

<u>AGENDA ITEM</u>			
REPORT TO:		Cabinet	
DATE:		21 January 2025	
PORTFOLIO:		Councillor Vanessa Alexander – Resources & Council Operations	
REPORT AUTHOR:		Carol Worthington – Principal Accountant M Dyson – Executive Director of Resources	
TITLE OF REPORT:		Prudential Indicators Monitoring and Treasury Management Strategy Update – Quarter 3 2025/26	
EXEMPT REPORT:	No		
KEY DECISION:	No	If yes, date of publication:	

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide Cabinet with an update on the Council's treasury management activities for the current financial year till Quarter 3 (Q3). It outlines the performance of investments and borrowing, assesses compliance with the approved Treasury Management Strategy, and highlights any emerging risks or opportunities that may impact the Council's financial position.
- 1.2 This report supports effective budget monitoring and ensures transparency and accountability in the management of public funds.

2. RECOMMENDATION(S)

- 2.1 That members of the Cabinet notes the treasury management activities undertaken during the period and the performance against the approved strategy.

3. BACKGROUND

- 3.1 Local authorities are required to manage their borrowing, investments, and cash flows in a way that is affordable, prudent, and sustainable. This is governed by the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice, which together set the framework for how councils plan and monitor their capital financing and treasury activities.

- 3.2 As part of this framework, councils must set Prudential Indicators each year to support decision-making around capital investment and borrowing. These indicators help demonstrate that the Council's plans are financially sound and that risks are being managed appropriately.
- 3.3 The Council also adopts a Treasury Management Strategy annually, which outlines how it will manage borrowing, investments, and cash balances throughout the year. Regular monitoring reports are required to track performance against the strategy and indicators, and to provide assurance that treasury activities remain aligned with the Council's financial objectives.

4. BORROWING ACTIVITIES DURING THE PERIOD

- 4.1 Table 1 below shows the current borrowing position at Q3 2025/26 compared with the original estimate. The increase in finance leases relating to vehicle purchases has increased the liability and Capital Financing Requirement (CFR) totals.
- 4.2 **Table 1 – Comparison of latest position with the original estimate as at Q3 2025/26:**

Borrowing Position – Q3 2025/26	Original Estimate 2025/26 £'000	Forecast at Q3 2025/26 £'000
External Debt		
Borrowing	9,595	9,595
Other Long-Term Liabilities	1,967	4,088
Total External Debt	11,562	13,683
Capital Financing Requirement	9,190	11,311
Under/(Over) Borrowing	(2,372)	(2,372)

- 4.3 The Council continues to operate within the borrowing limits and targets set at the start of the financial year. A key measure in the Prudential Indicators is the relationship between the Capital Financing Requirement (CFR) and the Council's gross external debt.
- 4.4 The CFR represents the total amount the Council has needed to borrow over time to fund capital investment — such as buildings, infrastructure, and equipment. It reflects the underlying need to borrow, even if the Council chooses to use internal resources (like reserves or cash balances) instead of taking out loans. The gross external debt of £13.683m is the actual amount the Council has borrowed from external sources, such as the LOBO loans and finance leases.
- 4.5 In general, gross debt should not exceed the CFR. This is an important safeguard built into the Prudential Code, as it provides assurance that the Council is not borrowing more than it needs for capital purposes — and crucially, that it is not borrowing to fund day-to-day services, which is not permitted.
- 4.6 In 2025/26, the Council's gross debt is forecast to exceed the CFR by £2.372m, placing us in an over-borrowed position. This is not due to new borrowing, but is explained by:
- Historic loans that are structured with repayment at maturity (i.e. the full amount is repaid at the end of the loan term). These loans keep the gross debt figure high, while the CFR

reduces each year through the Minimum Revenue Provision (MRP) — an annual charge that reflects repayment of capital.

- The implementation of IFRS 16 – Leases, which now requires all lease liabilities (e.g. for vehicles and equipment) to be shown on the balance sheet as debt. This has increased the reported level of gross debt, even though it does not represent new borrowing.
- Timing differences between capital expenditure and financing, which can temporarily affect the CFR.

4.7 Despite this technical position, no new external borrowing has been undertaken, and the Council is not borrowing to support revenue spending. The position is therefore acceptable and well understood.

5. INVESTMENT ACTIVITIES DURING THE PERIOD

5.1 The Council invests surplus cash balances on a short-term basis to ensure that funds are readily available when needed, while also generating a modest return. These balances arise from timing differences — for example, when grants are received before the related expenditure is incurred, or when capital projects are delayed.

5.2 Short-term investments are typically placed in secure, low-risk instruments such as money market funds, government-backed deposits, or other approved counterparties. This approach supports the Council's priorities of:

- **Security:** protecting public funds by minimising investment risk.
- **Liquidity:** ensuring cash is available to meet day-to-day spending needs.
- **Yield:** earning interest to support the revenue budget, where possible.

5.3 The strategy aligns with the CIPFA Treasury Management Code, which requires councils to manage investments prudently, balancing risk and return.

5.4 Table 2 below provides a list of counterparties and the balances invested as at Q3 2025/26.

5.5 **Table 2 – Invested balance by counterparty:**

Investment Portfolio – Q3 2025/26	Balance at Q3 2025/26 £'000
Local Authorities	30,000
Debt Management Agency Deposit Facility	2,400
Money Market Funds	2,000
Bank Deposit Accounts	80
Total Short-Term Investments	34,480

5.6 Table 3 below shows the investments with other local authorities as at Q3 2025/26.

5.7 Table 3 – Local Authority Investments

Local Authority	Date From	Date To	Amount £'000	Interest Rate
<u>Loans Outstanding as at Q3 2025/26</u>				
Cheshire East Council	22-Oct-25	05-Jan-26	2,000	4.250%
Central Bedfordshire	04-Sep-25	04-Feb-26	2,000	4.050%
Surrey CC	14-May-25	16-Feb-26	2,000	4.150%
Wirrall MBC	17-Nov-25	17-Feb-26	2,000	4.200%
Lancashire CC	02-Sep-25	13-Mar-26	2,000	4.050%
City of Bradford Council	28-Aug-25	16-Mar-26	2,000	4.050%
Antrim & Newtownabbey BC	18-Aug-25	18-Mar-26	2,000	4.000%
Guildford BC	22-Dec-25	22-Apr-26	2,000	4.500%
Kingston Upon Hull	23-Oct-25	23-Apr-26	2,000	4.600%
Broxbourne	07-Jul-25	07-May-26	2,000	4.150%
Uttlesford BC	19-Nov-25	19-May-26	2,000	4.450%
West Northamptonshire Council	27-May-25	25-May-26	2,000	4.150%
North Lanarkshire Council	13-Jun-25	12-Jun-26	2,000	4.200%
Eastleigh Council	19-Jun-25	18-Jun-26	2,000	4.300%
Perth & Kinross Council	28-Jul-25	27-Jul-26	2,000	4.150%
Total Local Authority Loans			30,000	

5.8 The Council has one future dated loan agreed at the end of the quarter:

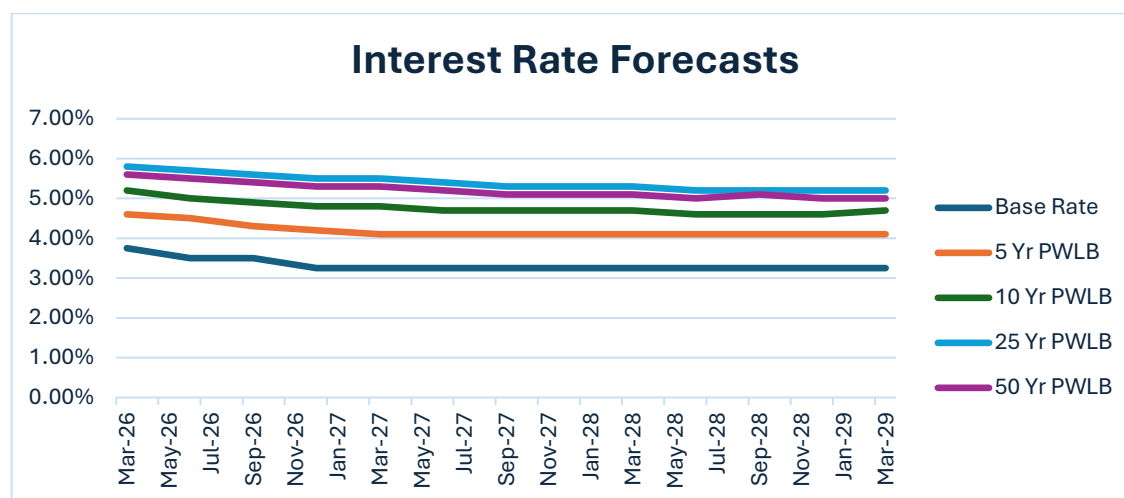
Local Authority	Date From	Date To	Amount £'000	Interest Rate
<u>Future Dated Loans Agreed</u>				
Moray Council	06-Jan-26	05-Jan-27	2,000	4.600%
Total Future Dated Local Authority Loans			2,000	

5.9 To protect public funds, the Council's Finance team carries out thorough checks before agreeing to lend money to other local authorities. These checks help ensure that any investments are secure and that the borrowing authority is financially stable.

6. INTEREST RATES

6.1 The Council has appointed MUFG (formerly Link Asset Services) as its treasury adviser. As part of their role, they provide guidance on expected movements in interest rates to support the Council's investment and borrowing decisions.

6.2 The graph below shows MUFG's latest forecast for future interest rate trends:



MUFG interest rate forecasts as at 22/12/2025.

- 6.3 The latest forecast sets out a view that both short and long-dated interest rates will start to fall, as inflation has fallen closer to the Bank of England's target of 2.00%.
- 6.4 Interest rate risk is minimised as our borrowings are fixed until a trigger point, where the lender seeks better rates. Current interest rates would need to rise significantly for this to occur. With rates expected to fall in the short-term this is unlikely to occur, but this will be monitored closely.
- 6.5 **Interest Receivable**
- 6.6 The Council has invested surplus cash on a short-term, temporary basis. These investments have generated interest income above the budgeted expectations for the year. This is mainly due to:
- Higher levels of cash being held (e.g. from grants received in advance of spending)
 - The Bank of England maintaining interest rates at higher levels than anticipated when the budget was set.
- 6.7 As a result, the Council now expects to receive £0.737m in additional interest income by the end of March 2026. The investment strategy continues to prioritise security and liquidity, ensuring that funds are safe and available when needed.
- 6.8 The Council invests surplus cash in highly rated financial institutions, spreading deposits across multiple banks to reduce risk. This approach helps protect public funds in the event of an unexpected bank failure.
- Deposits are placed with banks where government guarantees are likely to apply
 - No more than £2 million is held with any single bank, except for the NatWest liquidity account, which has a limit of £3 million
 - The Council can place unlimited funds with the Government's Debt Management Account Deposit Facility (DMADF), which offers low risk returns and flexibility.
- 6.9 This strategy continues to deliver a reasonable return while keeping risk to a minimum.

6.10 Interest Payable

- 6.11 The budget included an estimate for interest costs on potential new borrowing. However, as no new borrowing is expected to take place during the year, these interest costs will not be incurred.

6.12 Forecast Revenue Outturn – 2025/26 Q3

- 6.13 Table 4 below shows the forecast revenue outturn position on the Council's Treasury Management activities as at 2025/26 Q3.

- 6.14 The interest forecast has increased since Q2 due to prevailing interest rates overperforming what was expected.

6.15 Table 4 - Forecast Revenue Outturn – 2025/26 Q3

Portfolio Position	Working Budget 2025/26 £'000	Forecast Outturn 2025/26 £'000	Forecast (Under)/ Over Spend £'000
INTEREST RECEIVABLE			
Interest Receivable on Temporary Lending	(700)	(1,437)	(737)
Other Interest Receivable	-	-	-
Total Interest Receivable	(700)	(1,437)	(737)
INTEREST PAYABLE			
Interest Payable on Long-Term Borrowings	440	440	-
Interest Payable on Finance Leases	41	253	212
Other Interest Payable	-	-	-
Total Interest Payable	481	693	212
Minimum Revenue Provision	1,085	1,127	42
Net (Income) / Expenditure from Treasury Activities	866	383	(483)

7. PERFORMANCE AGAINST PRUDENTIAL INDICATORS

- 7.1 The *Prudential Code for Capital Finance in Local Authorities* requires councils to set Prudential Indicators annually for the forthcoming three years. These indicators demonstrate that the Council's capital investment plans are affordable, prudent, and sustainable.
- 7.2 Hyndburn Borough Council adopted its Prudential Indicators for 2025/26 at its meeting in February 2025.
- 7.3 In addition to setting these indicators, the Prudential Code requires the Council to monitor them on a quarterly basis, using a locally determined format. These indicators are intended for internal use and are not designed for comparison between authorities.
- 7.4 Should it become necessary to revise any of the indicators during the year, the Executive Director of Resources will report and advise the Council accordingly.

7.5 Please see **Appendix 1** for a full list of monitoring information for each of the prudential indicators and limits. These include:

- External Debt Overall Limits
- Affordability (e.g. implications for Council Tax)
- Prudence and Sustainability (e.g. implications for external borrowing)
- Capital Expenditure.
- Other indicators for Treasury Management.

7.6 **Liability Benchmark**

7.7 As part of the approved Treasury Management Strategy, the Council set out a Liability Benchmark. This is a key tool that compares the Council's actual borrowing levels against a theoretical benchmark that represents the lowest risk level of borrowing, based on current capital and revenue plans.

7.8 The Liability Benchmark helps the Council understand whether it is likely to be a long-term borrower or a long-term investor. It does this by estimating the minimum level of external borrowing needed to:

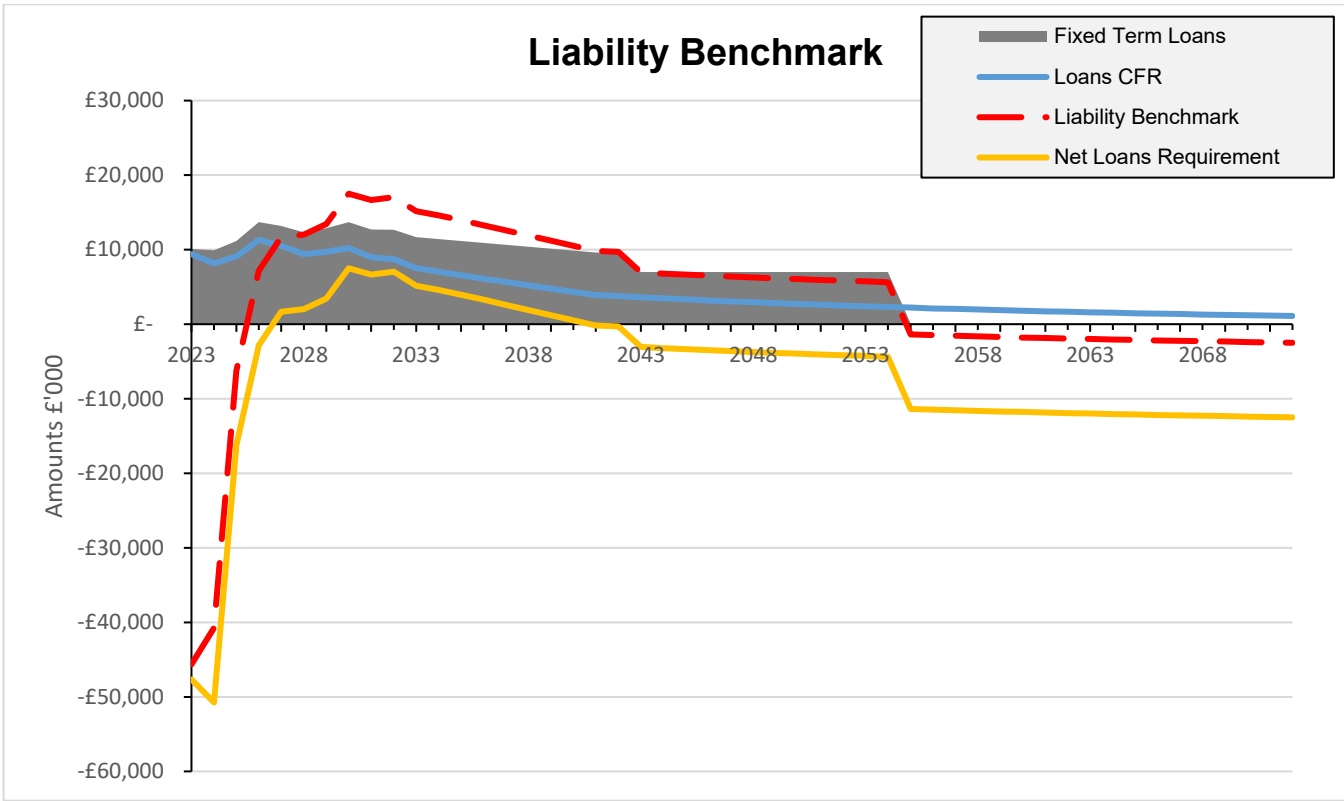
- Fund planned capital expenditure
- Repay existing debt
- Maintain only the minimum level of cash investments required for day-to-day operations

7.9 This insight supports strategic decision-making around future borrowing and investment activity.

7.10 The inputs that determine the Liability Benchmark have been revised to include the increased capital expenditure relating to vehicle leasing and the increased draw down of useable reserves anticipated to support the revenue budget over the MTFS period.

7.11 Based on current forecasts, the Liability Benchmark suggests that the Council may need to undertake new borrowing around the year 2029. However, this is only a projection based on existing capital and revenue plans — it is not a confirmed borrowing requirement and may change as plans and funding sources evolve.

7.12 Liability Benchmark as at Q3 2025/26:



8. ALTERNATIVE OPTIONS CONSIDERED AND REASONS FOR REJECTION

Not applicable.

9. CONSULTATIONS

Not applicable.

10. IMPLICATIONS

Financial (Including any future financial commitments for the Council)	As stated in the report
Legal and human rights implications	The Local Government Act 2003 (part 1) and associated regulations gave statutory recognition to the Prudential Code - therefore there is a statutory backing to the background and local purpose of the report. Treasury Management activities of local authorities are prescribed by statute – the source of powers is, in England & Wales, the 2003 Act. ‘Statutory Guidance’ on investment is given by the MHCLG to local authorities.

Assessment of risk	There are inherent risks in capital finance and treasury management. When appropriate the risks are identified and assessed as part of the various recommendations made on Prudential Capital Finance and in the Council's Treasury Management Strategy.
Equality and diversity implications	There are no specific implications for customers' equality and diversity arising directly from the recommendations in this report

11. **LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985:**

List of Background Papers

- The Local Government Act 2003 and related regulations
- The Prudential Code for Capital Finance in Local Authorities (CIPFA 2021)
- The Treasury Management Code of Practice (CIPFA 2021)
- Prudential Indicators, Treasury Management and Investment Strategy (Including Capital Strategy) approved at full Council 27th February 2025

13. **FREEDOM OF INFORMATION**

The report does not contain exempt information under the Local Government Act 1972, Schedule 12A and all information can be disclosed under the Freedom of Information Act 2000.

Performance Against Treasury & Prudential Indicators in 2025/26

Appendix 1

Indicator	As Approved February 2025			As at 31 Dec 2025			Comments
Estimated Capital Expenditure	£26.054M			£21.861M			The current figure takes account of additional slippage in the capital programme where spend will now be incurred in 2025/26.
Estimated Capital Financing Requirement at Year End	£9.19M			£11.31M			Capital Financing Requirement is a prescribed measure of the capital expenditure incurred historically by the authority which has been financed by external or internal borrowing.
Estimated Ratio of Financing Costs to Net Revenue Stream	10.20%			10.50%			
External Debt Prudential Indicators (Operational Boundary and Authorised Borrowing Limit)	Operational Boundary	£20M		Borrowing to Date	£M		Borrowing has been within both the Operational Boundary and Authorised Borrowing Limit throughout the year.
				Long-Term Borrowing	9.595		
	Authorised Borrowing Limit	£35M		Finance Lease Debt	4.088		
				Total	13.683		
Variable Interest Rate Exposure	100%			Exposure to Date	43%		In 2016/17 Barclays notified the Council that the debt held by Barclays was being converted into fixed rate debt from its original agreement as a LOBO. All remaining LOBO debt is classified as having a variable interest rate.
Fixed Interest Rate Exposure	100%			Exposure to Date	57%		
Prudential Limits for Maturity Structure of Borrowing				Actual Maturity Structure to Date			Borrowings of £4.12M are subject to LOBO (Lender Option Borrower Option) agreements. As they have call periods at 6 monthly intervals they are classed as borrowing under 12 months.
	Period	Lower Limit	Upper Limit	Period	£M	%	
	< 1 Year	0%	75%	< 1 Year	4.120	43%	
	1-2 Years	0%	75%	1-2 Years	-	0%	
	2-5 Years	0%	75%	2-5 Years	-	0%	
	5-10 Years	0%	75%	5-10 Years	-	0%	
	>10 Years	0%	75%	>10 Years	5.405	57%	
				Total	9.525	100%	
Total Investments for Longer than 364 Days	£3M			No Long-Term Investments Made			