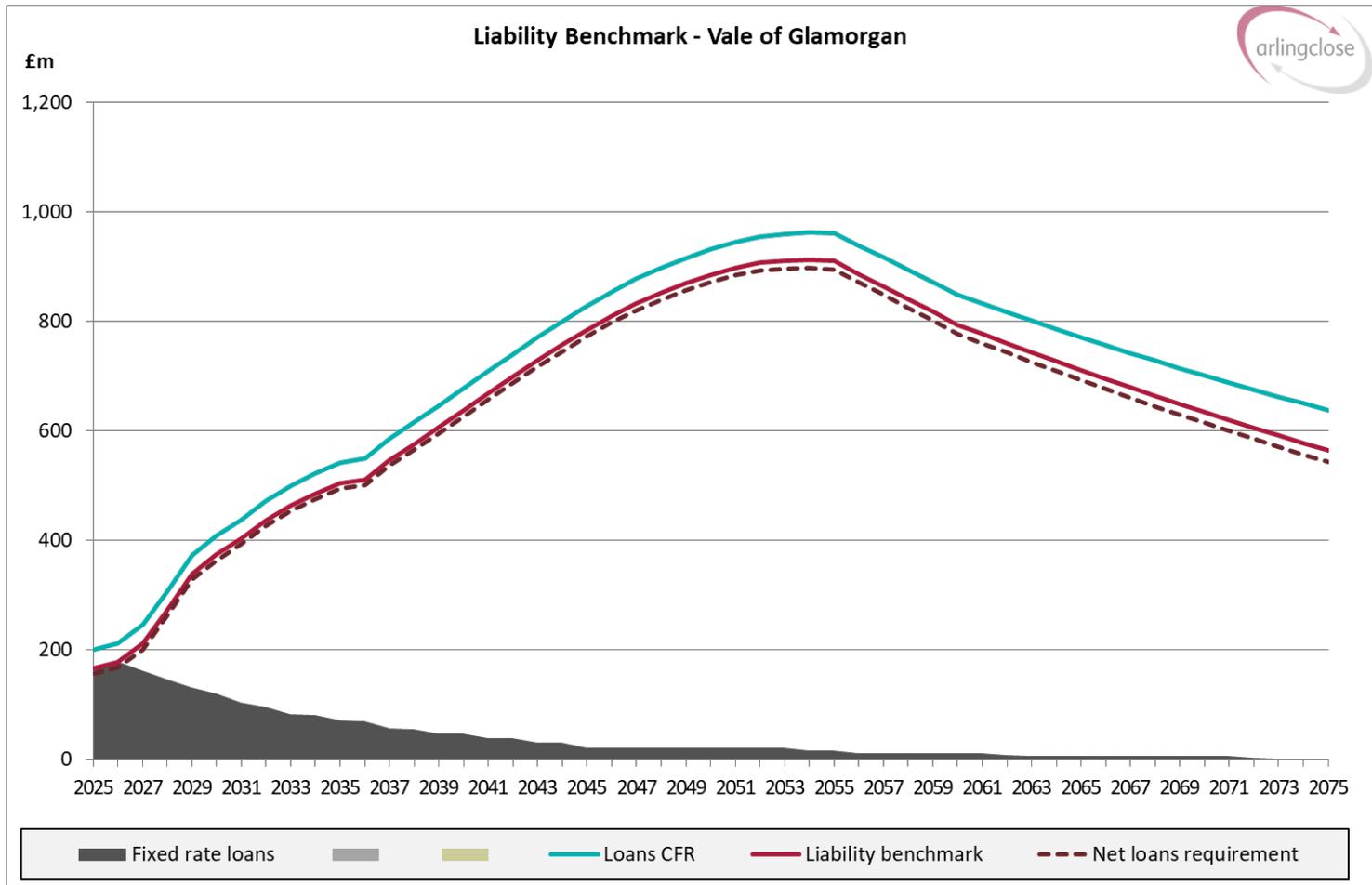
**Table 17 - Prudential Indicator - Liability Benchmark**

	<b>31.3.25 Actual £M</b>	<b>31.3.26 Estimate £M</b>	<b>31.3.27 Estimate £M</b>	<b>31.3.28 Forecast £M</b>	<b>31.3.29 Forecast £M</b>
Loans CFR	199.235	210.999	244.566	305.346	372.754
Less: Balance sheet resources	(47.000)	(45.687)	(33.816)	(28.533)	(27.968)
<b>Net loans requirement</b>	<b>152.235</b>	<b>165.312</b>	<b>210.750</b>	<b>276.813</b>	<b>344.786</b>
Plus: Liquidity allowance	20.000	20.000	20.000	20.000	20.000
<b>Liability benchmark</b>	<b>172.235</b>	<b>185.312</b>	<b>230.750</b>	<b>296.813</b>	<b>364.786</b>

- Following on from the medium-term forecasts in Table 17 above, the long-term liability benchmark assumes capital expenditure funded by borrowing of £261.098m over the 5 year period, minimum revenue provision on new capital expenditure based on a 20 to 50 year asset life and projected income, expenditure and reserves. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing and projected CFR:

## LIABILITY BENCHMARK GRAPH INCLUDING 30 YEAR HOUSING BUSINESS PLAN

Graph A



**Table 18 (Includes 30 Year Business Plan)**

Year	Projected CFR	Projected External debt	Under/Over Borrowing
	£m	£m	£m
2025/26	210.999	194.413	16.586
2026/27	244.566	177.837	66.729
2027/28	305.346	160.919	144.427
2028/29	372.754	148.112	224.642
2029/30	407.934	137.431	270.503
2030/31	438.025	120.961	317.064
2031/32	471.158	112.334	358.824
2032/33	499.820	99.869	399.951
2033/34	521.523	98.388	423.135
2034/35	542.042	88.902	453.140
2035/36	549.257	85.77	463.487

2036/37	585.197	74.298	510.899
2037/38	615.709	71.802	543.907
2038/39	646.213	63.721	582.492
2039/40	677.821	63.638	614.183
2040/41	709.829	55.553	654.276
2041/42	740.552	55.466	685.086
2042/43	771.142	47.376	723.766
2043/44	800.452	47.284	753.168
2044/45	828.325	37.19	791.135
2045/46	854.591	37.19	817.401
2046/47	877.852	37.19	840.662
2047/48	897.446	37.19	860.256
2048/49	916.101	37.19	878.911
2049/50	932.255	37.19	895.065
2050/51	945.878	37.19	908.688
2051/52	955.461	37.19	918.271
2052/53	959.954	37.19	922.764
2053/54	962.532	32.995	929.537
2054/55	961.198	32.995	928.203

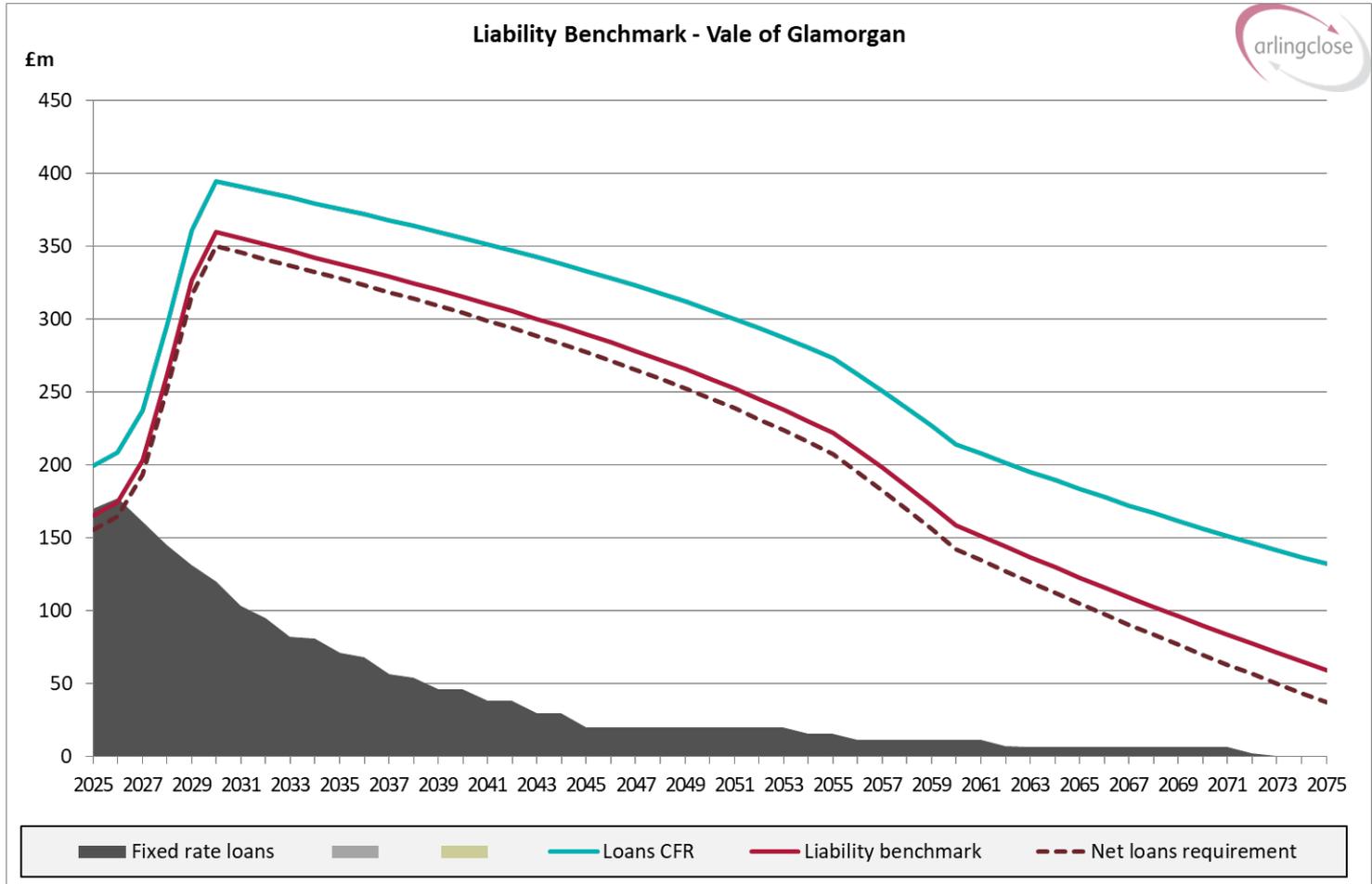
- The chart shows that external borrowing (the shaded area) falls below the LB (the dotted line). For as long as usable reserve balances are available the Council will maintain an under borrowed position, i.e., the capital borrowing need of the Council will not be the case.
- The chart shows that external borrowing (the shaded area) falls below the LB (the dotted line). For as long as usable reserve balances are available the Council will maintain an under borrowed position, i.e., the capital borrowing need of the Council will not be being fully financed with external loan debt as cash supporting the Council's reserves, balances and cash flow will be used as an interim measure to finance the Council's borrowing requirement. This is considered prudent as interest rates are predicted to fall over the short term. Council reserve balances are projected to reduce over the period under review and the Council will need to borrow externally up to and above the LB (as not all reserve balances can be used to finance capital expenditure) in order to finance the capital programme, it has committed to throughout the period.
- The chart shows the Capital Financing Requirement from the Council rising from an estimated £211M in year 1 to £961M in year 30. The majority of this new borrowing need relates to the proposals outlined in the HRA 30 year Business Plan that was approved by Council in January 2026.
- Whilst this is clearly a significant sum it should be noted that all HRA expenditure proposals are subject to stringent affordability requirements, detailed sensitivity analysis and require a pay back over a maximum 60 year period.

- The Council currently holds significant investments as detailed in this report, but these are expected to reduce as reserves are spent. The Council will endeavour to maintain a £20M investment buffer as part of the treasury management liquidity benchmark, where this is not achievable it will attempt to rectify the position by the end of the following financial year. The value of this buffer will need to be kept under review in the context of the current inflationary factors.

The graph (graph B) below shows the approved five-year capital program, with the subsequent 25 year HRA business plan removed.

**LIABILITY BENCHMARK GRAPH INCLUDING 5 YEAR HOUSING BUSINESS PLAN**

**Graph B**



**Table 19 (Includes 5 Year Business Plan)**

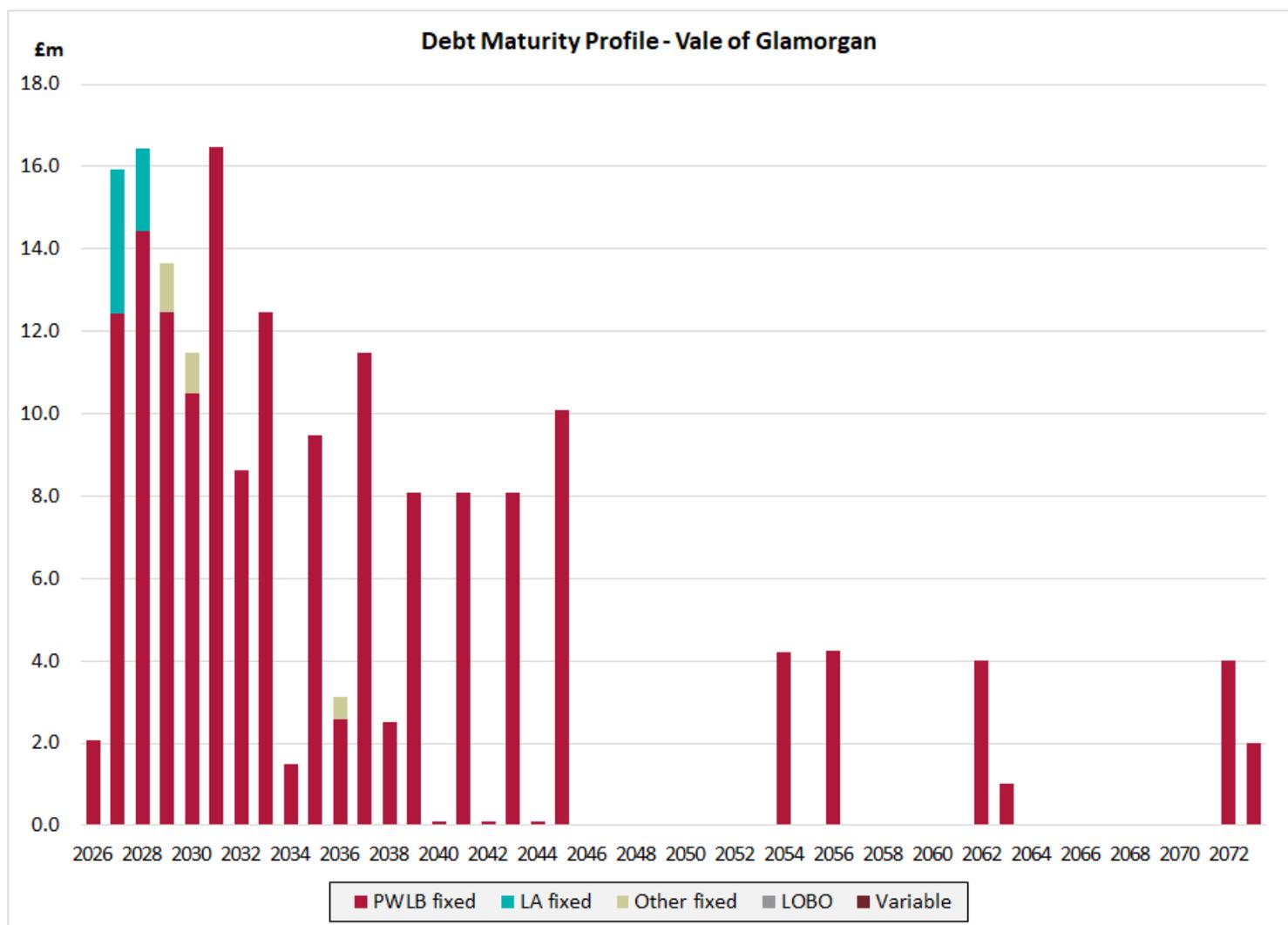
Graph B shows a position similar to graph A including the 30-year HRA business plan, but removes the uncertainty surrounding the borrowing requirement over the five-year period.

<b>Year</b>	<b>Projected CFR</b>	<b>Projected External debt</b>	<b>Under/Over Borrowing</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
2025/26	210.999	194.413	16.586
2026/27	244.566	177.837	66.729
2027/28	305.346	160.919	144.427
2028/29	372.754	148.112	224.642
2029/30	407.934	137.431	270.503
2030/31	438.025	120.961	317.064
2031/32	439.250	112.334	326.916
2032/33	443.092	99.869	343.223
2033/34	449.551	98.388	351.163
2034/35	450.249	88.902	361.347
2035/36	463.329	85.77	377.559
2036/37	433.789	74.298	359.491
2037/38	438.496	71.802	366.694
2038/39	437.769	63.721	374.048
2039/40	435.892	63.638	372.254
2040/41	434.695	55.553	379.142
2041/42	435.193	55.466	379.727
2042/43	434.526	47.376	387.150
2043/44	435.016	47.284	387.732
2044/45	435.676	37.19	398.486
2045/46	436.523	37.19	399.333
2046/47	438.814	37.19	401.624
2047/48	441.827	37.19	404.637
2048/49	442.118	37.19	404.928
2049/50	444.009	37.19	406.819
2050/51	445.969	37.19	408.779
2051/52	449.509	37.19	412.319
2052/53	454.192	37.19	417.002
2053/54	455.731	32.995	422.736
2054/55	459.339	32.995	426.344

## Borrowing Strategy

- The Authority currently holds £178.872m of loans, an increase of £9.021m on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in Table 13 shows that the Authority expects to borrow up to £33.239m in 2025/26. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £255.800 million.
- The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective. The following table confirms the Council's debt maturity position in December 2025.

**Table 20 – Debt Maturity Profile**



- The majority of the Authority's external borrowing is made up of Public Works Loan Board (PWLB) fixed rate debt. Borrowing is heavily concentrated in the short to medium term with repayment peaks reaching around £16M. From 2044 onwards, debt repayments begin to fall, with only small maturities every few years through to 2072.
- Given the significant cuts to public expenditure and to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term interest rates have fallen over the past year, and are expected to fall a little further, and it is therefore likely to be more cost effective over the medium-term to either use internal resources, or to borrow short-term loans instead. The risks of this approach will be managed by keeping the Authority's interest rate exposure within the limit set in the treasury management prudential indicators.
- By doing so, the Authority can reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. The Authority's treasury consultants Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2026/27 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.
- The Authority has previously raised most of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks and local authorities. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority has always avoided this activity to retain its access to PWLB loans.
- Alternatively, the Authority may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. However, if rates are forecast to fall over the near and medium term this scenario is unlikely to be exercised.
- In addition, the Authority may borrow further short-term loans to cover unplanned cash flow shortages.
- The Council's Final Capital Proposals 2026/27 forecast borrowing (both supported and unsupported) in the period have previously been set out at Table 4 totalling £261.098M (£219.055M of which is required for HRA). The Council is projecting to use £7.265M of general fund Capital receipts between 2026/27 and 2030/31.
- In addition, as part of the Initial Revenue Proposals 2026/27 the Council is projecting a reduction in its reserves, capital grant balances and provisions levels by 2030/31.
- Another factor influencing the Council's borrowing strategy is the high level of maturities on the Council's existing external debt over the coming years which have been calculated to be £73.453M between 2026/27 and 2030/31.

- In the context of these factors it is possible the Council will not be able to maintain the £20M headroom as an investment target however, it is intended that any shortfall would be rectified in the following financial year, the Council's additional external borrowing requirement is £306.098 as set out in the borrowing requirement table below for the period 2026/27 to 2030/31. This will need to be managed carefully to minimise the interest and liquidity risk to the Council.

### **Borrowing Requirement**

- The Borrowing Requirement represents the estimated amount that the Council will borrow externally for this year and the next 3 years.

**Table 21**

<b>Class of Borrowing</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>	<b>2029/30</b>	<b>2030/31</b>	<b>Total</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
New Borrowing	39.874	67.769	75.640	44.965	32.850	261.098
Replacement Borrowing	15.000	15.000	5.000	5.000	5.000	45.000
<b>Total External Borrowing</b>	<b>54.874</b>	<b>82.769</b>	<b>80.640</b>	<b>49.965</b>	<b>37.850</b>	<b>306.098</b>

- The accuracy of these estimates will be impacted by the utilisation of reserves as planned and the delivery of the capital programme as profiled. There is a cost of carry associated with borrowing in advance of a borrowing requirement so the Treasury team will keep these factors under review as well as having regard to interest rate projections to minimise the financing costs of the proposed external borrowing.
- Against this background and the risks within the economic forecast, caution will be adopted with the 2026/27 treasury operations. The Head of Finance/Section 151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.
- Any decisions in respect of new external borrowing will be reported to the Cabinet.

### **Policy on Borrowing in Advance in 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 will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.
- 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.
- Having considered the advice of the Council's treasury advisors, the Council will not be seeking to borrow sums in advance of need unless it is considered to be of significant economic benefit by the Section 151 Officer.

- The maximum period between borrowing and expenditure is expected to be two years, although at present time the Council does not link loans to expenditure.

### **Sources of Borrowing**

The approved sources of borrowing are

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- Local & Fire Authorities
- National Wealth Fund Ltd (formerly UK Infrastructure Bank Ltd)
- Any Institution approved for investments
- Banks, Building Societies and Insurance Companies authorised to operate in the UK
- Welsh Government or any other UK public sector body

### **Other Sources of Debt Financing**

- Leasing
- Hire purchase
- Private Finance Initiative
- Sale and Leaseback
- Similar Asset Based Finance

### **Short And Variable Debt Loans**

- These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk.

### **Debt Rescheduling**

- The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

### **Treasury Investment Strategy**

- The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 9 months, the Authority's treasury investment balance has ranged between £17.190 and £51.650 million
- Both the CIPFA Code and the WG Guidance require the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority'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 Authority will aim to achieve a total return

that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

- As demonstrated by the liability benchmark graph above, the Authority expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.
- The CIPFA Code does not permit local authorities to both borrow and invest long-term for cash flow management. But the Authority may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by adding diversification to the strategic pooled fund portfolio.
- Environmental, social and governance (ESG) considerations are increasingly a factor in global investors’ decision making, but the framework for evaluating investment opportunities is still developing and therefore the Authority’s ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level.
- The Authority is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be considered when making investment decisions.

### Investment Limits

- The Authority may invest its surplus funds with any of the counterparty types in table 21 below, subject to the limits shown.

**Table 22**

Sector	Time limit	Counterparty limit
UK Government	Unlimited	Unlimited
Local Authorities	5 years	£5m
Police & Fire Authorities	5 years	£5m
Money Market Funds	Unlimited	£10m
UK Bank Call Accounts	Unlimited	£10m
UK & Foreign Banks	5 Years	£5m

## **UK Government**

- Sterling-denominated investments with or explicitly guaranteed by the UK Government, including the Debt Management Account Deposit Facility and treasury bills. These are deemed to be zero credit risk due to the government's ability to create additional currency and therefore may be made in unlimited amounts and over periods up to 6 months.

## **Local Authorities and Fire & Police Authorities**

- Loans guaranteed by local authorities. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk.

## **Money market funds**

- Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

## **Banks and building societies (unsecured)**

- Accounts, deposits and certificates of deposit with banks and building societies. 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.

## **Operational bank accounts**

- The Authority may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept within the limits indicated in table 22 above. 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 Authority maintaining operational continuity.
- The Authority does not currently invest in any individual country outside of the UK and it is intended that this approach will continue in 2026/27. The total investment in individual UK institutions that are part of the same UK owned group will not exceed the limit set out in the table 22.

## **Credit Ratings**

- The Council uses credit ratings (long and short term) from the three main rating agencies Fitch Ratings Ltd, Moody's Investors Service and Standard & Poor's to assess the risk of default. This allows the Council to generate a list of highly creditworthy counterparties and enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings. The lowest available credit rating will be used to

determine credit quality. Credit ratings are obtained and monitored by the Council's Treasury Advisers.

### Sovereign Rating

- The UK's sovereign rating is AA- long term. Having seen an orderly Brexit on the 31st of December 2020 following a trade deal on the 24th of December 2020 with European Union (EU), the Council will apply a sovereign rating at least equal to that of the United Kingdom for any UK based counterparty. This approach will not limit the number of UK counterparties available to the Council. To ensure the Council's credit risk is not increased outside the UK, the sovereign rating requirement for investments to Non UK countries will also be maintained at a minimum of AA-.

## Rating Agencies Categories and Definitions

### Fitch's Credit Ratings and Definitions

Short Term Investments		
F1	Highest short-term credit quality	Indicates the strongest intrinsic capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	Good short-term credit quality	Good intrinsic capacity for timely payment of financial commitments.
F3	Fair Credit Quality	Capacity for timely payment is adequate, however near term changes could result in a reduction to non investment grade.
B	Speculative	Minimal Capacity for timely payment, vulnerability to near term adverse changes.
Long Term Investments		
AAA	Highest credit quality	Lowest expectation of default risk. Exceptionally strong capacity for payment of financial commitments which is highly unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality.	Very low default risk with very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A	High credit quality.	Expectations of low default risk. The capacity for payment of financial commitments is considered strong but may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality	Expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative	Elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative	material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.

### Moody's Credit Rating and Definitions

<b>Short Term Investments</b>	
P1	Prime 1 - Issuers have a superior ability to repay short term debt obligations
P2	Prime 2 – Issuers have a strong ability to repay short term debt obligations
P3	Prime 3 – Issuers have an acceptable ability to repay short term debt obligations
NP	Not Prime – No prime rating
<b>Long Term Investments</b>	
Aaa	Judged to be highest quality and subject to the lowest level of risk
Aa	Judged to be high quality and subject to very low credit risk
A	Judged to be upper medium grade and subject to low credit risk
Baa	Judged to be medium, grade and subject to moderate credit risk

Ba	Judged to be speculative and subject to high credit risk
B	Considered speculative of poor standing and are subject to very high credit risk
Caa	Judged to be speculative of poor standing and are subject to very high credit risk
Ca	Highly speculative and are likely in, or very near, default, with some prospect of recovery of principal or interest.
C	Lowest rated and are typically in default

### Standard and Poor's Credit Ratings and Definitions

AAA	Investment Grade – Extremely strong capacity to meet financial commitments
AA	Investment Grade – Very strong capacity to meet financial commitments
A	Investment Grade – Strong capacity to meet financial commitments but susceptible to adverse economic conditions and changes in circumstances
BBB	Investment Grade – Adequate capacity to meet financial commitments but susceptible to adverse economic conditions and changes in circumstances
BB	Speculative Grade – Less vulnerable in the near term but faces major ongoing uncertainties
B	Speculative Grade – Vulnerable to adverse conditions but still has capacity to meet financial commitments
CCC	Speculative Grade – Currently vulnerable and dependent on favourable conditions to meet financial commitments
CC	Speculative Grade – Highly vulnerable default has not yet occurred but is expected to as a virtual certainty
C	Speculative Grade – Currently highly vulnerable to non payment
D	Payment breach of a financial commitment or in breach of an imputed promise

- Credit ratings are obtained and monitored by the Authority's treasury advisers, 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 recalled at no cost will be recalled; and
- Full consideration will be given to the recall of any other existing investments.
- The Section 151 Officer will be notified immediately to consider the appropriate action to be taken, if any, where a credit rating agency announces that it is actively reviewing an organisations credit rating with a view to downgrading it so that it is likely to fall below the Council's minimum criteria.

### **Liquidity Management**

- The Authority prepares a cash flow statement to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium-term financial plan and cash flow forecast.
- The Authority will spread its liquid cash over the approved providers (all domiciled in the UK) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.
- Whilst the Council has no specific exposure, the Head of Finance/Section 151 Officer has continued to follow closely the emerging picture in relation to several Council's financial positions and continues temporarily to suspend the placement of investments with certain councils.
- 

### **Treasury Management Prudential Indicators**

#### **Interest Rate Exposures**

- This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

**Table 23**

<b>Interest rate risk indicator</b>	<b>Limit £000</b>
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£2,238
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	£1,933

- The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

#### **Maturity structure of borrowing**

- This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

**Table 24**

Refinancing rate risk indicator	Upper Limit	Lower Limit
Under 12 months	20%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	40%	0%
10 years and above	100%	0%

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

### Ratio of Relevant Financing Costs to Net Revenue Stream

- This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of any investment income.

**Table 25**

Housing Revenue Account	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
	£M	£M	£M	£M
	%	%	%	%
HRA Rents	23.93	21.05	27.25	38.65
Target	40	40	40	40

**Table 26**

General Fund Account	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
	£M	£M	£M	£M
	%	%	%	%
Non HRA	2.81	2.96	3.06	3.03
Target	5	5	5	5

- The analysis above shows the Council Fund implications remain relatively stable throughout the period. The HRA cost is increasing over the period in line with the aspirations for maintenance and regeneration set out in the draft Housing Business Plan. The plan demonstrates that this level of investment is affordable over the 30 year period of the plan.

### Long-term Treasury Management Investments:

- The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management investments will be:

**Table 27**

Price risk indicator	2026/27	2027/28	2028/29
Limit on principal invested beyond year end	£0m	£0m	£0m

## Related Matters

### Financial derivatives

- The Authority may use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.
- In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering financial derivatives to ensure that it fully understands the implications.
- The Council's current policy is not to enter standalone financial derivatives transactions such as swaps, forwards, futures and options.

### Housing Revenue Account

- The Authority notionally splits its loan pool between General fund and HRA . Interest payable from long term loans are charged to the respective accounts. Interest on balances on the HRA and its earmarked reserves will be credited to the HRA at the Authority's average interest rate on treasury investments. During 2026/27, the Council will consider introducing a more formal apportionment of its loans pool between the General Fund and the HRA

### Housing Revenue Account Prudential Indicators

- Welsh Government have been working with the WLGA, a group of local authority representatives and Savills to develop a set of prudential borrowing indicators in the absence of a borrowing cap and with increasing funding demands placed on the HRA business plan. These measures have not yet been agreed but the aim is to include these in some way in business plan submissions in future years. At present the Council reports to WG with the following prudential indicators:
- Loan to Value
- Debt: Turnover

- Debt: Net Revenue
- Interest Cover

### **Policy on Apportioning Interest to the HRA**

- Interest will continue to be charged to the HRA using a consolidated rate.

### **Markets in Financial Instruments Directive (MIFID)**

- The Authority 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 Authority's treasury management activities, the Section 151 Officer believes this to be the most appropriate status.

### **Investment in Subsidiary – Big Fresh Catering Company**

- On 1st January 2020, the Council set up a Local Authority Trading Company to deliver Catering services called the Big Fresh Catering Company. The Council owns 100% of the company shares. In accordance with WG Investment Guidance this will be classified as a Non Treasury Investment.

### **External Fund Managers**

- External cash or fund managers may be appointed by the Head of Finance/Section 151 Officer to manage all or a proportion of its available cash balances. The external managers are required to comply with:

The Guidance on Local Government Investments issued by Welsh Government.

The Authority's Annual Investment Strategy.

### **Financial Implications**

- The budget for investment income in 2026/27 is £500k, based on the estimated year end reserves balance and forecast grant income flows during the financial year. The projected budget for debt interest payable in 2026/27 is £10.568m, based on the projected debt portfolio as set out in the Treasury Management Strategy Report. This budget assumes that new loans are borrowed at 5%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecasts, performance against budget will be correspondingly different.
- The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Section 151 Officer, having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness.