Blaby District Council

Council

Date of Meeting	25 February 2025
Title of Report	**Recommendations of the Cabinet Executive: Prudential Indicator & Treasury Management Strategy 2025/26**
	This is not a Key Decision and is on the Forward Plan
Lead Member	**Cllr. Maggie Wright - Finance, People & Performance (Deputy Leader)**
Report Author	Finance Group Manager
Strategic Themes	Ambitious and well managed Council, valuing our people

1. What is this report about?

1.1 This report lays down the guidelines and rules that Officers are required to follow when making decisions to borrow or when investing Council funds. Such decisions are made daily under delegated authority. The report outlines the Council's prudential indicators for 2025/26 to 2029/30 and sets out the expected treasury management activities for that period. The report also sets out the financial institutions the Council may invest in, the maximum investment level and the periods over which the investments can be made.

1.2 The report also fulfils four key legislative requirements:

- The reporting of the prudential indicators which set out the expected capital activities - as required by The Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities.
- The Council's Minimum Revenue Provision (MRP) Policy, which sets out how the Council will pay for capital assets through revenue each year.
- The Treasury Management Strategy which sets out how the Council's treasury service will support the decisions taken above, the day-to-day treasury management activity, and the limitations on borrowing and investing through treasury prudential indicators. This accords with the CIPFA Code of Practice on Treasury Management in the Public Services.
- The Annual Investment Strategy in accordance with investment guidance issued by the Department for Levelling Up, Housing and Communities (DLUHC).

2. Recommendation(s) to Council

2.1 That the capital prudential indicators and limits for 2025/26 to 2029/30 are approved.

2.2 That the Treasury Management Strategy for 2025/26 and the treasury prudential indicators are approved.

2.3 That the Investment Strategy for 2025/26 is approved.

2.4 That the Minimum Revenue Provision (MRP) Statement for 2025/26 is approved.

3. Reason for Decisions Recommended

3.1 The Local Government Act 2003 and supporting regulations requires the Council to "have regard to" the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent, and sustainable.

3.2 The Act requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy. This covers the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.

3.3 The Act also requires the Council to undertake an annual review of its policy for calculating the minimum revenue provision (MRP) for repayment of external debt.

4. Matters to consider

4.1 Background

MHCLG guidance requires that there is sufficient Member scrutiny of the Council's treasury management function. For Blaby, Cabinet Executive is the responsible body for scrutinising the Treasury Management Strategy. To facilitate the decision-making process and support capital investment decisions the Prudential Code requires local authorities to agree and monitor a minimum number of prudential indicators. These are mandatory and must, as a minimum, cover the forthcoming three financial years.

The prudential indicators in this report, and the appendices, are based on the financial plans contained within the revenue and capital reports elsewhere on this agenda.

The Treasury Management Strategy is attached at Appendix A including the prudential indicators that relate to the treasury management function. This strategy covers the operation of the treasury function and its activities for the forthcoming year and reflects the Council's capital and commercial investment strategies. The strategy has been informed by advice received from the Council's treasury management consultants.

4.2 Proposal(s)

The main considerations set out in the Treasury Management Strategy (Appendix A) are as follows:

Capital Expenditure
The capital spending plans are based on available resources and the affordability of any associated borrowing, which has been built into the Medium-Term Financial Strategy.

	2023/24 Actual £000	2024/25 Revised £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000	2028/29 Estimate £000	2029/30 Estimate £000
Capital Expenditure	**6,997**	**10,301**	**1,423**	**1,140**	**4,058**	**999**	**4,816**
Financed by: Capital Receipts	(731)	(1,495)	(28)	(400)	(18)	(214)	(59)
Capital Grants & Contributions	(2,597)	(4,791)	(660)	(660)	(660)	(660)	(660)
Capital Reserves	0	(145)	(55)	(55)	(55)	(55)	(55)
Revenue Contributions	(4)	(100)	0	0	0	0	.0
Net financing need for the year	**3,665**	**3,770**	**680**	**25**	**3,325**	**70**	**4,042**

Borrowing Requirement
As shown in the table above, the capital expenditure plans can be partly funded from capital receipts, grants, and contributions, and from reserves, leaving a residual amount to be funded through borrowing. This increases the Capital Financing Requirement (CFR) but the CFR is also reduced each year by a statutory revenue charge, the Minimum Revenue Provision (MRP). The Council is also able to top-up this repayment by applying a Voluntary Revenue Provision (VRP).

Capital Financing Requirement
The projected CFR over the life of the Medium-Term Financial Strategy is set out in the table below.

	2023/24 Actual £000	2024/25 Revised £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000	2028/29 Estimate £000	2029/30 Estimate £000
Total CFR	17,366	20,226	19,655	18,578	20,770	19,504	22,067
Movement in CFR	2,880	2,960	(570)	(1,077)	2,192	(1,265)	2,563

MRP Policy
The MRP is an annual revenue charge based on the outstanding Capital Financing Requirement (CFR) brought forward from the preceding financial year. The CFR represents the Council's underlying need to borrow and is basically that part of capital expenditure which has not yet been financed. It

is effectively capital expenditure financed through borrowing, whether that is external borrowing or internal borrowing (i.e., from the Council's own reserves and balances). Each year the Council is required to repay a proportion of that outstanding "borrowing cost" by way of the MRP, and it must approve its policy for charging MRP annually in advance of the forthcoming financial year. For 2025/26 the recommended policy is set out in paragraph 2.3 of Appendix A.

Borrowing

The Council's anticipated net borrowing requirement (net of investments) is shown below with a comparison against the CFR. The Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2025/26 and the next two financial years. This allows some flexibility for limited early borrowing for future years. The Council's gross borrowing remains significantly below its CFR due to the ongoing use of internal borrowing. Whilst internal reserves and balances remain at current levels, internal borrowing is a prudent method of financing capital expenditure since it is cheaper than external borrowing.

	2023/24 Actual £000	2024/25 Revised £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000	2028/29 Estimate £000	2029/30 Estimate £000
Gross Borrowing	6,168	8,099	8,475	8,485	11,858	11,858	15,856
Investments	(23,089)	(20,000)	(15,000)	(15,000)	(15,000)	(10,000)	(8,000)
Net Borrowing	(16,921)	(11,901)	(6,525)	(6,515)	(3,142)	1,858	7,856
CFR	17,366	20,226	19,655	18,578	20,777	19,504	22,067

The Council's borrowing limits are as follows:

	2024/25 Revised £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000	2028/29 Estimate £000	2029/30 Estimate £000
Operational Boundary for External Debt	20,700	19,800	18,900	21,600	19,800	22,500
Authorised Limit for External Debt	23,000	22,000	21,000	24,000	22,000	25,000

Liability Benchmark

The Council is required to estimate and measure the Liability Benchmark for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the Liability Benchmark:

1. **Existing loan debt outstanding:** the Authority's existing loans that are still outstanding in future years.

2. **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. **Net loans requirement:** this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance.

Further details are included in paragraph 2.3 to Appendix A.

4.3 Property Fund

The Council invested £1m in the Lothbury Property Trust in December 2019. Following the unprecedented withdrawal of a number of investors, notice was given by Lothbury for the termination of the fund on the 31st March 2024 if a viable merger option could not be found by this date.

Following an extraordinary general meeting held in March 2024, the deadline for terminating the fund was extended to the end of May 2024. Unfortunately, due to a difference in opinion over the valuation of certain assets that were to be transferred from Lothbury to UBS, the merger option did not proceed, and the fund was wound up on 30th May.

Although the merger fell through, officers maintained communication with UBS Triton fund managers. Due to the opportunity to transfer the Council's share of proceeds from Lothbury to UBS Triton, as and when funds are distributed, at a preferential management fee rate, under delegated authority the Executive Director (Section 151), in consultation with the Portfolio Holder for Finance, People and Performance determined that the transfer of funds from Lothbury to UBS Triton remained the Council's best opportunity to recover its investment loss.

Following the winding up of this fund on the 30th May 2024 Lothbury continue to dispose of all assets and making distributions to investors. On 30th June 2023 the Net Asset Value (NAV) of this investment was £0.739m.

As at 31st December 2024 the remaining balance within the Lothbury Fund still to be distributed was £263,371. A further Capital distribution was undertaken on the 10th January 2025 totalling £161,264.98.

As at 31st December 2024 the UBS Triton Property Fund LP investment value stood at £496,605.34.

4.4 Capital Strategy

The Prudential Code also makes it a requirement to produce a Capital Strategy which links to the Treasury Management Strategy. The Capital Strategy is an overarching document that sets the policy framework for the development, management, and monitoring of capital investment. It should focus on the core principles that underpin the Council's capital plans; short, medium, and long-term objectives; key issues and risks affecting the delivery of the capital programme; and the governance framework.

The strategy aims to drive the Council's capital plans by ensuring that capital expenditure and financing, and treasury management are appropriately aligned to support the sustainable, long-term delivery of our services. The strategy is reported as part of the 5 Year Capital Programme report elsewhere on this agenda.

5. Environmental impact

5.1 The Council is actively seeking opportunities to invest its surplus balances in a way which supports the Green Strategy, with the caveat that such investments meet the primary considerations of security, liquidity, and return.

6. What will it cost and are there opportunities for savings?

6.1 There are no direct costs arising from this report. Instead, it provides a basis on which to undertake the treasury management activities necessary to support the Council's capital expenditure plans.

7. What are the risks and how can they be reduced?

7.1

Current Risk	Actions to reduce the risks
That external borrowing might not be undertaken at the most advantageous rate	Treasury officers maintain regular contact with the Council's advisors, Link Treasury Services, who monitor movements in interest rates on our behalf. The aim is always to drawdown loans when interest rates are at their lowest point.
Credit risk – the risk that other parties might fail to pay amounts due, e.g., deposits with banks etc.	The Annual Investment Strategy sets the criteria through which the Council decides with whom it may invest. The lending list is updated regularly to reflect changes in credit ratings.
Liquidity risk – the Council might not have sufficient funds to meet its commitments	Daily monitoring of cash flow balances. Access to the money markets to cover any short-term cash shortfall.
Refinancing and maturity risk – the risk that the Council might need to renew a loan or investment at disadvantageous interest rates	Monitoring of the maturity profile of debt to make sure that loans do not all mature in the same period. Monitoring the maturity profile of investments to ensure there is sufficient liquidity to meet day to day cash flow needs.
Market risk – losses may arise as a result of changes in interest rates etc	Maximum limits are set for exposure to fixed and variable interest rates. The Finance team will monitor market rates and forecast interest rates to limit exposure
That the investment in UBS Triton will not achieve full recovery of the Council's current investment loss as expected.	UBS Triton is an established property fund with one of the highest rates of return in the market over the last 7 years. An earmarked reserve is in place to mitigate any potential fluctuations in the fund value, although it does not cover the full value of the initial investment.

8. Other options considered

8.1 None. The approval of the Treasury Management Strategy and prudential indicators is a statutory requirement.

9. Appendix

9.1 Appendix A – Treasury Management Strategy Statement and Appendices 2025/26

9.2 Appendix B – Approved counterparty list

10. Background paper(s)

10.1 The CIPFA Prudential Code
CIPFA's Code of Treasury Management in the Public Services
The Treasury Management Policy, Practices and Schedules

11. Report author's contact details

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