NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

CABINET – TUESDAY, 3 FEBRUARY 2026

Title of Report	**CAPITAL STRATEGY, TREASURY STRATEGY AND PRUDENTIAL INDICATORS 2026/27**
Presented by	Councillor Keith Merrie MBE Finance and Corporate Portfolio Holder PH Briefed: Yes
Background Papers	**Council – 20 February 2025** Capital Strategy, Treasury Management Strategy and Prudential Indicators – 2025/26 **Public Report:** Yes **Key Decision:** Yes
Financial Implications	The report sets out the annual update of the core strategies which underpin the Council's approach to managing its capital investment. **Signed off by the Section 151 Officer**: Yes
Legal Implications	The report and appendices have been compiled in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) The Prudential Code for Capital Finance in local authorities. **Signed off by the Monitoring Officer**: Yes
Staffing and Corporate Implications	There are no staffing and corporate implications arising from this report. **Signed off by the Head of Paid Service:** Yes
Purpose of Report	For Cabinet to review the 2026/27 Capital Strategy, Treasury Management Strategy and Prudential Indicators and recommend to Council for approval.
Reason for Decision	To meet the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Government.
Recommendations	**THAT CABINET:** **1. ENDORSES THE ATTACHED STRATEGIES (APPENDIX 1-4) AND RECOMMENDS THEM TO COUNCIL FOR APPROVAL AT ITS MEETING ON 19 FEBRUARY 2026.** **2. DELEGATES AUTHORITY TO THE SECTION 151 OFFICER, IN CONSULTATION WITH THE FINANCE AND CORPORATE PORTFOLIO HOLDER TO MAKE AMENDMENTS TO THE STRATEGIES PRIOR TO CONSIDERATION AT COUNCIL ON 19 FEBRARY 2026 IN RESPONSE TO ANY REQUESTS FROM PORTFOLIO HOLDERS IN RESPECT OF THEIR PORTFOLIOS.**

	3. CONSIDERS THE CORPORATE SCRUTINY COMMITTEE COMMENTS AND OFFICER RESPONSES AS DETAILED IN APPENDIX 5.

1.0 BACKGROUND

1.1 The Local Government Act 2002 and supporting regulations require the Council to 'have regard to' the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and the Treasury Management Code of Practice and to prepare, set and publish prudential indicators and treasury indicators that ensure the Council's capital expenditure plans are affordable, prudent and sustainable in the long- term.

1.2 The prudential indicators consider the affordability and impact of capital expenditure plans and set out the Council's overall capital framework. The prudential indicators summarise expected treasury activity, introduce limits upon that activity and reflect the underlying capital programme. As a consequence, a Treasury Management Strategy is prepared which considers the effective funding of the capital expenditure decisions and complements the prudential indicators.

1.3 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return. The Council is required to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby charges to revenue remain affordable within the projected income of the Council for the foreseeable future. These increased charges may arise from:

- increases in interest charges and debt repayment caused by increased borrowing to finance additional capital expenditure; and
- any increases in operational running costs from new capital projects.

1.4 Treasury Management is, therefore, an important part of the overall financial management of the Council's affairs and is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risk associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.5 Specific treasury indicators are prepared and included in the Treasury Management Strategy which require Council approval. These are detailed in Section 2.

1.6 The Council's treasury activities are strictly regulated by statutory requirements and guidance, including:

- CIPFA Prudential Code for Capital Finance in Local Government
- CIPFA Treasury Management Code of Practice
- Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance
- MHCLG Minimum Revenue Provision (MRP) Guidance.

1.7 The Council's Constitution (via the Financial Procedure Rules) requires full Council to approve the Treasury Management Policy statement for the forthcoming year at or before the start of the financial year. The statement is proposed to the full Council by the

Cabinet. The Council's Section 151 Officer has delegated responsibility for implementing and monitoring the statement. The Section 151 Officer is responsible for reporting annually to the Cabinet on the activities of the treasury management operation and on the exercise of his or her delegated treasury management powers. Reports on treasury management are also required to be adequately scrutinised and this role is undertaken by the Audit and Governance Committee.

2.0 CAPITAL AND TREASURY MANAGEMENT STRATEGIES

2.1 The following strategies are attached as appendices for Cabinet to recommend to Council for approval:

- Appendix 1 - Capital Strategy 2026/27;
- Appendix 2 - Treasury Management Strategy Statement 2026/27;
- Appendix 3 - Minimum Revenue Provision (MRP) Statement 2026/27
- Appendix 4 - Non-Treasury Investment Strategy 2026/27.

2.2 There are no major changes to the 2025/26 version of the strategies, other than the updating of the financial values.

3.0 PRUDENTIAL INDICATORS

3.1 The CIPFA codes require a prescribed set of prudential indicators to be produced annually and monitored throughout the year, and the Council also has the option to add locally set indicators, these are detailed shown below with further explanation to their meanings:

1(a). External Debt - Operational Boundary (Treasury Strategy – Appendix 2)
The most likely, prudent view of the level of gross external indebtedness. External debt includes both borrowing and long-term liabilities (e.g. finance leases). It encompasses all borrowing, whether for capital or revenue purposes. This indicator will be subject to the level and timing of borrowing decisions and so the actual level of borrowing can, therefore, be below or above this initial estimate. However, what cannot be breached without a further report to Council is the authorised borrowing limit.

1(b). External Debt - The Authorised Limit (Treasury Strategy – Appendix 2)
The upper limit on the level of gross external indebtedness, which must not be breached without Council approval. It is the worst-case scenario. It reflects the level of borrowing which, while not desired, could be afforded but may not be sustainable. Any breach must be reported to the executive decision-making body, indicating the reason for the breach and the corrective action undertaken or required to be taken. This limit is a statutory limit required to be set by the Council under Section 3(1) of the Local Government Act 2003.

1(c). External Debt - Actual External Debt (Treasury Strategy – Appendix 2)
The indicator for actual external debt will not be directly comparable to the operational boundary and authorised limit since the actual external debt will reflect the actual position at one point in time.

2. Capital Financing Requirement (CFR) (Treasury Strategy – Appendix 2)
The Capital Financing Requirement (CFR) replaced the 'Credit Ceiling' measure of the Local Government and Housing Act 1989. It measures an authority's underlying need to borrow or use other long-term liabilities, to pay for capital expenditure.

3. Capital Expenditure (Capital Strategy – Appendix 1)
The level of capital expenditure incurred and likely to be incurred in future years. This is to be based on an accruals basis and on the definition of capital expenditure.

4. Gross External Borrowing and the Capital Financing Requirement (Treasury Strategy – Appendix 2)
The level of external borrowing is required to be compared to the Capital Financing Requirement which represents the underlying need to borrow. Requires that borrowing in the medium term can only be for capital purposes.

5. Maturity Structure of Borrowing (Treasury Strategy – Appendix 2)
Local Authority debt portfolios consist of a number of loans with differing maturities. Setting limits assists in ensuring any new borrowing in particular when combined with existing borrowing does not result in large concentrations of borrowing maturing in a short period of time.

6. Principal sums invested for greater than one year (Treasury Strategy – Appendix 2)
This indicator measures the exposure of a local authority to investing for periods of greater than one year.

7. Ratio of Financing Costs to Net Revenue Stream (Capital Strategy – Appendix 1)
This indicator is a measure of affordability of historic and future capital investment plans. It identifies the trend in the cost of capital financing which include:

- interest payable on borrowing
- penalties or any benefits receivable on early repayment of debt
- prudent revenue budget provision for repayment of capital expenditure paid for by borrowing

This is calculated for the General Fund and Housing Revenue Account (HRA). For the General Fund, the net revenue stream is the amount to be met from non-specific Government grants and Council Tax, whilst for the HRA it is the amount to be met from rent payers. An increasing ratio indicates that a greater proportion of the Council's budget is required for capital financing costs over the planned Capital Programme period.

It should be noted that these figures include a number of assumptions such as:

- no new approvals of additional borrowing apart from that currently proposed over the period of the programme
- estimated interest rates
- the level of internal borrowing and timing of external borrowing decisions and capital expenditure.

4.0 CONSULTATION

4.1 The Corporate Scrutiny Committee considered a draft version of this report and its appendices at its meeting on 22 January 2026. Appendix 5 details the comments made by the committee and the officers' responses at the meeting.

Policies and other considerations, as appropriate	
Council Priorities:	The Capital Strategy and Treasury Management Strategy Statement help the Council achieve all its priorities:
Policy Considerations:	None
Safeguarding:	Not applicable
Equalities/Diversity:	Not applicable
Customer Impact:	Not applicable
Economic and Social Impact:	Not applicable
Environment, Climate Change and Zero Carbon:	The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing. Where practical, when making investment decisions ESG will be considered and counterparties with integrated ESG policies and commitments to carbon.
Consultation/Community/Tenant Engagement:	Corporate Scrutiny Committee – 22/01/26 Public consultation will begin 14 January to 1 February 2026
Risks:	Borrowing and investment both carry an element of risk. This risk is moderated through the adoption of Treasury and Investment Strategies, compliance with the CIPFA Code of Treasury Management and the retention of Treasury Management advisors (Arlingclose) to offer expert advice
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