Leeds CITY COUNCIL

Report author: M Hasnip/D Brown

Tel: 89384 / 89207

TREASURY MANAGEMENT STRATEGY 2025/26

Date: 26th February 2025

Report of: Interim Assistant Chief Executive – Finance, Traded and Resources

Report to: Full Council

Will the decision be open for call in? ☐Yes ☒No

Does the report contain confidential or exempt information? ☐Yes ☒No

Brief Summary

1.1 This report sets out for Members' approval the Treasury Management Strategy for 2025/26 and provides an update on the implementation of the 2024/25 strategy.

1.2 The Council's level of net external Treasury Management borrowing is anticipated to be £2,631m by 31/03/2025, £21m below the position reported to November's Executive Board. This is because of £21m of forecast slippage in the capital programme for 2024/25.

1.3 From 2024/25 a new accounting standard, IFRS16, will apply to the Council's PFI schemes and leases, bringing leases which were previously classed as operating leases onto the balance sheet as liabilities, and requiring PFI schemes to be re-measured annually for indexation changes. The remeasurement of PFI liabilities is estimated to increase the value of these liabilities on the balance sheet by £127m, but it is important to stress that this is simply a technical accounting change in how the annual unitary charge payments are accounted for, and it does not represent any increase in the amount which the Council is paying under these contracts. Similarly, there is no increase to the actual rentals paid for the leases which will now be shown as additional liabilities on the balance sheet.

1.4 The Bank of England base rate appears to have peaked during 2023/24 at 5.25% and 2024/25 has seen two quarter point cuts with the base rate now at 4.75%, and with further rates cuts expected during 2025/26. The cost of debt is forecast to increase by £6.5m in 2025/26. This is principally due to the increasing borrowing requirement to fund the capital programme coupled with elevated long- and short-term interest rates. Within the overall increase in the budget, external interest costs for the General Fund are budgeted to increase by £8.1m and MRP by £1.7m. This increase is partially offset by charges to revenue in respect of PFI liabilities which are projected to decrease by £2.4m and by projected increases in interest income and other factors within the strategic budget of £0.9m from investing cash balances and from service loans made. In 2025/26 the budget for gross external interest costs for the general fund is £74.5m and the budget for MRP is £66.6m.

1.5 The Authorised Limits for both External Debt and Other Long-Term Liabilities have been reviewed and it is proposed to change them as detailed in Section 8.6.4. The Operational Boundaries have also been reviewed and likewise are proposed to be changed as detailed in Section 8.6.5. The Council's Authorised Limit is set above the Capital Financing Requirement to provide for short term cash flow needs. For Other Long-Term Liabilities both the Operational Boundary and the Authorised Limit have increased to accommodate the adoption of the IFRS16 accounting standard which applies from 01/04/2024.

1.6 In the medium term the strategy for borrowing is to take longer term fixed rate funding as market opportunities arise however with the forecast peak in long term and short-term interest rates during 2023/24 and into 2024/25 remaining elevated the strategy will be to keep the majority of borrowing short-term pending opportunities to lock into attractive lower longer-term rates. However, in order to reduce the level of exposure to changes in interest rates the Council will look to lock in some medium to long-term borrowing through the HRA PWLB facility, reducing the overall level of temporary borrowing forecast for the end of 2024/25. Against this the Council has a stable long-term loan portfolio forecast at 31/03/2025 of £2.29bn that has an average maturity of just under 33 years and is funded at an average rate of 3.32%. An increase in the short-term funding costs of 0.25% over the base assumptions (Table 5) would add £1.3m to the interest costs in 2025/26.

Recommendations

That Full Council note that Executive Board have:

2.1 Approved the treasury strategy for 2025/26 as set out in Section 8.5 and have noted the review of the 2023/24 strategy and operations set out in Sections 8.3 and 8.4.

That Full Council agree that:

2.2 The borrowing limits for the Authorised Limit and Operational Boundary for 2024/25, 2025/26 and 2026/27 for external borrowing be confirmed as set in February 2024 and for Other Long-Term Liabilities the revised limits be set as detailed in Section 8.6 to allow for the adoption of IFRS16 as outlined in paragraph 8.6.3. Also that new limits for 2027/28 for the Authorised Limit be approved at £3,250m for Borrowing and £640m for Other Long-term Liabilities. For 2027/28 the Operational Boundary be approved at £3,050m for Borrowing and £610m for Other Long-term Liabilities. These are explained in detail in Section 8.6 of the report.

2.3 The treasury management indicator for the maturity structure of the Council's borrowing be approved as detailed in Section 8.7 and Appendix A.

2.4 The investment limits for periods greater than 364 days for 2024/25, 2025/26, 2026/27 be confirmed at £150m and a new limit set for 2027/28 at £150m. These are explained in Section 8.8.9 of the report.

What is this report about?

3.1 This report sets out for approval by Members the Treasury Management Strategy for 2025/26 and the revised affordable borrowing limits under the prudential framework. It also provides Members with a review of strategy and operations in 2024/25.

What impact will this proposal have?

4.1 Borrowing Limits for 2024/25, 2025/26, 2026/27 and 2027/28

4.1.1 The Council is required to set various borrowing limits for 2024/25, 2025/26, 2026/27 and 2027/28 in accordance with the Local Government Act 2003, having regard for CIPFA's prudential code. These limits including prudential indicators are detailed in Appendix A.

4.1.2 It is anticipated that the Council will continue to remain within the existing Authorised Limit for 2024/25. Both the Authorised Limit and Operational Boundary are made up of a limit for borrowing and a limit for other long-term liabilities.

4.1.3 The Interim Assistant Chief Executive – Finance, Traded and Resources has delegated authority to adjust between the two separate limits for borrowing and other long-term liabilities, provided that the overall limit remains unchanged. No adjustments between the limits have been made, and any such adjustments would be reported to the next available Council meeting following the change. The limits for Other Long-Term Liabilities have been increased however due to the adoption of IFRS16 as outlined in paragraph 8.6.3 which has resulted in an increase in the carrying value of these arrangements.

4.1.4 Borrowing limits for 2024/25, 2025/26 and 2026/27 were approved by Council on 7th February 2024 and remain unchanged for External borrowing but have been increased for Other Long-Term Liabilities.

How Does This Proposal Impact the Three Pillars of the Best City Ambition?

☒Health and Wellbeing ☒Inclusive Growth ☒Zero Carbon

5.1 The Best City Ambition, underpinned by the three pillars, is the council's strategic plan which sets out the ambitions, outcomes, and priorities for the city of Leeds and for the local authority. These, and the internal ambition for the council to be an Efficient, Enterprising, Healthy and Inclusive Organisation, can only be delivered if the council maintains a sustainable financial position both now, and in the longer-term. The Treasury Management Strategy contributes to this financial sustainability, and secures the borrowing required to deliver the authority's Capital Programme (which is itself framed around the council's strategic priorities).

What consultation and engagement have taken place?

Wards Affected:	
Have ward members been consulted?	☐Yes ☒No

6.1 This report sets the Treasury Management Strategy and as such there is no need to consult the public. In establishing this strategy, consultation with the Council's treasury advisors has taken place.

6.2 The borrowing requirement is an outcome of the capital programme which has been the subject of consultation and engagement as outlined in the capital programme report elsewhere on this agenda.

What are the resource implications?

7.1 This Treasury Management Strategy recognises the borrowing necessary to fund the capital programme requirements of both the General Fund and the Housing Revenue Account (HRA). The revenue costs of borrowing are included within the revenue budgets of the General Fund and HRA.

7.2 The updated strategy 2024/25 is forecast to deliver a saving of £3.5m at Month 9 (December).

What are the key risks and how are they being managed?

8.1 This report sets out the framework for the Treasury Management Strategy for the year ahead. The execution of the strategy and associated risks are kept under regular review through:

- Monthly reports to the Finance Performance Group,
- Quarterly strategy meetings with the Interim Assistant Chief Executive – Finance, Traded and Resources and the Council's treasury advisors,
- Reports to Executive Board 3 times per year (inclusive of this report) covering:
  - Strategy before start of Year and update on current year,
  - Half year update on current year and
  - Report on year after end of the financial year
- Quarterly Reporting of the Prudential Indicators as part of the Council's financial health monitoring process, and
- Regular market, economic and financial instrument updates, and access to real time market information.

8.2 The above monitoring mitigates the directorate level risk of "Failure to recover money invested in other financial institutions" and in addition the Treasury Management Strategy is linked to the corporate risk on 'Financial Forecasting'.

8.3 **Review of Strategy and Borrowing Limits 2024/25**

8.3.1 The Council's level of net external debt is anticipated to be £2,631m by 31/03/2025, £21m below the position reported to Executive Board in November 2024. This is because of £21m of forecast slippage in the capital programme 2023/24 and is detailed in Table 1 below:

Table 1

ANALYSIS OF BORROWING 2024/25		2024/25 Feb 24 Report £m	2024/25 Nov 24 Report £m	2024/25 This This Report £m
Net Borrowing at 1 April		2,511	2,494	**2,494**
New Borrowing for the Capital Programme – General Fund		154	126	**109**
New Borrowing for the Capital Programme – HRA		39	30	**26**
Debt redemption costs charged to Revenue (Incl HRA)		(64)	(64)	**(64)**
Reduced/(Increased) level of Revenue Balances		66	66	**66**
Net Borrowing at 31 March*		2,706	2,652	**2,631**
Capital Financing Requirement				**2,931**
* Comprised as follows				
Long term borrowing	Fixed	2,220	2,290	2,290
	Variable (less than 1 Year)	25	0	0
Net New Borrowing in year		195	158	137
Short term Borrowing / Future Long term Borrowing		306	244	244
Total External Borrowing		2,746	2,692	2,671
Less Investments		40	40	40
Net External Borrowing		**2,706**	**2,652**	**2,631**
% gross borrowing exposed to interest rate risk		19%	15%	14%

Note: The Capital Financing Requirement (CFR) is the maximum level of debt (i.e. borrowing and finance leasing) that the Council can hold for its current year capital purposes. The Council is also allowed to borrow in advance for up to two future years capital programmes.

8.3.2 After the Bank of England's Monetary Policy Committee (MPC) raised rates during 2023/24 to a peak of 5.25% they have now started to reduce rates in 2024/25 via two quarter point cuts in August and November so that the rate now stands at 4.75%. The Council's advisors are now forecasting further gradual reductions with a 3.50% base rate as the low point, possibly in 2026/27.

8.3.3 CPI Inflation is above the MPC target of 2% but the rate fell unexpectedly from 2.6% to 2.5% in December. Markets expect inflation to peak above 3% over the early part of 2025 before falling back towards the 2% target through 2026 and into 2027. Core Inflation also fell in December from 3.5% to 3.2% whilst services Inflation fell from 5.0% to 4.4%. UK GDP Growth was 0% in the three months to October continuing the downward trend seen since late 2024 whilst wage growth has increased from 4.9% to 5.2% in the three months to October. Unemployment however remained at 4.3% in the three months to October 2024. The Budget announcement of late October was generally thought to be inflationary and as a result CPI inflation is expected to remain persistently high through to the end of 2025 however the increase in public sector investment is thought likely to encourage growth, with UK real GDP growth forecast to be 1.7% in 2025. This however is dependent on resolving potential planning issues and the availability of skilled construction workers. An emerging trend is the re-evaluation of the risk premium in respect to the level of government debt both in the UK and through the rest of the western economies as Quantitative Tightening (reversal of QE) adds to the stock of issuance expected by central banks.

8.3.4 In the Eurozone Q3 growth posted an increase of 0.4% in the 3 months to September whilst headline inflation rose slightly from to 2.2% to 2.40% in December. Wage growth figures posted a fall from 4.9% to 4.4% in Q3 whilst unemployment remained higher than in the UK at 6.3%. Lastly the Eurozone base rate is currently 3.15% down from 3.40% previously and from a high of 4.75%

8.3.5 In the United States CPI inflation is currently 2.7% which is up slightly from the previous reading of 2.60% in November 2024. It is also noted that unemployment has fallen slightly from 4.2% to 4.10% in December 2024 and is considered to indicate a relatively tight labour market. The US rate setting body the Federal Open Market Committee (FOMC) now has US rates at 4.5% at December 2024. US GDP Growth remains good at an annual rate of 2.7% in September 2024 after posting a growth rate in the 3 months to September 2024 of 3.1%. A major concern for markets however is the policy position of the new presidency and particularly the stated potential imposition of tariffs on some of its major local trading partners most notably Canada and Mexico. Markets are expected to watch developments in this area closely.

8.3.6 After peaking at 5.25% in 2024 the Bank of England base rate has since been cut twice by 0.25% in August and November 2024 to now stand at 4.75%. Further cuts by the Monetary Policy Committee (MPC) of the Bank of England (BOE) are anticipated by markets possibly in February and May 2025 but additional cuts beyond this are more uncertain.

8.3.7 The Council's treasury advisors' latest forecasts for Quarter 1, 2025 are that PWLB rates for 50-year borrowing will be around 5.40%, 10 Year borrowing around 5.30% and 5 Year at 5.00%. Rates are currently elevated above these levels mainly due to market reactions to the Budget in October and to global uncertainty surrounding the US policy agenda and ongoing tensions with regards to Ukraine and the Middle East. It should be noted that rates are not expected to fall back to the ultra-low levels seen over the previous decade. Please see Table 3 in paragraph 8.4.3 below for the latest rates and forecasts.

8.3.8 During 2024/25 the Council continued the strategy of funding the borrowing requirement from short-term interest rates, balances and reserves whilst taking advantage of longer-term funding opportunities when they arise. However, the Council will look to lock in some medium to long-term borrowing through the HRA PWLB facility to reduce the overall level of temporary borrowing forecast for the end of 2024/25. At Month 9 (December) the debt budget outturn for 2024/25 is projected to deliver a saving of £3.5m. The ability to take longer term funding is discussed in the strategy for 2025/26 however Table 2 below details the new borrowing and repayment of long-term external debt so far during 2024/25. This shows that to date £76.9m has been or is scheduled to be repaid and no new long-term borrowing has been undertaken. Of note is the Dexia Bank LOBO loan repayment in September, which was a repayment at par (without penalty) after the lender exercised the option to change the rate of interest on the loan and the Council exercised its option to repay.

8.3.9 Because long term Interest rates remain elevated no new long-term loans have been taken out during the year so far. However, the advantageous interest rates available from the PWLB for HRA borrowing, at 40bp below the PWLB certainty rates has been extended to 31/03/2026.

Table 2

Repayments and Funding 2024/25								
Repayments					New / Replacement Borrowing			
Date	Amount (£m)	Original Rate (%)	Note	Discount Rate	Date	Amount (£m)	Term (Years)	Interest Rate (%)
PWLB					PWLB			
24/09/2024	25.000	2.06%		n/a				
14/06/2024	1.000	4.31%		n/a				
29/06/2024	1.000	3.81%		n/a				
14/12/2024	1.000	4.31%	*	n/a				
29/12/2024	1.000	3.81%	*	n/a				
11/03/2025	30.000	5.05%	*	n/a				
Sub Total	**59.000**					**0.000**		
Market Loans					Market Loans			
02/04/2024	0.315	0.00%		Salix				
02/04/2024	0.618	0.00%		Salix				
02/04/2024	0.320	0.00%		Salix				
02/09/2024	0.024	0.00%		Salix				
02/09/2024	0.172	0.00%		Salix				
30/09/2024	15.000	3.90%		Option call				
01/10/2024	0.315	0.00%		Salix				
01/10/2024	0.619	0.00%		Salix				
01/10/2024	0.321	0.00%		Salix				
03/03/2025	0.024	0.00%	*	Salix				
03/03/2025	0.172	0.00%	*	Salix				
Sub Total	**17.900**					**0.000**		
Total	**76.900**				**Total**	**0.000**		

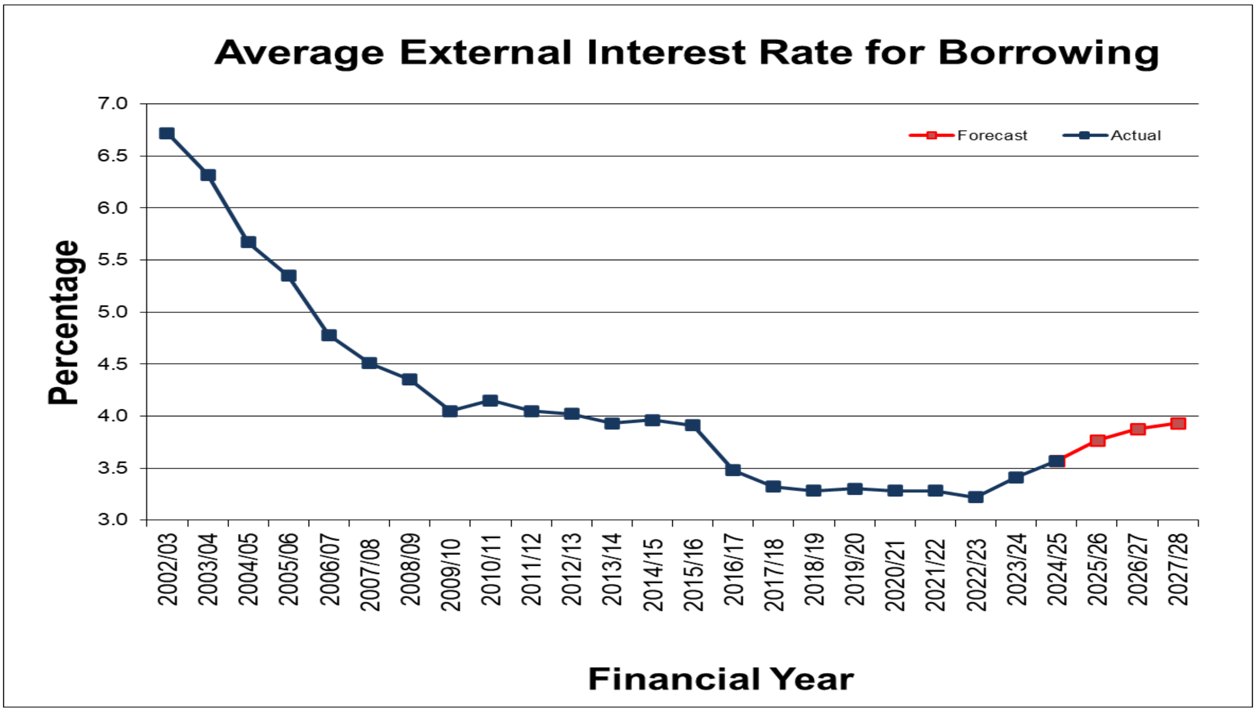
* known maturities that are yet to occur

** Facility Committed not Drawndown at this time

8.4 Interest Rate Review

8.4.1 The average rate of interest paid on the Council's external debt for 2023/24 was 3.41% as reported in the Annual Treasury Management report 2023/24 to Executive Board on 16th June 2024. This rate is forecast to rise to 3.57% for 2024/25, mainly due to the impact of higher interest rates for both long term and short-term borrowing. Chart 1 shows how the average external borrowing rate has fallen from 6.72% in 2002/03. The longer-term expectation is that the Council's average cost of borrowing will begin to rise as the cost of new borrowing increases and short-term funding is potentially switched to longer-term funding. Taking longer term fixed rate borrowing will however reduce the Council's future exposure to potential interest rate increases at the point of switching and as such continues the prudent and sustainable management of the Council's borrowing need.

Chart 1



8.4.2 The market projections for the next move in the bank rate are now for roughly quarterly decreases in 2025/26 with a low point of short-term rates being 3.50% in 2026/27. Table 3 below shows the projected PWLB interest rates over the next two years for a range of maturities.

8.4.3 As agreed with our Treasury advisors the current strategy is to take longer term fixed rate funding at the most opportune time to lock out interest rate exposure. However, the Council will look to lock in some medium to long-term borrowing through the HRA PWLB facility to reduce the overall level of temporary borrowing forecast for the end of 2024/25 and given the short to medium term forecast for both short- and long-term interest rates, longer term borrowing will only be taken when rates fall from what are expected to be temporarily elevated rates. The above strategy looks to manage the level of risk in the overall borrowing portfolio within the budgetary provision. At the point of acquiring longer term funding consideration will be given to:

- Whether the forecast capital borrowing requirement has reduced or slipped into the following year
- The forecast changes to levels of reserves/balances, including the extent to which the Council has received funding in advance of spending for capital schemes.

Table 3

Interest Rate Forecast 2025 to 2028													
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month Average	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month Average	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month Average	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

8.5 Strategy for 2025/26

8.5.1 Table 4 below shows that net borrowing is expected to rise by £129m to £2,760m during 2025/26. This is because of new borrowing to fund the capital programme net of MRP and an anticipated fall in internal resources available to fund the capital programme. The Capital Programme report is presented elsewhere on this agenda.

Table 4

ANALYSIS OF BORROWING 2024/25 – 2027/28		2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Net Borrowing at 1 April		2,494	2,631	2,760	2,874
New Borrowing for the Capital Programme – GF		109	133	131	81
New Borrowing for the Capital Programme - HRA		26	43	32	6
Debt redemption costs charged to Revenue (Incl HRA)		(64)	(65)	(69)	(72)
Reduced/(Increased) level of Revenue Balances		66	18	20	13
Net Borrowing at 31 March		2,631	2,760	2,874	2,902
* Comprised as follows					
Long term borrowing	Existing Fixed	2,290	2,163	2,147	2,135
	Existing Variable (Less than 1yr)	0	60	45	25
Net New Borrowing in year		137	129	114	28
Short term Borrowing / Future long term Borrowing		244	448	608	754
Total External Borrowing		2,671	2,800	2,914	2,942
Less Investments		40	40	40	40
Net External Borrowing		2,631	2,760	2,874	2,902
% Exposure after planned LT Borrowing		14%	23%	26%	27%

Note: Borrowing exposed to interest rate risk in any one year is made up of short term borrowing, new long term borrowing and existing variable loans (i.e. LOBOs with an option falling within the year).

8.5.2 Table 4 above shows that over the 4-year time horizon the proportion of the Council's forecast borrowing portfolio which is exposed to interest rate risk is expected to rise to a maximum of 27% in 2027/28. The forecast for short term borrowing / future long-term borrowing is £780m by the end of 2027/28. This comprises current short-term borrowing, new long-term borrowing to 2027/28 and long-term debt maturities. Over the period to 2027/28 medium/long term borrowing will be taken as detailed in 8.4.3 however the exact split between long term and short term by the end of 2027/28 is yet to be determined. The Variable Interest Rate Exposure Indicator previously required under the Code of Practice has been removed from the revised 2021 version of the Code. This was previously set in relation to the net external borrowing position at a level of 40%. It is now recommended that a more nuanced discussion should be maintained around the interest rate risk contained within treasury management. This will be achieved within the Council through the setting of the annual strategy (this report) and the periodic review of the strategy by Executive Board, Financial Performance Group, Financial Health monitoring and meetings with the Council's Treasury Advisors as well as ongoing monitoring of the TM operation and markets by senior management. Included within the net external borrowing exposure are two elements that are variable, these are short term loans and Lenders Option Borrowers Option (LOBO) loans with an option which falls within 12 months. Any LOBO options exercised during 2025/26 will be reviewed on the exercise of the option by the lender however repayment of the loan without penalty is usually the preferred option of the Council if a lender proposes an increased interest rate. This is due to the forecast for borrowing rates indicating that it is likely that the borrowing repaid in such circumstances can be reborrowed at similar or cheaper long-term rates in due course.

8.5.3 Alongside the Prudential Code structure, the Council's current policy of using its balance sheet strength, reserves, provisions etc. to defray external borrowing presents an exposure to a potential increase in external borrowing should the availability of internal balances reduce unexpectedly. The strategy of acquiring long-term borrowing as outlined in 8.4.3 above will mitigate against this risk. The Council has a forecast need to borrow, its borrowing Capital Financing Requirement (CFR) which at 31/03/2025 is expected to be £2,931m and of which net external funding is expected to be £2,631m. The difference of £300m is the use of internal balance sheet strength to finance this borrowing need. The long-term funding element of the external debt is forecast to be £2,290m by 31/03/2025 and therefore, accepting that in current conditions LOBO options are more likely to be exercised, the Council's gross exposure to this risk is the difference between its CFR and its current stock of long-term external funding or £641m.

8.5.4 This potential exposure will be managed by the strategy outlined in 8.4.3 above of taking longer term borrowing when opportunities arise. This exposure should also be viewed against the context of historical capital programme slippage, the continued strength of the Council's balance sheet and the market for supplying short term funds remaining strong.

8.5.5 If the Council continued to fund its borrowing need from short term and internal sources only then this exposure is forecast to be £1,061m by the end of 2027/28 excluding LOBO options. This would present several risks around continued balance sheet strength, the capacity to continue to supply the market with low-cost borrowing at relatively low rates, sharper than anticipated increases in rates and changes to the economic outlook. However, the strategy which the Council proposes to adopt (see paragraph 8.4.3 above) will ensure that longer term borrowing is taken at appropriate points during this period, so that the total exposure to new borrowing risk does not reach these levels.

8.5.6 The strategy outlined in paragraph 8.4.3 is to take longer term fixed rate borrowing when opportunities arise in combination with some medium-term borrowing for the HRA and the temporary use of short-term borrowing as required. This strategy is considered prudent as base rates are expected to continue to fall in 2025.

8.5.7 The current economic outlook and the structure of market interest rates and government debt yields have several key treasury management implications:

The balance of risks to the UK economy:

- The overall balance of risks to economic growth in the UK is to the downside.

Downside risks to current forecasts for UK gilt yields and PWLB rates include:

- Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).
- The possibility that the Bank of England does not reduce policy rates as quickly as expected.
- The possibility of the US imposing trade tariffs, including against the UK directly, which would slow global and UK activity
- UK / EU trade arrangements – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in resolving trade issues.
- Geopolitical risks, for example in Ukraine/Russia, the Middle East (Including Israel and the Red Sea), China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates:

- The possibility that the Bank of England responds too quickly in its pace of rate reductions and therefore, allows inflationary pressures to build within the UK economy.
- The pound weakens because of a lack of confidence in the UK Government's post-election fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer-term US treasury yields rise strongly if inflation remains more stubborn or policy measures by the new president increase market perceptions of a higher inflationary environment than the market currently anticipates, consequently pulling gilt yields up higher.
- Projected gilt issuance, inclusive of natural maturities and Quantitative Tightening, could be too much for the markets to comfortably digest without higher yields compensating.

8.5.8 The Council's projected long-term debt as at 31/03/2025 of £2.29bn has an average maturity of just under 33 years if all its debt runs to maturity. Approximately 9% of the Council's long-term debt portfolio has options for the lender to propose interest rate increases which could lead to premature repayment (without penalty). In the unlikely event that all these options were exercised at the next option date then the average maturity would be lowered to a little over 29 years. This compares favourably with the average maturity of the UK Government gross debt portfolio of 14.24 years. The existing profile of the Council's debt provides considerable certainty of funding costs. The Prudential Indicator for the maturity structure of the Council's borrowing in Appendix A shows the maturity profile of the Council's debt both long and short term and highlights that 66% or £1,752m matures in periods greater than 10 years.

8.5.9 The cost of debt is forecast to increase by £6.53m in 2025/26 principally due to the increasing borrowing requirement to fund the capital programme coupled with elevated long- and short-term interest rates. Within the overall increase in the budget, external interest costs for the General Fund are budgeted to increase by £8.1m and MRP by £1.7m. This increase is projected to be offset by charges to revenue in respect of PFI liabilities which are projected to decrease by £2.4m and projected increases in interest income and other strategic budget heads of £0.9m from investing cash balances and from service loans made. Forecasts for the debt budget beyond 2025/26 are dependent upon the interest rate assumptions, the likely level of capital spend, and the Council's cash balances. The debt budget is currently forecast to increase by a further £8.8m in 2026/27 and £3.9m in 2027/28 including MRP costs, based upon the assumptions on funding rates in Table 5. The interest rate assumptions and the borrowing requirement arising from the capital programme will be kept under review throughout 2025/26, before establishing the 2026/27 debt budget.

Table 5

Assumed average funding rates	
Year	**Average Interest Rate**
2025/26	5.00%
2026/27	4.50%
2027/28	4.00%

8.5.10 Table 6 below shows the projected gross MRP, and External Interest Payable by the General Fund included within the projected budgets for 2025/26 and 2027/28 but does not include any interest or voluntary set aside payable by the HRA.

Table 6

Heading	2025/26 £m	2026/27 £m	2027/28 £m
Gross MRP	66.60	68.68	71.59
External interest – General Fund	74.5	82.30	86.46

8.5.11 These assumptions on borrowing rates have associated risks. For example, in 2025/26, if the cost of borrowing was 0.25% higher than assumed, full year debt costs would increase by circa £1.3m.

8.6 Borrowing Limits for 2024/25, 2025/26,2026/27 and 2027/28

8.6.1 The Authorised Limit represents the legislative limit on the Council's external debt under the Local Government Act 2003. It should be set with sufficient headroom above the operational boundary to allow flexibility for planned borrowing to be undertaken, for prudent treasury management decisions to be taken and temporary cash flow fluctuations to be managed. The operational boundary should reflect the maximum anticipated level of external debt consistent with budgets and cash flow forecasts. It should be a management tool for on-going monitoring of external debt and may be breached temporarily due to unusual cash flow movements.

8.6.2 Appendix C shows that the Council has kept within the operational boundary and Authorised Limit in 2023/24 for external borrowing and within these limits overall including Other Long-term Liabilities.

8.6.3 The Interim Assistant Chief Executive – Finance, Traded and Resources has delegated responsibility to adjust between the two separate limits for borrowing and other long-term liabilities, provided that the overall limit remains unchanged. Any such adjustments will be reported to the next available Council meeting following the change. The Adoption of IFRS16 has resulted in the recalculation of the carrying balance for Other Long-term Liabilities which includes PFI scheme and Finance leases shown on the balance sheet. A sum was initially included within the limit to accommodate this increase however the actual calculation has resulted in the need to increase both the Authorised Limit and Operational boundary for Other Long-Term liabilities for years 2024/25 to 2026/27. It is recommended that Council approve the following Authorised Limits for its gross external debt and other long-term liabilities for the next three years.

8.6.4 After reviewing the forecast debt and borrowing position together with the forecast for revenue balances and MRP, the Limit for borrowing is recommended to remain the same for 2024/25, 2025/26 and 2026/27 as shown in table 7 below. For 2027/28 a new limit should be set at £3,250m. The Limit for Other Long-Term Liabilities is recommended to be increased as shown below and in table 9 for the years 2024/25 to 2026/27 This accommodates the introduction by the Council of new accounting arrangements which have been optional since 2022/23 and are mandatory from 2024/25. It is further recommended that a new limit be set for the year 2027/28 of £640m to reflect the forecast amortisation of PFI liabilities and finance leases.

Table 7

Authorised Limit	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**
Borrowing	3,200	3,200	3,200	3,250
Other Long-Term Liabilities	700	700	670	640
Total	**3,900**	**3,900**	**3,870**	**3,890**

Recommended: Authorised Limits as above

8.6.5 In line with the review of the Authorised Limits above it is proposed to amend the Operational Boundaries as shown in Table 8 below. This limit will retain sufficient headroom to accommodate anticipated cash flow variances. The limit for borrowing is recommended to remain the same for the years 2024/25, 2025/26 and 2026/27. For 2027/28, a new limit should be set at £3,050m. The limit for Other Long-Term Liabilities is recommended to be increased as shown below and in table 9 for the years 2024/25 to 2026/27. This accommodates further inclusions because of anticipated lease accounting changes. It is further recommended that a new limit be set for the year 2027/28 of £610m to reflect the forecast amortisation of PFI liabilities and finance leases.

Table 8

Operational Boundary	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**2027/287 £m**
Borrowing	2,900	2,950	3,000	3,050
Other Long-Term Liabilities	670	670	640	610
Total	**3,570**	**3,620**	**3,640**	**3,660**

Recommended: Operational Boundaries as above

8.6.6 Table 9 below details separately the borrowing and Other Long-Term Liabilities element of the Authorised Limit and compares this to the projected CFR. The revised Authorised Limit and the Operational boundary remain in line with the projected CFR. The CFR is the Council’s actual need to borrow based on its historic capital programme and forecast future capital programme. The limits reflect the significant level of balances being used internally to fund the borrowing need. These limits therefore leave headroom for future injections into the programme or external investment of Council balances. Whilst the impact of the IFRS 16 accounting changes on PFI liabilities has been assessed, the impact on leases has not yet been fully quantified and therefore an estimated allowance has been included within the CFR projection for other long-term liabilities in table 9 below.

Table 9

year	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	
External Borrowing					
CFR Projection.	2,932	3,066	3,184	3,220	
Authorised Limit					
Current	3,200	3,200	3,200	-	
Proposed	3,200	3,200	3,200	3,250	
Increase / (Decrease)	-	-	-	3,250	a
Operational boundary					
Current	2,900	2,950	3,000	0	
Proposed	2,900	2,950	3,000	3,050	
Increase / (Decrease)	-	-	-	3,050	a
Other Long Term Liabilities					
CFR Projection.	578	541	500	462	b
Authorised Limit					
Current	570	530	490	-	
Proposed	700	700	670	640	
Increase / (Decrease)	130	170	180	640	a/b
Operational boundary					
Current	550	510	470	0	
Proposed	670	670	640	610	
Increase / (Decrease)	120	160	170	610	a/b

a) Note 2026/27 has not been set previously as these limits are only set for the current +3 year time horizon
b) The limits for Other long term liabilities OLTL includes provision for IFRS 16 revaluations in relation to PFI only

8.7 Treasury Management Indicators

8.7.1 Appendix A details the borrowing limits and other prudential indicators and provides forecasts and limits based on the current Treasury Management projections.

8.7.2 The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services 2021.

8.7.3 The Council is required to set upper and lower limits for the maturity structure of its borrowings. This is designed to limit the risk of exposure to high interest rates by restricting the level of maturing debt in any given year. The limits represent the amount of projected borrowing that is maturing in each period as a percentage of total projected borrowing. This is detailed in Table 10 below:

Table 10

Maturity structure of borrowing	Lower Limit	Current Upper Limit All Debt	Proposed Upper limit All debt
under 12 months	0%	25%	no change
12 months and within 24 months	0%	20%	no change
24 months and within 5 years	0%	35%	no change
5 years and within 10 years	0%	40%	no change
10 years and within 20 years 20 years and within 30 years 30 years and within 40 years 40 years and within 50 years 50 years and above	25%	90%	no change

Recommended: **Upper and Lower limits on maturity structure to remain unchanged.**

8.8 Treasury Management Investment Strategy and Limits

8.8.1 The CIPFA Codes and Guidance require Local Authorities to report on and monitor Non-Treasury Investments, service loans, guarantees and commercial investments. These are outside the scope of the Treasury Management function due to the differing risk profile and complexity of these transactions. Strategic considerations and reporting requirements for non-treasury investments are therefore included within the Capital and Investment Strategy, which is attached as an appendix to the Capital Programme Report which is elsewhere on this agenda.

8.8.2 The Council's actual external borrowing need is reduced by the availability of revenue balances. The Treasury policy allows for the external investment of these balances at advantageous rates but with due regard for security of capital invested. Investment of surplus balances in general will be limited to cash flow and liquidity management although the interest rate outlook will be kept under review to identify any opportunities for longer term investment.

8.8.3 The approved lending list is based upon the assessment of the financial standing of counterparties as determined by international credit rating agencies and further refined and updated by the Council's advisors on a continual basis. The lending list is often further restricted based upon the Council's own view of the credit worthiness of counterparties.

8.8.4 The investment strategy allows for the Council to invest in the most highly rated financial institutions around the world. The Council will only lend up to a maximum of £15m to financial institutions that are rated as excellent. There is also a limit of £5m for financial institutions that are rated as very good.

8.8.5 Any changes in the investment environment are being monitored closely as is the effect on the credit list supplied by the Council's treasury advisors. Other factors are also used in determining potential counterparties for the investment of funds over and above credit ratings.

8.8.6 The Council under its existing Treasury Management Policy Statement has the authorisation to use Money Market Funds, although it has not utilised these to date. The rates offered on notice accounts by both the Council's bankers and by other banks offering similar products continues to be at low levels. As a result, the levels on offer are at or below rates available from Money Market Funds which carry a higher credit worthiness rating. A review of the possible benefits of these funds is being undertaken for depositing short term cash balances and any decision to utilise these accounts will be made under delegations already in place to the Interim Assistant Chief Executive – Finance, Traded and Resources.

8.8.7 The Prudential code requires that Councils set limits on Treasury Management investments for periods longer than 364 days. It is proposed to maintain the limits as outlined below in Table 11 and roll the limit forward into 2026/27.

Table 11

Total principal sum invested for a period longer than 364 days	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**
Upper limit	150	150	150	150

Recommended: Upper limit on sums invested for periods longer than 364 days to remain unchanged and a new limit for 2027/28 to be approved of £150m

8.8.8 Currently the Council has several limits in place for Treasury management investments which can be summarised as £15m for excellent rated counterparties including Local Authorities and governmental bodies, £5m for counterparties rated as good and no limit for non-investment grade counterparties. Further a Group limit of £30m exists as a maximum that can be lent to one group comprising several banking licenses such as the Lloyds or RBS groups. The Council has no limit for deposits with its bankers as part of its banking arrangements or with the DMADF facility offered by the Debt Management Office of HM Treasury.

8.8.9 These limits have been in place for several years and Table 12 below details the Treasury Management investments limits.

Table 12

Investment Class	**Maximum Period**	**Current limit £m**	**New limit £m**
Banking Arrangements with NatWest	Call Account	Unlimited	Unlimited
DMADF	6 months maximum	Unlimited	Unlimited
Excellent Rated Counterparties			
Red			
Blue (UK Part nationalised banks)	6 Months	15	15
Orange	1 Year	15	15
Purple	1 Year	15	15
Yellow (Includes Local Authorities)	2 Years	15	15
	5 years	15	15
Good Rated Counterparties			
Green	100 Days	5	5

Recommended: The period limits remain the same for each class of Counterparty.

8.9 Non-Treasury Management Investments

8.9.1 As noted above, the revised CIPFA Codes include new limits and prudential indicators in relation to non-Treasury Management investments. These are addressed within the Capital and Investment Strategy, which is included elsewhere on this agenda. However, the proposed limits and indicators are included within Appendix A of this report for completeness.

What are the legal implications?

9.1 In accordance with the Council's Budget and Policy Framework, decisions on borrowing limits, treasury management indicators, investment limits and the Treasury Management Policy Statement are approved by Council. As such, this report is not subject to call in.

9.2 There are no legal, or access to information issues arising from this report.

9.3 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) made pursuant to the Local Government Act 2003 require the Council to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities ("The Prudential Code"). Regulations 23 and 24 provide respectively that capital receipts may only be used for specified purposes and that in carrying out its capital finance functions, a local authority must have regard to the code of practice in "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" ("The Treasury Code") issued by CIPFA.

9.4 In relation to the Annual Investment Strategy, the Council is required to have regard to the Guidance issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003 entitled "Statutory guidance on Local Government Investments 3rd Edition" which is applicable from and effective for financial years commencing on or after 1 April 2018.

In addition, the Prudential Code and the Treasury Management Code contain investment guidance which complements the Statutory Guidance mentioned above.

9.5 Local authorities are required to have regard to the current editions of the CIPFA codes by regulations 2 and 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended.

9.6 Under the provisions of Section 3(1) and (8) of the Local Government Act 2003, the Council must determine and keep under review how much money it can afford to borrow, and the function of determining and keeping these levels under review is a full Council, rather than an executive function.

9.7 The Council must also have regard to the Guidance issued by the Secretary of State under Section 21(1A) of the Local Government Act 2003 entitled "Statutory guidance on minimum revenue provision."

9.8 The Prudential Code requires authorities to prepare a capital strategy.

Options, timescales and measuring success

a) What other options were considered?

This report provides an update to the 2024/25 strategy and outlines the proposed strategy for 2025/26. This update and strategy are provided to Executive Board and Full Council regarding Treasury Management operation and activity. As such other options are not considered in this report. The recommendations contained within this report are required under CIPFA's the Prudential Code for Capital Finance in Local Authorities 2021 and Treasury Management in the Public Services, Code of practice and cross sectoral guidance notes 2021 and as a result of the legal framework as outlined in Section 9 of this report.

b) How will success be measured?

Treasury Management continues to adhere to its governance framework including the CIPFA Code of Practice, the Prudential Codes 2021 and revised CIPFA guidance notes issued in 2022. In accordance with the Treasury Management Code, the Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities and of any financial investments entered into and will focus on their risk implications for the Council and the management of these risks. All borrowing and investments undertaken to date during 2024/25 have been compliant with the governance framework.

Progress against this 2025/26 strategy will be reported to Executive Board via an update report during the year and a final outturn report. The revenue cost of debt will continue to be monitored within the Council's overall monthly budget monitoring process. In addition, an update on the prudential indicators will be included within financial health reports to Executive Board.

Other measures of success will include remaining within any limits set as part of the Prudential Indicators such as the Authorised Limit, Operational Boundary, the Limit on Treasury management Investments greater than 364 days and the Maturity Structure of External borrowing. A further measure of success will be remaining within the revenue budget for Debt approved by Full Council as part of the budget setting process.

Benchmarking of Treasury Management activity is only undertaken on an ad-hoc basis as the structure of debt portfolios and balance sheets of similar authorities often reflects the timing of past spending and financing decisions and therefore can lead to anomalies. The CIPFA Prudential Code makes it clear that prudential indicators should not be used for benchmarking purposes for this reason.

c) What is the timetable for implementation?

This report is to confirm the successful operation of the Treasury Management strategy within the established legal and operational framework and is a continuous and on-going process.

Appendices

1. Appendix A — Prudential indicators 2024/25 to 2027/28
2. Appendix B — Liability benchmark 2024/25 to 2033/34
3. Appendix C — Prudential Code Monitoring 2024/25 – Debt

Background papers

None

Appendix A - TMSS PI's

DM10c

	Notes		Current year 2024.25	Year+1 2025.26	Year+2 2026.27	Year+3 2027.28
PRUDENTIAL CODE INDICATORS						
CAPITAL EXPENDITURE						
Estimate of Capital Expenditure	a					
General Fund		£k	273,279	298,359	308,187	149,735
Housing Revenue Account		£k	113,382	161,047	140,928	106,039
Total		£k	386,661	459,406	449,115	255,774
Capital Financing Requirement	b					
Borrowing - General Fund		£k	2,132,592	2,223,162	2,311,246	2,341,844
Borrowing - Housing Revenue Account		£k	798,845	841,534	873,193	879,225
Sub Total Borrowing		£k	2,931,437	3,064,696	3,184,439	3,221,069
Other Long Term Liabilities - GF		£k	462,745	433,723	400,490	370,412
Other Long Term Liabilities - HRA		£k	115,083	106,840	99,184	91,071
Sub Total Other Long Term Liabilities		£k	577,828	540,563	499,674	461,483
Total Capital Financing Requirement		£k	3,509,265	3,605,259	3,684,113	3,682,552
EXTERNAL DEBT						
Operational Boundary	c					
External Borrowing		£k	2,900,000	2,950,000	3,000,000	3,050,000
Other Long Term Liabilities		£k	670,000	670,000	640,000	610,000
Total			3,570,000	3,620,000	3,640,000	3,660,000
Authorised Limit	c					
External Borrowing		£k	3,200,000	3,200,000	3,200,000	3,250,000
Other Long Term Liabilities		£k	700,000	700,000	670,000	640,000
Total		£k	3,900,000	3,900,000	3,870,000	3,890,000
Actual External Debt (year end Forecast)	d					
PWLB		£k	1,842,737	1,778,737	1,755,925	1,726,925
Market (Inc LOBO)		£k	446,936	444,037	435,509	432,657
Short term (Actual)		£k	0	0	0	0
Short term (Forecast)		£k	381,799	577,698	723,037	782,889
Total Gross External Debt		£k	2,671,472	2,800,472	2,914,471	2,942,471
Other Long Term Liabilities		£k	577,828	540,563	499,674	461,483
Total Including OLTL		£k	3,249,300	3,341,035	3,414,145	3,403,954
Gross Debt and the CFR	e					
External Borrowing			ok	ok	ok	ok
Other Long term Liabilities			ok	ok	ok	ok
Total Gross Debt and the CFR			ok	ok	ok	ok
AFFORDABILITY						
Estimate of Financing Cost to Net revenue Stream	f					
External Borrowing Only - General Fund						
Financing Cost		£k	127,288	138,390	146,495	153,308
Net Revenue Stream		£k	621,960	655,700	689,700	725,000
Ratio		%	20.47%	21.11%	21.24%	21.15%
Including Other Long Term Liabilities - GF	f					
Financing Cost		£k	175,243	186,793	197,134	200,702
Net Revenue Stream		£k	621,960	655,700	689,700	725,000
Ratio		%	28.18%	28.49%	28.58%	27.68%
External Borrowing Only - Housing Revenue Account	f					
Financing Cost		£k	30,574	32,471	33,726	33,778
Net Revenue Stream		£k	281,715	287,604	291,719	291,719
Ratio		%	10.85%	11.29%	11.56%	11.58%
Including Other Long Term Liabilities - HRA	f					
Financing Cost		£k	46,795	47,463	47,505	47,350
Net Revenue Stream		£k	281,715	287,604	291,719	291,719
Ratio		%	16.61%	16.50%	16.28%	16.23%

INVESTMENTS

Non Treasury Financial investments			80,000	80,000	80,000	80,000
Non Treasury Property investments			200,000	200,000	200,000	200,000
Limit on non-Treasury Investments and loans	g		280,000	280,000	280,000	280,000
Estimate of Net Income from Investments for Commercial and Service Purposes	g					
Income		£k	7,030	6,992	6,992	6,993
Ratio of Income from Commerical and Service Puposes to Net revenue Stream		%	1.08%	1.05%	1.00%	0.95%

TREASURY MANAGEMENT CODE INDICATORS

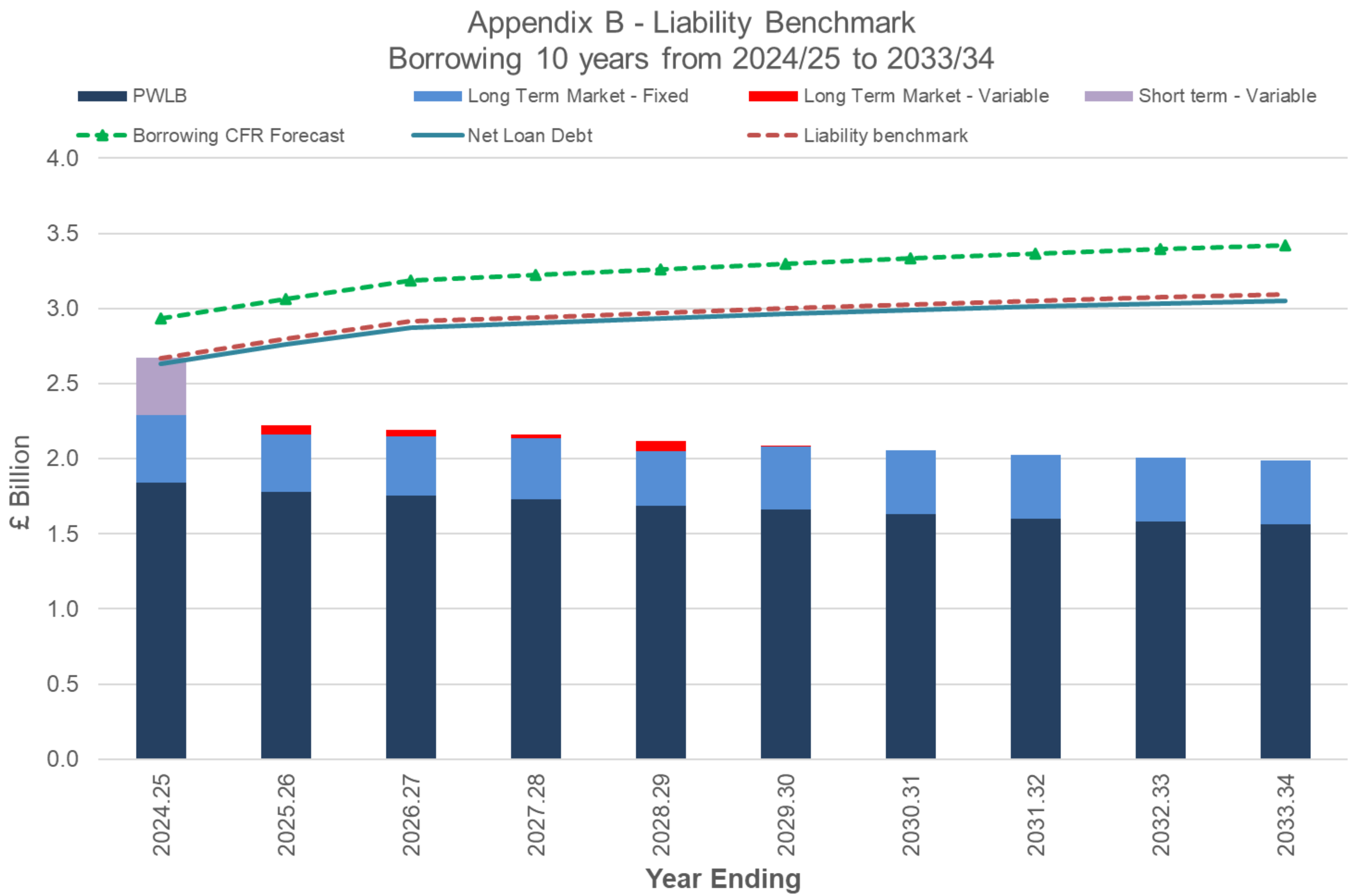
Liability Benchmark for Borrowing — See attached

Maturity Structure of Borrowing 2024/25	h	Lower	Upper	Projected 31/03/2025	%
under 12 mths		**0%**	**25%**	448,700	17%
12 mths and within 24 mths		**0%**	**20%**	76,339	3%
24 mths and within 5 years		**0%**	**35%**	240,241	9%
5 years and within 10 years		**0%**	**40%**	153,768	6%
10 years and within 20 years				59,000	
20 years and within 30 years				304,252	
30 years and within 40 years		**25%**	**90%**	669,173	66%
40 years and within 50 years				595,000	
50 years and above				125,000	
				2,671,473	100%

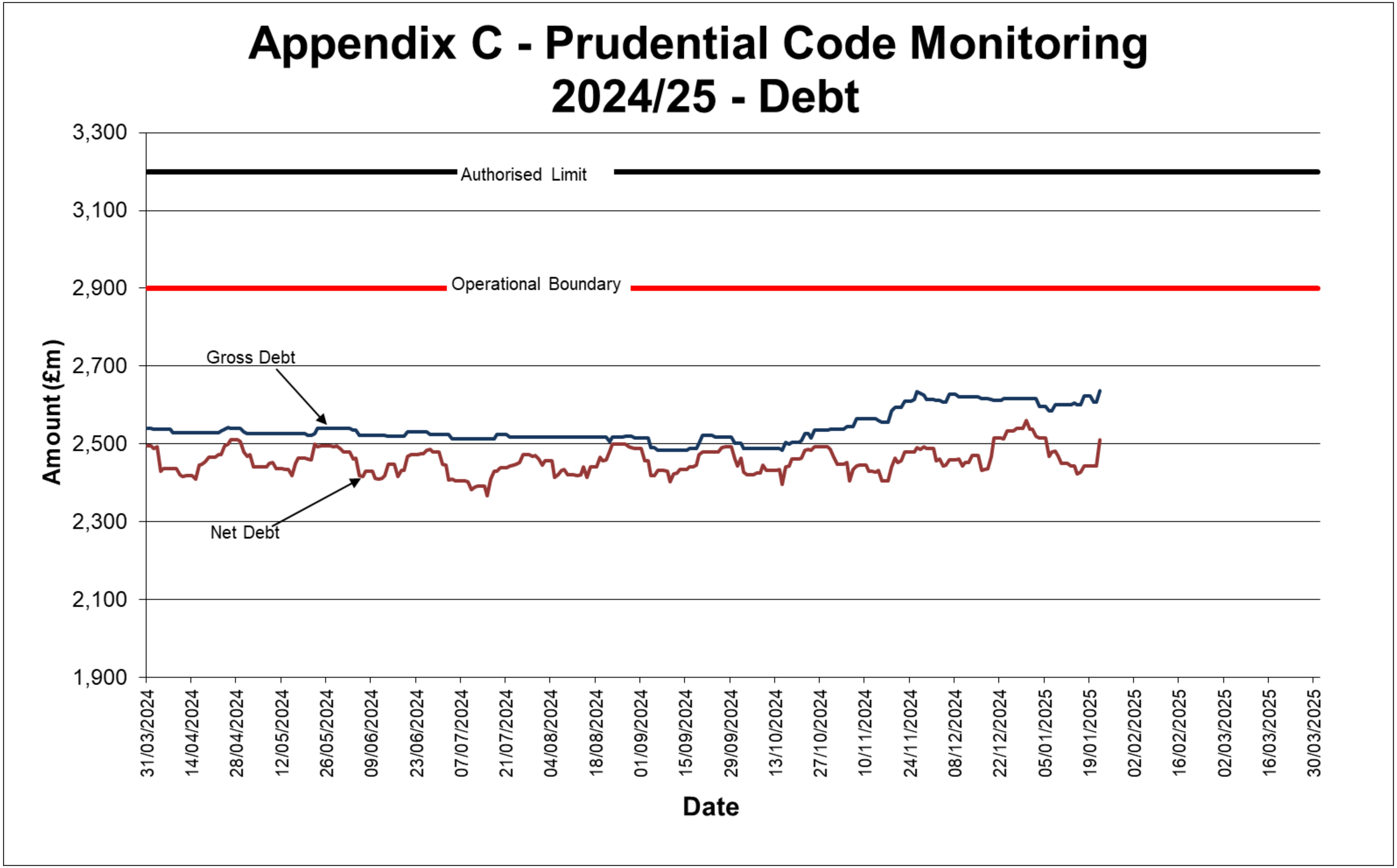
Upper limit for long term Teasury Investments to mature in following years	i	
Year +1		150,000
Year +2		150,000
Year +3		150,000

Notes

a Forecast of capital expenditure for year at period end, actual at year end outturn
b Forecast of CFR for year end at period end, actual at year end outturn
c Authorised limit and Operational Boudary as set at the Budget setting time should only change in exceptional circumstances
d This is the year end forecast for DEBT and OLTL with Short term being the balancing figure
e In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that total gross debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative
f Code only requires full comparison of debt costs including OLTL to Net revenue Streams however the Council have always reported the external borrowing metrics which are more informative.
g This is all investments under the code for Service or Commercial purposes and excludes Investments for Treasury Management purposes
h This now includes all external debt including variable and short term external debt
i This is non specified Treasury Management investments typically with a duration of greater than 364 days



Appendix B - Liability Benchmark
Borrowing 10 years from 2024/25 to 2033/34
PWLB
Long Term Market - Fixed
Long Term Market - Variable
Short term - Variable
Borrowing CFR Forecast
Net Loan Debt
Liability benchmark
£ Billion
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
2024.25
2025.26
2026.27
2027.28
2028.29
2029.30
2030.31
2031.32
2032.33
2033.34
Year Ending


Appendix C - Prudential Code Monitoring
2024/25 - Debt
Authorised Limit
Operational Boundary
Gross Debt
Net Debt
Amount (£m)
3,300
3,100
2,900
2,700
2,500
2,300
2,100
1,900
31/03/2024
14/04/2024
28/04/2024
12/05/2024
26/05/2024
09/06/2024
23/06/2024
07/07/2024
21/07/2024
04/08/2024
18/08/2024
01/09/2024
15/09/2024
29/09/2024
13/10/2024
27/10/2024
10/11/2024
24/11/2024
08/12/2024
22/12/2024
05/01/2025
19/01/2025
02/02/2025
16/02/2025
02/03/2025
16/03/2025
30/03/2025
Date