MIDDLESBROUGH COUNCIL	Middlesbrough moving forward

Report of:	Corporate Director of Finance (S151 Officer), Andrew Humble
Relevant Executive Member:	Executive Member for Finance, Councillor Nicky Walker
Submitted to:	Audit Committee
Date:	19 February 2026
Title:	Prudential Indicators 2026/27 to 2029/30 and Treasury Management Annual Strategy Report 2026/27
Report for:	Discussion
Status:	Public
Council Plan priority:	Delivering Best Value

Proposed decision(s)
That the Audit Committee notes the following: • The Prudential Indicators and Limits for 2026/27 to 2029/30 relating to capital expenditure and treasury management activity set out in tables 1 to 9 of **Appendix 1.** • The Treasury Management Strategy for 2026/27, which includes the Annual Investment Strategy for that financial year. • The Minimum Revenue Provision (MRP) Policy for the 2026/27 financial year. • An Authorised Limit for External Debt of **£354 million** for the 2026/27 financial year. • The overall approach expected for this financial year in relation to external borrowing, investment of cash balances, and management of the debt portfolio. • The Treasury Management Strategy in place and ask for any further details or explanation as they require either from the Executive or Officers.

Executive summary

The Council is required to approve annually a Treasury Management Strategy and a set of Prudential Indicators, which self-regulate the level of capital financing activities of the Council and the affordability of the capital programme. These need to be set on an annual basis to comply with the Local Government Act 2003 and the Chartered Institute of Public Finance and Accountancy (CIPFA) Codes of Practice on Capital Finance and Treasury Management.

The Treasury Management Strategy is important from both a financial and governance perspective as it sets the framework within which the council manages its borrowing and investments, how it delivers these services, and how it controls the risks attached to any decisions made. It also sets out the parameters and criteria that govern the day-to-day cashflow management activity and how these impact on the medium to long term financial planning processes. These include achieving value for money from any external borrowing undertaken, managing risk on large value financial transactions, and protecting any resources that have been invested.

The Prudential Indicators are an integral part of the CIPFA Capital Finance Code and demonstrate whether the capital programme is affordable, sustainable, & prudent. These include the level of capital expenditure over the next four years, how this has been financed, the maximum level of debt, and the cost to the revenue budget.

The Minimum Revenue Provision (MRP) policy governs how the Council plans to account for the repayment of loan principal in relation to its external borrowing activities and has a fundamental impact upon the current and future capital financing budget. The current MRP policy is based on a 2% annuity model in line with many other local authorities. The Council took the decision during the 2022/23 financial year to review the MRP policy, the effect of which is to achieve improved affordability on an annual basis over the short to medium term, although there are higher revenue charges in 25 – 50 years’ time.

The Council’s underlying need to borrow is measured by the Capital Financing Requirement which is forecast to reach £312.383m during 2025/26, rising to £335.755m by the end of 2026/27 and increasing still further, to £358.733m by the end of 2029/30.

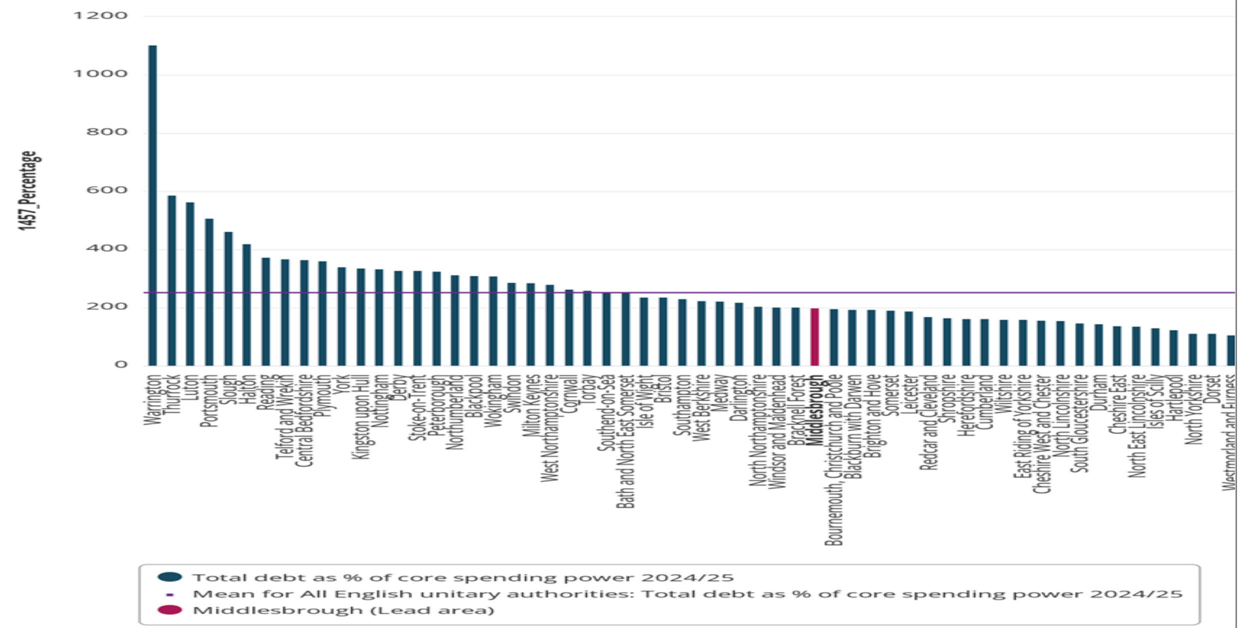
This results in the revenue cost of borrowing as shown in the table below.

	2024/25 actual	2025/26 forecast	2026/27 forecast	2027/28 forecast	2028/29 forecast	2029/30 forecast
Financing costs (£m)	10.406	12.205	**14.151**	16.022	16.769	17.396
Net Revenue Budget (£m)	143.190	143.304	**200.675**	225.265	241.231	250.017
Proportion of net revenue budget (%)	7.3%	8.5%	**7.1%**	7.1%	7.0%	7.0%

Whilst the Council is not an outlier in terms of its level of total debt (see graph below), it was reaching the limit of its revenue affordability on borrowing to fund its future capital investment. Changes to the Local Government Finance Settlement and how the net revenue budget have been calculated have changed significantly with the Fair Funding Review 2.0 and are not now comparable post the 2026/27 budget.

The Council will need to review what the affordability threshold will be in this context and if the 10% best practice amount previously recommended by CIPFA is still relevant. Capital investment is important for the ongoing Council plan ambitions, however, there continues to be a need to be prudent, sustainable and affordable. It will still benefit from prioritising its capital investment decisions over the medium and longer term and should secure its financing through third party funds such as contributions and grants and capital receipts from the sale of assets to minimise future borrowing.

Total debt as a percentage of core spending power (2024/25) for All English unitary authorities



The main body of the report gives more details for Audit Committee on the framework used to manage treasury management and the capital financing position of the Council. Effective scrutiny in this context involves publicly examining and challenging the leadership of the Council to help shape future strategies and policies to ensure that good governance is in place and that resources are used effectively and value for money is achieved.

1. Purpose

1.1 This report provides an important update to the Audit Committee on the strategic approach in relation to the Council's borrowing, investments, and cash-flow for the 2026/27 financial year to meet the requirements of the CIPFA Treasury Management Code of Practice and the Local Government Act 2003. It should be read in conjunction with the Treasury Management mid-year review for 2025/26, reported to Members on 3 December 2025.

1.2 The report also provides the Prudential Indicators approved by Council for the 2026/27 financial year in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Capital Finance, which is best practice in terms of governance in this area.

1.3 The report gives Audit Committee information on the treasury management strategy, position on capital financing and prudential indicators, and whether these are contributing to the effective management of the capital programme and the resources allocated to pay for these, as part of the revenue budget process.

2. Recommendations

2.1 That the Audit Committee notes the following:

- The Prudential Indicators and Limits for 2026/27 to 2029/30 relating to capital expenditure and treasury management activity set out in tables 1 to 9 of Appendix 1.
- The Treasury Management Strategy for 2026/27, which includes the Annual Investment Strategy for that financial year.
- The Minimum Revenue Provision (MRP) Policy for the 2026/27 financial year.
- An Authorised Limit for External Debt of £354 million for the 2026/27 financial year.
- The overall approach expected for this financial year in relation to external borrowing, investment of cash balances, and management of the debt portfolio.
- The Treasury Management Strategy in place and ask for any further details or explanation as they require either from the Executive or Officers.

3. Background and relevant information

3.1 The Prudential Indicators & Treasury Management Strategy report for the Council for 2026/27 covers the following areas:

- How the capital programme for the MTFP period is financed.
- The relevant prudential Indicators to monitor the performance, revenue budget affordability and sustainability of the capital expenditure being proposed in line with the requirements of the prudential code.
- Treasury Management arrangements in place for investing surplus funds and borrowing to fund capital expenditure financed by prudential borrowing.
- The types of investments the Council makes as part of managing its cash balances – the Annual Investment Strategy.
- Knowledge and skills of staff involved in the Treasury Management process.
- Minimum Revenue Provision policy – This determines how much the Council accounts for in terms of the revenue costs of historical capital debt. These costs have been incurred in relation to historical and future capital investment in its asset base to support the operational delivery of services.

3.2 Capital Expenditure relates to how the Council plans to invest in long-term assets and infrastructure (such as property, equipment, vehicles, roads etc.). The Council must consider how this expenditure is paid for and what the long-term financial implications are of undertaking this investment. The Council is also permitted to borrow funds to finance the capital programme under the Local Government Act 2003. It needs to consider the impact on the revenue budget of the level of borrowing being proposed, how it funds the repayment of this debt and the period over which this debt is repaid.

3.3 The Council must ensure the capital programme and its plans to borrow to finance it are prudent and affordable. Where elements of this are funded by borrowing (either externally or internally), the Council must set aside budgetary allocations in the general fund revenue budget to meet the cost of this debt. These budgets include the interest payable to lenders on external borrowing and the setting aside of funds to re-pay the principal element of debt (known as the Minimum Revenue Provision).

<u>Prudential Indicators and Capital Investment Plans</u>

3.4 The Council demonstrates the concepts of affordability, sustainability, and prudence on its investment plans by setting a range of Prudential and Treasury Management indicators. These are set out in Appendix 1 and are key metrics to the Corporate Director of Finance (S151 Officer) and elected members when setting the budget plans each year.

3.5 Any variance from these indicators during a financial year indicates either a higher level of indebtedness, or a lower level of prudence, on the capital activities of the Council than when the budget was set. The following section gives a brief commentary on these key indicators as we reach the start of the 2026/27 financial year.

3.6 There is total outstanding debt of £269.360 million on 31 December 2025, with circa £20m of additional borrowing expected to be required before 31 March 2026.

3.7 The forecast overall total long term external debt at the end of 2025/26 is therefore **£289.360 million** and should be compared with the estimated *Capital Financing Requirement* (the underlying value which the Council needs to borrow to fund capital activities) of **£312.383 million**. The Council therefore has an expected under-borrowed position of **£23.023 million**, which is financed via internal cash balances and provides a level of savings in interest payments as other revenue and capital cash has been used in lieu of borrowing. This is a key strategic decision each year as to whether the under-borrowing position is increased or reduced.

3.8 Table 6 in Appendix 1 shows the profile of outstanding debt over the whole of the medium-term financial planning period, and this will rise to a maximum of £351.223m by 31 March 2030. This increase in external debt is a direct result of the amounts required to fund the capital programme, and any additional cash flow demands required for liquidity purposes in each financial year.

3.9 The Council holds revenue budgets for repaying debt and interest (known as Capital Financing Costs). The repayment of debt costs for the 2026/27 financial year is expected to £14.151million (7.1% of the net revenue budget

Prudential Indicator	2025/26 (£m)	**2026/27 (£m)**	2027/28 (£m)	2028/29 (£m)	2029/30 (£m)
Capital Financing Requirement (underlying need to borrow)	**312.383**	**333.755**	**350.350**	**355.651**	**358.733**
External Borrowing	289.360	**326.028**	347.623	350.651	351.233
Internal Borrowing	23.023	**7.727**	2.727	5.000	7.500
% of Net Revenue Budget on debt costs	8.4%	**7.1%**	7.1%	7.0%	7.0%
Authorised limit for External Debt	331.000	**354.000**	371.000	376.000	379.000

3.10 The table above summarises the key prudential indicators and how these change over the period to 2029/30 due to the Council's capital programme ambitions. Whilst the Council is not an outlier in terms of its level of total debt (see the graph below), it was previously reaching the limit of its revenue affordability on borrowing to fund its future capital investment. Changes to the Local Government Finance Settlement and how the net revenue budget have been calculated have changed somewhat with the Fair Funding Review 2.0 and the figures pre 2026/27 are not exactly comparable with those going forward.

3.11 The Council will need to review what the affordability threshold will be in this context and if the 10% best practice amount previously recommended by CIPFA is still relevant. Capital investment is important for the ongoing Council plan ambitions, but there continues to be a need to be prudent, sustainable and affordable. It will still benefit from prioritising its capital investment decisions over the medium and longer term and should secure its financing through third party funds such as contributions and grants and capital receipts from the sale of assets to minimise future borrowing.

3.12 It is also a statutory requirement for the Council to set an authorised limit for external debt at the start of each financial year. This is an amount beyond which it would be ultra-vires (or outside of council powers) to exceed in a particular financial year. The authorised limit for 2025/26 is £331 million, with this increasing to **£354 million** for 2026/27 due to an increase in the level of borrowing required for the financial year.

3.13 It should be noted that the authorised limit for the Council is currently higher than either the level of external debt or the capital financing requirement. This is not uncommon within local authorities to build in extra headroom for unexpected capital investment, possible debt re-financing opportunities, and the remote possibility of needing to borrow for any further exceptional revenue purposes. At present, the Council's authorised limit is set at £20m above its capital financing requirement and allows a degree of flexibility within the Council's planning processes and this legal limit. As suggested above, it is not recommended to go beyond the capital financing requirement unless this is only for temporary and defined purposes.

Treasury Management

3.14 Treasury Management is defined as *'the management of the Council's cash flows, borrowing and investments, and the associated risk'*. The main risks that affect a local authority include credit risk, interest rate risk, liquidity risk, and refinancing risk.

3.15 The Council is generally cash rich in the short term as many grants and contributions are paid in advance of need. Because of this, any excess cash is invested with an appropriate counterparty until the funds are required. When making an investment, the Council follows the advice set out in the Local Government Act 2003 and within the Treasury Management Code with paramount consideration given to the security of the sum invested, followed by the liquidity position of the Council and finally the interest rate achievable on the investment.

3.16 Given that credit criteria are the most important factor when making an investment decision, the Council receives regular updates from its external treasury management adviser, Arlingclose, on changes in credit ratings for individual financial institutions. They also advise on maximum amounts to be invested with each counterparty (financial institution) and the maximum duration for any fixed term deposits made. This framework helps to protect against the loss of any sums invested (credit risk), ensuring liquidity is not compromised, and that these investments earn interest to support the revenue budget.

3.17 On 31 December 2025, the Council had cash balances of £24.917 million invested either on fixed term deposit with central government or in liquidity accounts with appropriate banks. The strategic level of cash holdings is a minimum of £15.000 million below which the Council will look to borrow to maintain liquidity. The amount currently is slightly higher than normal due to income being received in advance of need in the first three quarters of the financial year and should reduce as we reach the end of the financial year.

3.18 In relation to external borrowing, the Council seeks to achieve a low but certain cost of finance, whilst retaining the flexibility to borrow for short-term periods and to respond to demands of the capital programme as needed. The Council therefore looks to create a balance between taking advantage of generally lower rates of interest for short term borrowing (predominantly from other local authorities) versus the need to achieve certainty over rates of borrowing in the longer term from either government or financial institutions (mainly from the PWLB or other banks).

3.19 Out of the £269.360 million worth of external debt on 31 December 2025, 89% is long term from the Public Works Loan Board – the government agency for local authority borrowing and 11% is long term with financial institutions (generally banks). There is also £8.0m short-term borrowing in place at present.

3.20 Current long-term interest rates for borrowing from the PWLB are between 4.25% and 6.25% depending on the length of the loan (local authorities can borrow up to 50 years from central government) with short term rates being between 3.5% and 4.25% for up to one year in duration.

3.21 On local authority borrowing, there has been much interest from both regulators and the media in recent years around individual councils taking significant amounts of long-term debt from the PWLB for the sole purposes of commercial activity – generally property investment. Under the Prudential Code, local authorities have lots of freedom to conduct and self-regulate their own borrowing and investment activities.

3.22 Both the Government and the Chartered Institute of Public Finance & Accountancy have said that borrowing for the sole purposes of commercial investment is against the spirit of the Code. The PWLB outlawed any local authority applications for this type of activity from 1st April 2021, with Section 151 Officers having to confirm on an annual basis that their investment plans do not contain any of these types of activity.

3.23 Although the Council has undertaken some capital projects in the past that have generated a revenue income stream, the primary aim has always been to regenerate the areas involved and to grow the wider economy within the Town. As a result, these activities can continue under the Code, with funding from the PWLB if required.

Knowledge & Skills

3.24 This Strategy provide details of the knowledge and experience in place of Officers within the corporate finance team (the local authority service that deals with treasury functions) and the access to external advice and guidance made available to enhance this. Council officers have a broad range of skills to ensure treasury management decisions are informed and risk-assessed on a consistent basis. The Council uses external consultants to provide up to date and specialist advice which is bespoke for local government sector regulations, particularly focusing on risks and opportunities.

3.25 The Council also participates in a treasury management benchmarking club run by Arlingclose. This club provides access to data on other local authorities' approaches to

Treasury Management, including strategic information, and the wider performance outputs of the Treasury Management activities.

3.26 As part of the Treasury Management Code, it is also a best practice requirement that elected members have the necessary skills & knowledge to scrutinise the Council's plans and processes in this area. The last formal training in this area provided by our external advisers was undertaken in 2021. In between this the S151 and Deputy S151 Officer have provided guidance and support as required to Executive and Audit Committee when the annual strategy, mid-year and outturn reports have been produced. However, it is good practice to have regular specialist training in this area due to the complexity of the subject matter and the high levels of risk involved in treasury matters. A session is therefore being organised between Arlingclose and Members to be held prior to the Council meeting on 18 February 2026, considering this report for approval.

Minimum Revenue Provision

3.27 The Council is required under the Local Government Act 2003 Part 1 to maintain a policy for the repayment of historic external debt incurred from the annual revenue budget. The policy is split into different elements which are influenced by when the borrowing was originally incurred, the type of assets, and the useful economic life of the assets the borrowing is funding. The Council has in previous years amended this policy to reflect the useful economic life of the funded assets more accurately and then in 2022/23 moved to an annuity basis of calculating these revenue costs. **No changes are being proposed to the MRP policy for 2026/27 financial year**. This policy is set out at the end of Appendix 1 for information.

4. Other potential alternative(s) and why these have not been recommended

4.1 It is a statutory requirement for the Council to approve the annual Treasury Management Strategy and set of Prudential Indicators. This report is a key step in achieving that objective. As a result, there are no alternatives available.

5. Impact(s) of the recommended decision(s)

Topic	Impact
Financial (including procurement and Social Value)	All relevant financial implications are outlined within the body of this report and the supporting Appendix 1. The capital programme and financing being recommended in the budget report remains affordable within the revenue budget parameters but needs to be strictly managed and prioritised going forward. The treasury indicators and processes remain robust and within prudent limits. The policy on minimum revenue provision also remains in line with the appropriate regulations and government guidance. The table between paragraphs 3.9 and 3.10 outlines the key debt metrics and the capital financing costs as a % of the net revenue budget over the medium-term financial planning period.

Legal	There are no direct legal implications of this report. All activity on capital financing, investments and borrowing is under current local authority powers under either the Local Government Act 2003, or the capital finance and accounting regulations.
Risk	Any risk related issues are set out within the report. Risk management is an integral part of the Council's treasury management strategy, and these are considered as part of business-as-usual activities and are set out in more detail within the Treasury Management Practices document.
Human Rights, Public Sector Equality Duty and Community Cohesion	There are no applicable issues to consider within this report.
Reducing Poverty	There are no applicable issues to consider within this report.
Climate Change / Environmental	There are no applicable issues to consider within this report.
Children and Young People Cared for by the Authority and Care Leavers	There are no applicable issues to consider within this report
Data Protection	There are no applicable issues to consider within this report.

Action	Responsible Officer	Deadline
To implement and monitor the 2026/27 prudential indicators and treasury management strategy	Head of Corporate Finance	1 April 2026 (and during the 2026/27 financial year)

Appendices

1	Prudential Indicators & Treasury Management Report for 2026/27 to 2029/30

Background papers

Body	Report title	Date
Council	Prudential Indicators and Annual Treasury Management Strategy – 2026/27	18 February 2026
Executive	Prudential Indicators and Treasury Management Strategy Report – Mid Year review 2025/26	3 December 2025

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