

**CABINET  
2 DECEMBER 2025**

**ITEM NO. ....**

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**MID YEAR PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT MONITORING REPORT  
2025/26**

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**SUMMARY REPORT**

**Purpose of the Report**

1. This report seeks approval of the revised Treasury Management Strategy, Prudential Indicators and provides a mid-yearly review of the Council's borrowing and investment activities. Cabinet are requested to forward the revised Strategy and indicators to Council for their approval and note any changes to the MTFP with regard to the Treasury Management Budget (Financing Costs).

**Summary**

2. The mandatory Prudential Code, which governs Council's borrowing, requires Council approval of controls, called Prudential Indicators, relating to capital spending and borrowing. Prudential Indicators are set in three statutory annual reports, a forward looking annual treasury management strategy, a backward looking annual treasury management report and this mid-year update. The mid-year update follows Council's approval in February 2025 of the 2025/26 Prudential Indicators and Treasury Management Strategy.
3. The key objectives of the three annual reports are:
  - (a) to ensure the governance of the large amounts of public money under the Council's Treasury Management activities:
    - (i) Complies with legislation
    - (ii) Meets high standards set out in codes of practice
  - (b) To ensure that borrowing is affordable
  - (c) To report performance of the key activities of borrowing and investments
4. The key proposed revisions to Prudential Indicators relate to:
  - (a) The Operational Boundary will reduce slightly to £182.456m and the Authorised Limit to £276.297m due to lower than originally estimated debt levels.

**Recommendation**

5. It is recommended that:
  - (a) The revised prudential indicators and limits within the report in Tables 1 to 6, 8, 10 and 12 to 17 are examined

- (b) The Treasury Management Budget (Financing Costs) projected outturn shown in Table 11 is noted
- (c) That this report is forwarded to Council with comments from this committee, in order for the updated prudential indicators to be approved

## **Reasons**

6. The recommendations are supported by the following reasons:

- (a) In order to comply with the Prudential Code for Capital Finance in Local Authorities;
- (b) To inform Members of the performance of the Treasury Management function;
- (c) To comply with the Local Government Act 2003;
- (d) To enable further improvements to be made in the Council's Treasury Management function.

**Elizabeth Davison**  
**Executive Director - Resources and Governance**

## **Background Papers**

- (i) Capital Medium Term Financial Plan 2025/26
- (ii) Prudential Indicators & Treasury Management Strategy 2025/26
- (iii) Accounting records
- (iv) 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

7. This mid-year review report meets the regulatory framework requirement of treasury management. It also incorporates the needs of the Prudential Code to ensure monitoring of the capital expenditure plans and the Council's prudential indicators (PIs). The Treasury Strategy and the PIs were previously reported to Council on 20 February 2025.
8. This report concentrates on the revised positions for 2025/26. Future year's indicators will be revised when the impact of the MTFP 2026/27 onwards is known.
9. A summary of the revised headline indicators for 2025/26 is presented in **Table 1** below. More detailed explanations of each indicator and any proposed changes are contained in the report. The revised indicators reflect the movement in the Capital MTFP since its approval in February 2025 and the means by which it is financed.

**Table 1 Headline Indicators**

	<b>2025/26 Original Estimate</b>	<b>2025/26 Revised Estimate</b>
	£m	£m
Capital Expenditure (Tables 2 and 3)	82.954	65.944
Capital Financing Requirement (Table 4)	266.783	263.140
Operational Boundary for External Debt (Table 4)	215.463	182.456
Authorised Limit for External Debt (Table 6)	280.122	276.297
Ratio of Financing Costs to net revenue stream- General Fund (Table 14)	4.15%	4.15%
Ratio of Financing Costs to net revenue stream- Housing Revenue Account (HRA)(Table 14)	13.34%	13.34%

10. The capital expenditure plans and prudential indicators for capital expenditure are set out initially, as these provide the framework for the subsequent treasury management activity. The actual treasury management activity follows the capital framework and the position against the treasury management indicators is shown at the end.
11. The purpose of the report supports the objective in the revised CIPFA Code of Practice on Treasury Management and the Ministry of Housing, Communities and Local Government Investment Guidance which state that Members receive and adequately scrutinise the treasury service.
12. The underlying economic environment remains difficult for Councils. It is essential that the Council continues to monitor its cashflow during these times. Borrowing rates remain higher than investment returns and this background encourages the Council to continue investing over the shorter term and with high quality counterparties but also limit any borrowing to only that which is essential and for the shorter term where possible until interest rates start to fall.

## Key Prudential Indicators

13. This part of the report is structured to update:

- (a) The Council's capital expenditure plans
- (b) How these plans are financed
- (c) The impact of the changes in the capital expenditure plans on the PI's and the underlying need to borrow
- (d) Compliance and limits in place for borrowing activity
- (e) Changes to the Annual Investment Strategy
- (f) The revised financing costs budget for 2025/26

## Capital Expenditure PI

14. **Table 2** shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the budget.

**Table 2**

Capital Expenditure by Service	2025/26 Original Estimate	2025/26 Revised Estimate
	£m	£m
General Fund	30.216	27.834
HRA	39.878	33.520
<b>Total Estimated Capital Expenditure</b>	<b>70.094</b>	<b>61.354</b>
Loans to Joint Ventures	12.860	4.590
<b>Total</b>	<b>82.954</b>	<b>65.944</b>

15. The changes to the 2025/26 capital expenditure estimates will be notified to Cabinet as part of the Capital Budget monitoring process (Quarterly Project Position Statement Report).
16. The current capital programme that has not already been financed now stands at £131.234m but this includes a number of schemes that will be spent over a number of years not just in 2025/26. A reduction of £65.290m has been allowed for schemes which are known will be finalised in future years, but it is likely that other schemes will also slip into future years.

## Impact of Capital Expenditure Plans

### Changes to the financing of the Capital Programme

17. **Table 3** draws together the main strategy elements of the capital expenditure plans shown above, highlighting the original elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element (Borrowing Need) increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR). Borrowing need is estimated to decrease from the original for 2025/26 mainly due to slippage of schemes. This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

**Table 3**

<b>Capital Expenditure</b>	<b>2025/26 Original Estimate</b>	<b>2025/26 Revised Estimate</b>
	£m	£m
General Fund	30.216	27.834
HRA	39.787	33.520
Loans to Joint Ventures	12.860	4.590
<b>Total Capital expenditure</b>	<b>82.954</b>	<b>65.944</b>
<b>Financed By:</b>		
Capital Receipts – Housing	0.000	0.000
Capital Receipts/S106 –General Fund	2.732	4.758
Capital grants	25.118	23.573
JV Repayments	4.120	1.000
HRA Revenue Contributions	26.774	18.760
GF Revenue Contributions	0.171	0.067
<b>Total Financing</b>	<b>58.915</b>	<b>48.158</b>
<b>Borrowing Need</b>	<b>24.039</b>	<b>17.786</b>

### The Capital Financing Requirement (PI), External Debt (PI) and the Operational Boundary

18. **Table 4** shows the Capital Financing Requirement (CFR), which is the underlying external need to borrow for capital purposes. It shows the expected actual debt position over the period. This is called the Operational Boundary. Currently actual borrowing for the Council is £162.668m. It is proposed to set an actual borrowing figure of £173.268m this will accommodate any additional borrowing need and debt requirements for cash flow purposes. Other Long-term liabilities (the PFI scheme & Right of Use Assets) will be added to give the revised operational boundary for 2025/26.

**Prudential Indicator- External Debt/ Operational Boundary****Table 4**

	2025/26 Original Estimate	2025/26 Revised Estimate
	£m	£m
<b>Prudential Indicator- Capital Financing Requirement</b>		
Opening CFR	<b>248.267</b>	<b>247.613</b>
CFR General Fund	152.420	153.848
CFR General Fund PFI/Right of Use Assets	6.317	9.188
CFR – Housing	85.778	79.835
CFR – Loans to Joint Ventures	22.268	20.269
Total Closing CFR	<b>266.783</b>	<b>263.140</b>
Net Movement in CFR	18.516	15.527
Borrowing	205.146	173.268
Other long-Term Liabilities	8.317	9.188
<b>Total Debt 31 March- Operational Boundary</b>	<b>213.463</b>	<b>182.456</b>

**Limits to Borrowing Activity**

19. The first key control over the treasury activity is a PI to ensure that over the medium term gross borrowing should not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2025/26 and the next two financial years. As shown in **Table 5** below.

**Table 5**

	2025/26 Original Estimate £m	2025/26 Revised Estimate £m	2026/27 Revised Estimate £m	2027/28 Revised Estimate £m
Gross borrowing	207.146	173.268	193.268	213.268
Plus Right of Use Assets	3.500	4.371	4.702	5.034
Plus Other Long Term Liabilities	4.817	4.817	3.725	2.633
Total Gross Borrowing	<b>215.463</b>	<b>182.456</b>	<b>201.695</b>	<b>220.935</b>
CFR* (year-end position)	266.783	263.140	274.141	279.273

\* includes on balance sheet PFI schemes and Right of Use Assets

20. The Executive Director - Resources and Governance reports that no difficulties are envisaged for the current and future years in complying with this PI.
21. A further PI controls the overall level of borrowing, this is the Authorised Limit which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which while not desirable, could be afforded in the short term, but is not sustainable in the longer term. The Authorised Limit

is currently set 5% above the Capital Financing Requirement to allow for any additional cashflow needs, the revised figure for 2025/26 has been raised by 5% of the new CFR total. Whilst it is not expected that borrowing would be at these levels this would allow additional borrowing to take place should market conditions change suddenly and swift action was required. This is a Statutory limit determined under section 3 (1) of the Local Government Act 2003.

22. It is proposed to move the Authorised Limit in **Table 6** in line with the movement in the overall Capital Financing Requirement.

**Table 6**

<b>Authorised Limit for External Debt</b>	<b>2025/26 Original Indicator £m</b>	<b>2025/26 Revised Indicator £m</b>
Capital Financing Requirement	266.783	263.140
Additional headroom to Capital Financing Requirement	13.339	13.157
<b>Total Authorised Limit for External Debt</b>	<b>280.122</b>	<b>276.297</b>

**Interest Rate Forecasts Provided by Link Asset Services (as at 31 August 2025)**

**Table 7**

	<b>Bank Rate</b>	<b>PWLB rates for borrowing purposes*</b>			
		5 year	10 year	25 year	50 year
	%	%	%	%	%
<b>2025/26</b>					
Dec 2025	4.00	4.70	5.20	5.90	5.60
March 2026	3.75	4.50	5.00	5.70	5.40
<b>2026/27</b>					
June 2026	3.75	4.40	4.90	5.70	5.40
Sept 2026	3.50	4.30	4.80	5.50	5.30
Dec 2026	3.50	4.30	4.80	5.50	5.30
March 2027	3.50	4.30	4.80	5.50	5.30
<b>2027/28</b>					
June 2027	3.50	4.20	4.70	5.40	5.20
Sept 2027	3.25	4.20	4.70	5.40	5.20
Dec 2027	3.25	4.20	4.70	5.30	5.10
March 2028	3.25	4.20	4.70	5.30	5.10

\*PWLB rates above are for certainty rates (which are provided for those authorities that have disclosed their borrowing/capital plans to the government. Darlington Borough Council will be able to access these certainty rates which are 0.2% below PWLB's normal borrowing rates.

23. The latest Bank Rate was reviewed in September with no change from 4.00% being implemented. The next review will be in November with no cut anticipated. What happens for the remainder of 2025/26 and into 2026/27 will most likely depend on inflation and employment data releases as well as geo-political events.

24. New forecasts suggest that inflation will peak at 4% rather than 3.7% with it not expected to fall to 2% until Quarter 2 in 2027. The Bank of England therefore remain cautious in Bank Rate cuts stating that they must be undertaken gradually.
25. International factors such as US-driven tariff policies and the impact the conflict in the Middle East may have on oil and energy process may also influence how slowly or quickly the Bank Rate is cut.

### **Treasury Management Strategy 2025/26 and Annual Investment Strategy Update**

26. The Treasury Management Strategy Statement, (TMSS), for 2025/26 was approved by Council on 20 February 2025.
27. There are no policy changes to the TMSS.
28. The details in this report update the position in the light of the updated economic position and budgetary changes already approved.

### **Debt Activity during 2025/26**

29. The expected net borrowing need is set out in **Table 8**.

**Table 8**

	<b>2025/26 Original Estimate £m</b>	<b>2025/26 Revised Estimate £m</b>
CFR (year-end position) from Table 4	266.783	263.140
<u>Less</u> other long term liabilities PFI and Right of Use Assets	8.317	9.188
Net adjusted CFR (net year end position)	<b>258.466</b>	<b>253.952</b>
Expected Borrowing	205.146	173.268
(Under)/ Over borrowing	<b>(53.320)</b>	<b>(80.684)</b>

30. The Council has taken on £15m of replacement short term debt in the current year to date which will either again be replaced or will be repaid using short term maturing investments and any surplus cash.
31. The amount borrowed by the Council now stands at £162.668m, this excludes any additional cashflow loans which may be required. We are also considering the early repayment of a Barclays loan for £4.4m prior to year end and an additional £15.000m has been included in Table 8 above for estimated cashflow loans which may be required.
32. There will still be under-borrowing by the Council at the end of March 2025.

## **Property Funds**

33. The Treasury Management Annual Report and Outturn Prudential Indicators 2024/25 which was presented to Cabinet on the 9 September 2025 reported that Hermes Federated were looking into a potential merger with another large property fund.
34. Following an Extraordinary General Meeting (EGM) the merger was agreed and completed on 15 August 2025.
35. Under the terms of the merger only pension funds were eligible to transfer into the fund and therefore the Council could not join the merged fund. Under the terms, those that did not qualify received all their funding in one lump sum and the Council received a cash distribution of £8.896m on 20 August 2025. This funding has been used to repay debt that was maturing in the short term to save on interest costs whilst options for longer term investments are investigated.
36. In terms of the Lothbury fund most assets have now been disposed of with only a few assets now remaining. It is anticipated that these will be disposed of later this year.
37. As per previous reports distributions received from the Lothbury Fund have been used to purchase units in UBS Triton. Decisions regarding future Lothbury distributions will be made on receipts, in consideration of the best investment options and the Council's financial position at that point.

## **Debt Rescheduling**

38. Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

## **Annual Investment Strategy 2025/26**

### **Investment Portfolio**

39. In accordance with the Code, it is the Council's priority to ensure security of Capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. Interest rates have fallen over the past year and are in line with the current bank rate of 4%. The Council are actively investing where possible.

## **Treasury Management Activity from 1 April 2024 to 31 August 2025**

40. Current investment position – The Council held £38.699m of investments at 31/08/2025 and this is made up of the following types of investment.

**Table 9**

Sector	Country	Amount
		<b>£m</b>
AAA Money Market Funds	Sterling Funds	22.305
Property Funds - CCLA	UK	8.958
Hermes	UK	0.000
Lothbury	UK	0.556
UBS Triton		6.880
<b>Total</b>		<b>38.699</b>

### Short Term Cashflow Investments

41. Cash balances are invested on a daily basis to maximise the benefit of temporary surplus funds. These include investments in Money Market Funds, the Government's Debt Management Office and bank short term notice accounts. A total of 70 investments were made in the period 1 April 2025 to 31 August 2025 totalling c£90m these were for short periods of up to 153 days and earned interest of £0.448m on an average balance of £25.181m which equated to an annual average interest rate of 4.25%

### Investment returns measured against the Service Performance Indicators

42. The target for our investment returns is to better or at least match a number of external comparators, this performance indicator is also known as yield benchmarking. As can be seen from **Table 10**, the short term investment achievements (up to 6 months) are above market expectations.

**Table 10**

	Cashflow Investments %
<b>Darlington Borough Council - Actual</b>	<b>4.25%</b>
<b>External Comparators</b>	
Sterling Overnight Index Average (SONIA) – 6 months	4.21%

### Treasury Management Budget

43. There are three main elements within the Treasury Management Budget:
- (a) Longer term capital investments interest earned – a cash amount of which earns interest and represents the Councils revenue balances, unused capital receipts, reserves and provisions, this includes Property Funds
  - (b) Cash flow interest earned – the authority has consistently had a positive cash flow. Unlike long term capital investments it does not represent any particular sum but it is the consequence of many different influences such as receipt of grants, the relationship between debtors and creditors, cashing of cheques and payments to suppliers

- (c) Debt serving costs – this is the principal and interest costs on the Council’s long term debt to finance the capital programme.

**Table 11 - Changes to the Financing Costs Budget 2025/26**

	£m	£m
<b>Original Financing Costs Budget 2025/26</b>		<b>4.028</b>
Less Decreased debt costs	(0.086)	
Less decreased returns on Property Funds	0.278	
Total adjustments		<b>0.192</b>
<b>Estimated Treasury Management Outturn 2025/26</b>		<b>4.220</b>

44. This statement concludes that the Treasury Management budget is forecast to overspend in 2025/26, this will be reflected in the current MTFP projections.
45. The loss of Hermes dividends has led to a decrease in expected returns on property fund income, however, by decreasing our debt using the Hermes distribution there has been a forecast decrease in debt costs. It should be noted that interest rates have not fallen as expected when the original budget was set and remain higher than originally anticipated so whilst we have decreased some of our debt it does not offset the loss of property fund income.
46. The Council continue to consider and monitor future investment possibilities that will increase our investment income and help support the MTFP.

### **Risk Benchmarking**

47. A regulatory development is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance and these are shown in **Table 12**. Discrete security and liquidity benchmarks are also requirements of member reporting.
48. The following reports the current position against the benchmarks originally approved.
49. Security – The Council’s maximum security risk benchmarks for the current portfolio of investments, when compared to historic default tables were set as follows;

- (a) **0.077% historic risk of default when compared to the whole portfolio**

**Table 12**

<b>Maximum</b>	<b>Benchmark 2025/26</b>	<b>Actual May</b>	<b>Actual July</b>
Year 1	0.077%	0.000%	0.000%

N.B. this excludes Property Funds

50. The counterparties that we use are all high rated therefore our actual risk of default based on ratings attached to counterparties is very low.

51. The reason that there is no risk of default in May is due to the fact that all investments were in Money Market Funds which could be recalled at any time and carry no risk of default.
52. Liquidity – In respect of this area the Council set liquidity facilities/ benchmark to maintain
- (a) Bank overdraft - £0.100M
  - (b) Liquid short term deposits of a least £3.000M available within a weeks' notice
  - (c) Weighted Average Life benchmark is expected to be 0.0 years with a maximum of 1 year
53. The Executive Director of Resources and Governance can report that liquidity arrangements have been adequate for the year to date as shown in **Table 13**

**Table 13**

	<b>Benchmark 2025/26</b>	<b>Actual May</b>	<b>Actual July</b>
<b>Weighted Average Life</b>	0.0 – 1 year	0.00 years	0.00 years

54. The figures are for the whole portfolio of cash flow investments deposited with Money Market funds on a call basis (i.e. can be drawn on without notice) as well as call accounts that include a certain amount of notice required to recall the funds.

#### **Treasury Management Indicators**

55. **Actual and estimates of the ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (financing costs net of interest and investment income) against the net revenue stream.

**Table 14**

	<b>2025/26 Original Indicator</b>	<b>2025/26 Revised Indicator</b>
<b>General Fund</b>	<b>4.15%</b>	<b>4.15%</b>
<b>HRA</b>	<b>13.34%</b>	<b>13.34%</b>

#### **Treasury Management Prudential indicators**

56. **Upper Limits on Variable Rate Exposure** – This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments.
57. **Upper Limits on Fixed Rate Exposure** – Similar to the previous indicator this cover a maximum limit on fixed interest rates.

58. Historically for a number of years this Council has used these percentages; together they give flexibility to the treasury management strategy allowing the Council to take advantage of both fixed and variable rates in its portfolio whilst ensuring that its exposure to variable rates is limited.

**Table 15**

	<b>2025/26 Original Indicator</b>	<b>2025/26 Revised Indicator</b>
Limits on fixed interest rates	100%	100%
Limits on variable interest rates	40%	40%

59. **Maturity Structures of Borrowing** - These gross limits are set to reduce the Council's exposure to large fixed rate loans (those instruments which carry a fixed interest for the duration of the instrument) falling due for refinancing. The higher limits for longer periods reflect the fact that longer maturity periods give more stability to the debt portfolio.

**Table 16 - Maturity Structures of Borrowing**

	<b>2025/26 Original indicator</b>	<b>2025/26 Actual to Date</b>	<b>2025/26 Revised Indicator</b>
Under 12 months	50%	28%	50%
12 months to 2 years	60%	0%	60%
2 years to 5 years	70%	37%	70%
5 years to 10 years	80%	38%	80%
10 years and above	100%	100%	100%

60. **Total Principal Funds Invested** – These limits are set having regard to the amount of reserves available for longer term investment and show the limits to be placed on investments with final maturities beyond 1 year. This limit allows the authority to invest for longer periods if they give better rates than shorter periods. It also allows some stability in the interest returned to the Authority.

**Table 17 - Principal Funds Invested**

	<b>2025/26 Original Indicator</b>	<b>2025/26 Revised Indicator</b>
Maximum principal sums invested greater than 1 year	£50m	£50m

## Conclusion

61. The prudential indicators have been produced to take account of the Council's borrowing position. The key borrowing indicator (the Operational Boundary) is £182.456m. The Council continues to be proactive in its treasury management functions.

62. The Council's treasury management activities comply with the required legislation and meet the high standards set out in the relevant codes of practice.

### **Outcome of Consultation**

63. No consultation was undertaken in the production of this report.