Full Council	
Meeting Date	1 October 2025
Report Title	Treasury Management Strategy 2025/26 Update
EMT Lead	Lisa Fillery Director of Resources
Head of Service	Claire Stanbury Head of Finance & Procurement
Lead Officer	
Classification	**Open**
Recommendations	1. To approve the updated Treasury Management Prudential Indicators for 2025/26.

1 Purpose of Report and Executive Summary

1.1 Following adoption for the 2024/25 financial reporting year of International Financial Reporting Standard 16 (IFRS 16) – Accounting for Leases, changes are required to the Council's 2025/26 Treasury management strategy.

1.2 As a result of the changes to the accounting treatment, there are two treasury management performance indicators within the Treasury Management Strategy that need to be amended. The lease liabilities now reported on the balance sheet are captured within the limits that we set for our Treasury Management Prudential Indicators for the Operational Boundary and Authorised Limit for external debt. These limits were set for 2025/26 before the IFRS 16 calculations were completed to support the publication of the 2024/25 Statement of Accounts.

2 Background

2.1 The final outturn report for the 2024/25 Treasury Management Strategy was taken to Audit Committee in July 2025, this reported the breach of the limits for the Operational Boundary and Authorised Limits for external debt resulting from the change in reporting requirements and the reclassification of the rental agreements. The lease liabilities are classified within the borrowing limits albeit, no actual borrowing is linked to these agreements, it is reporting the total liability that arises over the period of the lease arrangements.

2.2 The reporting standard requires that assets that are leased by the council should now be recognised as Right of Use Assets and Short/Long term lease liabilities on our balance sheet. For Swale the change has been implemented for assets where we have had very long term arrangements in place for assets that we have been renting, there are no changes to the cost or the operational service delivery, it is purely a change to the technical accounting treatment of the arrangements.

2.3 The operational boundary is based on the Council's estimate of most likely scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement, and cash flow requirements, and is a key management tool for in-year monitoring. Other long term liabilities comprise finance leases and other liabilities that are not borrowing but form part of the Council's debt, and this is the part that needs to be increased.

2.4 The table below show the limits in the 2024/25 strategy, the final position as reported to Audit Committee, and the proposed updated limits for the 2025/26 strategy.

Operational Boundary	2024/25 Revised £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Current Strategy				
Borrowing	45,000	45,000	55,000	57,000
Other long term liabilities	1,000	1,000	1,000	1,000
Total operational boundary	**46,000**	**46,000**	**56,000**	**58,000**
2024/25 Outturn				
Borrowing	13,000			
Other long term liabilities	3,169			
Total operational boundary	**16,169**			
Proposed Strategy				
Borrowing	45,000	45,000	55,000	57,000
Other long term liabilities	1,000	5,000	5,000	5,000
Total Operational Boundary	**46,000**	**50,000**	**60,000**	**62,000**

2.5 The authorised limit sets the maximum level of external borrowing on a gross basis for the Council. It is measured on a daily basis against all external borrowing items on the balance sheet. This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. The authorised limit is set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

2.6 The table below show the limits in the 2024/25 strategy, the final position as reported to Audit Committee, and the proposed updated limits for the 2025/26 strategy.

Authorised Limit Current Strategy	2024/25 Revised £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Borrowing	55,000	55,000	65,000	67,500
Other long term liabilities	2,500	2,500	2,500	2,500
Total authorised limit	**57,500**	**57,500**	**67,500**	**70,000**
2024/25 Outturn				
Borrowing	13,000			
Other long term liabilities	3,169			
Total authorised limit	**16,169**			
Proposed Strategy				
Borrowing	55,000	55,000	65,000	67,500
Other long term liabilities	2,500	9,000	9,000	9,000
Total authorised limit	**57,500**	**64,000**	**74,000**	**76,500**

3 Proposals

3.1 Members are asked to support the changes to the Treasury Management Strategy for 2025/26 to reflect the changes arising from the inclusion of the long term lease liability on the Operational Boundary and Authorised Limit for external debt.

4 Alternative Options Considered and Rejected

4.1 The strategy could remain as originally drafted and the breach of the Operational Boundary and Authorised Limit for external debt reported at year end. This option is not recommended.

5 Consultation Undertaken or Proposed

5.1 Audit Committee have discussed the proposal at their meeting on 16 July and have recommended that the strategy is amended.

6 Implications

Issue	Implications
Corporate Plan	Effective treasury management supports the delivery of the Council’s objectives.
Financial, Resource and Property	As detailed in the report

Legal, Statutory and Procurement	CIPFA produce a framework for managing treasury activities, called a 'Code'. Councils are legally required to have regard to this Code and members of CIPFA are expected to comply with its requirements. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the MHCLG Guidance
Crime and Disorder	None identified at this stage
Environment and Climate/Ecological Emergency	None identified at this stage
Health and Wellbeing	None identified at this stage
Safeguarding of Children, Young People and Vulnerable Adults	None identified at this stage
Risk Management and Health and Safety	None identified at this stage
Equality and Diversity	None identified at this stage
Privacy and Data Protection	None identified at this stage

7 Appendices

7.1 The following documents are to be published with this report and form part of the report:

- Appendix I: Updated Treasury Management Prudential Indicators 2025/26

8 Background Papers

1. Proposed Update to Treasury Management Strategy 2025/26 – Audit Committee 16 July 2025.
2. Treasury Management Strategy 2025/26 – approved by Audit Committee, Policy and Resources and Full Council
3. Treasury Management Strategy 2025/26 Update – approved by Policy and Resources 10 September 2025

Treasury Management Prudential Indicators 2025/26

Background

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Gross Debt and the Capital Financing Requirement (CFR)

This is a key indicator of prudence. Statutory guidance states that external debt should not exceed the capital financing requirement in the previous year plus the estimates of any increase in the CFR at the end of the current year and the next two years. The table below demonstrates that the Council is complying with this aspect of the Prudential Code.

Gross Debt and the Capital Financing Requirement	2024/25 Revised	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
	£'000	£'000	£'000	£'000
Capital Financing Requirements	52,113	74,800	80,500	80,300
Gross External Debt (incl leases)	(10,000)	(37,500)	(48,000)	(50,500)
Internal Borrowing	**42,113**	**37,300**	**32,500**	**29,800**

Estimates of Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax. (See Capital Programme in 2025/26 Budget Report to Policy and Resources Committee.)

Capital Expenditure and Financing	2024/25 Revised	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
	£'000	£'000	£'000	£'000
Total Expenditure	**41,816**	**21,626**	**4,935**	**2,745**
Section 106 Contribution	338	0	0	0
Grants	16,076	13,616	2,725	2,725
Capital receipts	343	0	0	0
Reserves	825	210	210	20
Borrowing	24,234	7,800	2,000	0
Total Financing	**41,816**	**21,626**	**4,935**	**2,745**

Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability, highlighting the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2024/25 Revised	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
General Fund Total	4.48%	5.64%	6.55%	6.44%

Authorised Limit for External Debt

The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e., not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e., long and short-term borrowing, overdrawn bank balances and long-term liabilities). This Prudential Indictor separately identifies borrowing from other long-term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing, and its approved treasury management policy statement and practices.

The Authorised Limit has been set on the estimate of the most likely, prudent but not worst-case scenario with sufficient headroom over and above this to allow for unusual cash movements.

The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	2024/25 Revised £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Borrowing	55,000	55,000	65,000	67,500
Other long-term liabilities	2,500	9,000	9,000	9,000
Total	**57,500**	**64,000**	**74,000**	**76,500**

Operational Boundary for External Debt

The operational boundary is based on the Council's estimate of most likely (i.e., prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance leases and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary	2024/25 Revised £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Borrowing	45,000	45,000	55,000	57,000
Other long-term liabilities	1,000	5,000	5,000	5,000
Total Operational Boundary	**46,000**	**50,000**	**60,000**	**62,000**

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£(180,000)
Upper limit on one-year revenue impact of a 1% fall in interest rates	£180,000

Maturity Structure of Borrowing

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Maturity Structure of Borrowing	Lower Limit for 2025/26 %	Upper Limit for 2025/26 %
Under 12 months	0	100
12 months and within 24 months	0	100
24 months and within 5 years	0	100
5 years and within 10 years	0	100
10 years and above	0	100

Time period starts on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Long-term treasury management investments

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management investments will be:

Price Risk Indicator	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	No Fixed Date £'000
Limit on principal invested longer than 1 year	10,000	10,000	10,000	10,000

Long-term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts with as these are considered short-term.

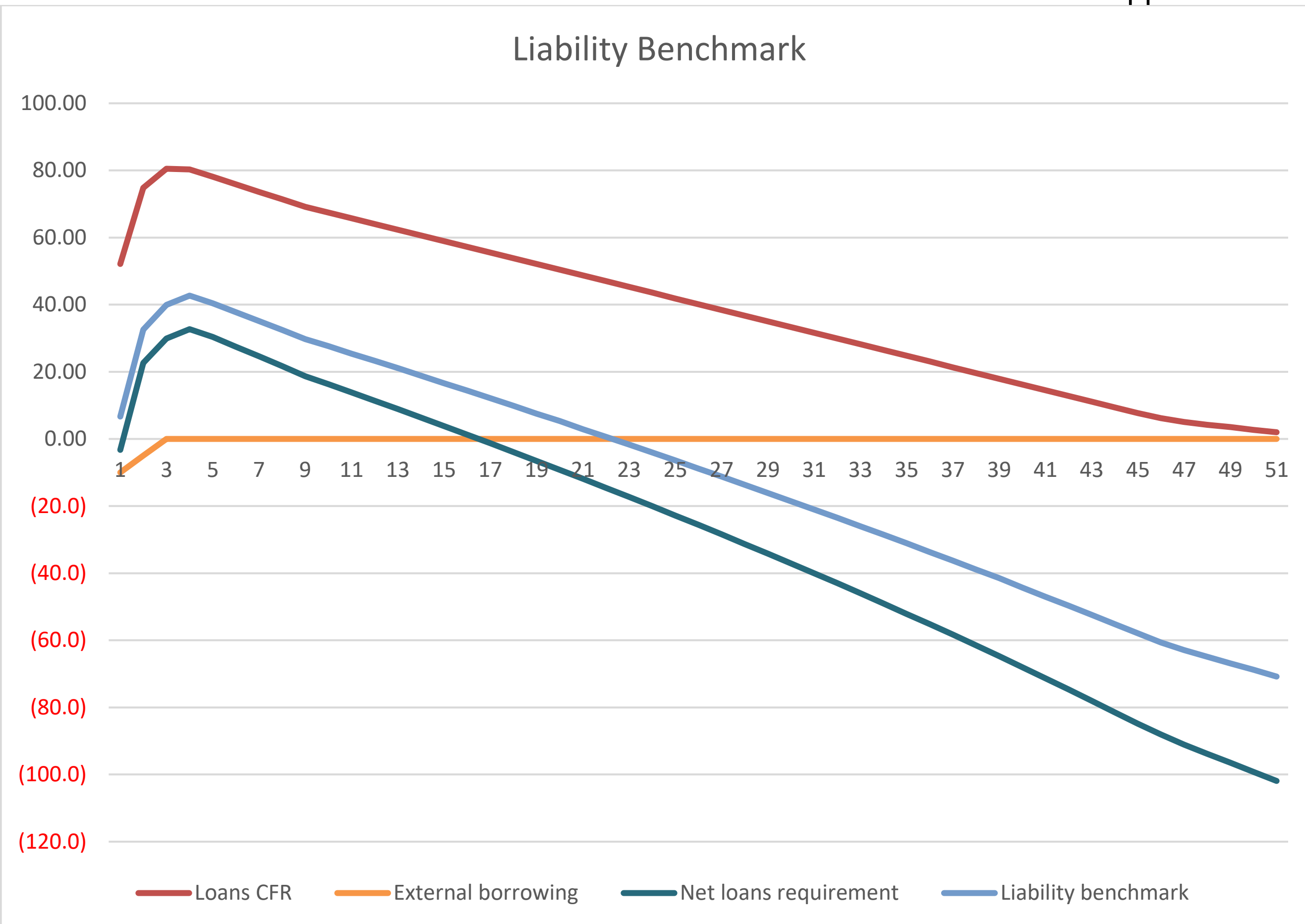
Liability benchmark: To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Prudential Indicator: Liability benchmark

	31.3.24 Actual £m	31.3.25 Estimate £m	31.3.26 Forecast £m	31.3.27 Forecast £m	31.3.28 Forecast £m
Loans CFR	52.1	74.8	80.5	80.3	78.1
Less: Balance sheet resources	(55.4)	(52.1)	(50.6)	(47.6)	(47.7)
Net loans requirement	**(3.3)**	**22.7**	**29.9**	**32.7**	**30.4**
Plus: Liquidity allowance	10	10	10	10	10
Liability benchmark	**6.7**	**32.7**	**39.9**	**42.7**	**40.4**

The long-term liability benchmark above assumes capital expenditure funded by borrowing, minimum revenue provision on new capital expenditure based on income, expenditure and reserves all increasing by inflation and appropriate asset life values (8 years for waste vehicles, 50 years for all other assets).


Liability Benchmark
100.00
80.00
60.00
40.00
20.00
0.00
(20.0)
(40.0)
(60.0)
(80.0)
(100.0)
(120.0)
1 3 5 7 9 11 13 15 17 19 21 23 25 27 29 31 33 35 37 39 41 43 45 47 49 51
Loans CFR
External borrowing
Net loans requirement
Liability benchmark