

AUDIT COMMITTEE
21 JULY 2025

ITEM NO.

QUARTER 1 PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT MONITORING REPORT
2025/26

SUMMARY REPORT

Purpose of the Report

1. To provide an update on Treasury Management activities and Prudential Indicators at quarter 1 2025/26 in accordance with the CIPFA Code of Practice.

Summary

2. The Council's Treasury Management Strategy for 2025/26 was approved by Council on 20th February 2025.
3. This report summarises the Council's borrowing and investment position as at 30th June 2025 and provides the latest update of the Prudential Indicators which are included at Annex 1.

Recommendation

4. It is recommended that:
 - (a) The Audit Committee note the quarter 1 Treasury Management update.
 - (b) The Audit Committee note the Prudential Indicators outlined in Annex 1 (updated where applicable) and note the compliance with the indicators.

Reasons

5. The recommendations are supported by the following reasons :-
 - (a) In order to comply with the CIPFA Code of Practice for Treasury Management.

Elizabeth Davison
Executive Director - Resources and Governance

Background Papers

- (i) Prudential Indicators & Treasury Management Strategy 2025/26
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(ii) The Prudential Code for Capital Finance in Local Authorities

Judith Murray: Extension 5204

Council Plan	The Council's treasury management contributes to all priorities outlined within the Council Plan.
Addressing inequalities	This report is providing an update on prudential indicators and the monitoring of the Council's treasury management. There is therefore no impact as a result of this report.
Tackling Climate Change	This report is providing an update on prudential indicators and the monitoring of the Council's treasury management. There is therefore no impact as a result of this report.
Efficient and effective use of resources	This report contains updated information regarding the Council's treasury management position
Health and Wellbeing	This report is providing an update on prudential indicators and the monitoring of treasury management therefore there is no impact as a result of this report.
S17 Crime and Disorder	This report has no implications for crime and disorder
Wards Affected	No specific impact on an individual area as a result of this report
Groups Affected	No specific impact on an individual area as a result of this report
Budget and Policy Framework	This report does not recommend a change to the Council's budget or policy framework
Key Decision	This is not a key decision
Urgent Decision	This is not an urgent decision
Impact on Looked After Children and Care Leavers	This report has no impact on Looked After Children or Care Leavers

MAIN REPORT

Information and Analysis

6. This quarter 1 review report meets the regulatory framework requirement of Treasury Management and has been prepared in compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management. It covers the following:
 - A review of the treasury position as at 30th June 2025.
 - A review of the Council's investment portfolio.
 - A review of the Council's borrowing strategy.
 - A review of the compliance with the Treasury and Prudential Limits.
 - An update of the Prudential Indicators (set out at Annex 1)

Economic Update

7. During the first quarter of 2025/26 we saw CPI inflation decrease from 3.8% in April to 3.5% in May and the Bank of England cut interest rates from 4.50% to 4.25% in May, holding them steady in June.
8. The view of the Council's treasury management advisors (MUFG) is that further cuts to the bank rate will continue to be dependent on economic data. They forecast the next reduction of the bank rate to be made in November and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the Bank of England's Quarterly Monetary Policy Reports (February, May, August and November). Any movement below 4% will very much be dependent on inflation data releases in the coming months.

Treasury Management Strategy 2025/26

9. The Council's Treasury Management Strategy 2025/26 was approved by Council on 20th February 2025.
10. There are no investment policy changes and the details in this report do not amend the Strategy.

Overall Treasury Position 30th June 2025

11. Table 1 below shows the Council's net treasury investment position for the period ending 30th June 2025 along with the original estimates for 2025/26
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Table 1

	2025/26 Original Estimate	30/06/25 Actual
	£m	£m
Debt	182.878	174.738
Loans to Joint Ventures	22.268	8.740
Other Long Term liabilities	6.317	9.932
Gross Debt	211.463	193.410
Investments	41.357	50.318
Net Debt	170.106	143.092

12. The 2025/206 Original Estimate is the projected estimate as at 31st March 2026. The 30th June 2025 actual figure is the position of the Council as of that date.
13. The change in Other Long Term liabilities relates to the introduction of IFRS16 – Leases which mandates the Council to include most operating leases on the Balance Sheet and therefore requires it to recognise these as a Long Term liability. These are known as Right of Use Assets. The full impact of IFRS16 was not known at the time of agreeing the Strategy for 2025/26 as the figures were finalised as part of the 2024/25 Statement of Accounts, however rental payments on these leases will reduce this balance over the years.

Investment Portfolio

14. Table 2 shows the Council's current investments as at 30th June 2025

Table 2

Investments	Value (£m)	Average Interest/Return Rate
	£m	%
Money Market Funds	25.000	4.26
Property Funds	25.318	
Total Investments	50.318	

Table 3

15. The target for our investment returns is to better or at least match a number of external comparators. This performance indicator is known as yield benchmarking.

	Cashflow Investments %
Darlington Borough Council – Actual	4.26
External Comparators	
Sterling Overnight Index Average (SONIA) – to 30 th June	4.21

16. The Council is using its cash balances to delay taking on long-term borrowing whilst interest rates remain high. The effect of this is that there is less cash available for longer term investment and cash balances are held in more liquid funds.
17. As reported in the Prudential Indicators and Treasury Management Report 2025/26, one of our property funds (Hermes Federated) is exploring a merger with a larger property fund. This process is now in the final stages and we are expecting the outcome to be confirmed in July. Next steps in relation to investments will be considered once the outcome is confirmed.

Borrowing Requirement and Debt

18. The Council undertakes long-term borrowing in accordance with the investment requirements of the capital programme and all borrowing is therefore secured for the purpose of its asset base.
19. The level of borrowing taken by the Council is determined by the Capital Financing Requirement (CFR) which is the Council's underlying need to borrow for capital expenditure purposes. Borrowing needs to be affordable, sustainable and prudent.
20. Table 4 shows the Council's underlying need to borrow to finance capital expenditure as per the latest information which is the Annual Treasury Management Report 2024/25.

Table 4

	2025/26 Original Estimate	2024/25 Actual
	£m	£m
Prudential Indicator- Capital Financing Requirement		
Opening CFR- Post Audit of Accounts	248.267	233.973
CFR General Fund	152.420	147.699
CFR General Fund PFI/Leasing IFRS	6.317	9.932
CFR – Housing	85.778	76.371
CFR – Loans to Joint Ventures	22.268	13.611
Total Closing CFR	266.783	247.613

21. There has been no change to this position as at 30th June 2025.

Borrowing Portfolio

22. The Council's actual borrowing position as at 30th June 2025 is shown in Table 5 below.

Table 5

	2025/26 Original Estimate	30/06/25 Actual
	£m	£m
PWLB	123.278	123.138
Market Loans (Annuity)	0.000	0.000
Market Loans (Maturity)	4.400	4.400
Non-Market Loans (Maturity)	47.000	42.000
Market Loans (LOBO's)	8.200	5.200
Total Borrowing	182.878	174.738

23. Three new loans have been taken out since the 2025/26 estimate totalling £15m. These loans are short term and have been used to repay loans which were at a higher rate.

24. In May the Council received notice that the rate on its Lender Option Borrower Option (LOBO) loan with Dexia would be changing from 3.94% to 6.54% in accordance with the loan instructions. The Council was approached by our Treasury Management advisors who had provided an alternative option to retain the loan but over a different time period, the other option was to repay the loan in full from cash balances and refinance in the future when interest rates are forecast to decrease. Modelling was undertaken of the options and a decision was taken to repay the LOBO in full which provided a saving on interest payable costs.

Compliance with Treasury Policy and Prudential Indicators

25. As part of the Treasury Strategy for 2025/26 the Council set a number of prudential indicators. Compliance against these indicators is regularly monitored and there are no breaches to report.

26. An update of the Prudential Indicators is shown in Annex 1.

ANNEX 1**Prudential and treasury Indicators for 2025-26 as of 30th June 2025**

Note the latest update figures are as at 31/3/25 as detailed in the Treasury Management Annual Report and Outturn Prudential Indicators 2024/25.

Treasury Indicators

Headline Indicators	2025/26 Original Estimate	31/03/25 Actual
	£m	£m
Authorised limit for external debt	280.122	259.994
Operational boundary for external debt	213.463	182.670
Investments	41.357	35.408
Net borrowing	126.451	137.330

Maturity Structure of Borrowing	2025/26 Original indicator	31/03/25 Updated Indicator
Under 12 months	50%	30%
12 months to 2 years	60%	30%
2 years to 5 years	70%	39%
5 years to 10 years	80%	40%
10 years and above	100%	100%

Upper Limit for principal sums invested	2025/26 Original Indicator	31/03/25 Updated Indicator
Maximum principal sums invested greater than 1 year	£50m	£50m

Prudential Indicators

Headline Indicators	2025/26 Original Estimate	31/03/25 Actual
	£m	£m
Capital Expenditure	82.954	52.664
Capital Financing Requirement	266.783	247.613

In year borrowing requirement	18.515	15.562
Ratio of Financing Costs to net revenue stream- General Fund	4.15%	3.91%
Ratio of Financing Costs to net revenue stream- Housing Revenue Account (HRA)	13.34%	12.89%