

Report to Cabinet

Subject: Prudential Code Indicator Monitoring 2026/27 and Treasury Activity Report for the Period April to July 2026

Date: 15th October 2026

Author: Financial Services Manager & Deputy S151 Officer

Wards Affected

Borough wide

Purpose

To inform Members of the performance monitoring of the 2026/27 Prudential Code Indicators, and to advise Members of the Treasury activity as required by the Treasury Management Strategy.

Key Decision

This is **not** a key decision.

Recommendation(s)

Cabinet are recommended to:

1. Note the report, together with the Treasury Activity Report 2026/27 for Period 4 at Appendix 1, and the Prudential and Treasury Indicator Monitoring 2026/27 at Appendix 2.
2. Approve the changes to Prudential Indicators detailed at paragraph 2.7 to align with the latest revenue and capital budgets being reported to members as part of the Budget Monitoring and Virement Report for the period April 2026 to July 2026.

1 Background

1.1 The Council is required by regulations issued under the Local Government Act 2003

to report on its Prudential Code indicators and treasury activity. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.2 For 2026/27 the minimum reporting requirements are that the Full Council should receive the following reports:

- An annual Treasury Strategy in advance of the year (the TMSS, considered by Cabinet on 19 February 2026 and subsequently approved by Full Council on 4 March 2026);
- A mid-year treasury update report;
- An annual review following the end of the year describing the activity compared to the Strategy.

1.3 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report provides details of the position at 31 July 2026 and highlights compliance with the Council's policies.

2 Proposal

2.1 Economic Update

Economic Activity & Inflation

- The UK economy grew by 0.4% between April and June 2026.
- CPI inflation has risen to 2.9% in the 12 months to July, driven by a sharp increase in fuel prices.
- The Bank of England held interest rates at 3.75% in July.
- Retail sales rose by 0.6% in the quarter April to June 2026 compared with the quarter January to March 2026, an increase of 2.8% compared with the three months to June 2025.

Labour Market & Wages

- The labour market unemployment is around 5%, which is the same as at the March 2026 year-end.
- Vacancy number dipped slightly over the May to July 2026 period to 707,000 which is the lowest level in more than five years as smaller businesses cut back on recruitment.

- Regular earnings grew at an overall annual pace of 3.5% in the three months to June 2026.

Public Finances

- The economy performed well in the early stages of the energy shock, with GDP rising by a strong 0.6% between January and March. But that will likely be the high point of the year. Indeed, the 0.1% month on month fall in real GDP in April was the first decline since August 2025 and brought the first signs that the economy is starting to crack.
- Borrowing in June is to £16.0bn, which is a reduction of £7.9bn compared to the previous year.
- Year-to-date borrowing to June 2026 is £57.7bn, which is £3.7bn less than last year but £2.7bn above forecast.
- Public sector debt edged up to 94.9% of GDP (June 2026).

2.2 Interest rate forecast

Our Treasury Management advisors, MUFG, provided their quarterly forecast of interest rates. These are shown in the table below. PWLB rates in the table are based on the Certainty Rate which include a 0.2% reduction on the standard rates.

The Bank Rate at the beginning of the year was 3.75% and remained unchanged at 31 July 2026. MUFG's forecast at the date it was prepared indicated that the Bank Rate would increase 0.25% to 4.00% in December, before reducing to 3.75% by September 2027 and 3.25% by March 2028. However, interest-rate expectations remain volatile and market pricing has subsequently shifted towards a higher-for-longer outlook, reflecting increased inflationary risks. Consequently, there is a risk that rates may rise above the levels included in MUFG's forecast before reductions commence.

Any external borrowing that the Council may need to undertake to finance capital projects could therefore be secured at higher interest rates than currently forecast, increasing the associated financing costs and the impact on the Council's revenue budget. The position will continue to be monitored and updated in future treasury management reports.

MUFG Corporate Markets Interest Rate View 21.09.26												
	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28	Mar-29	Jun-29	Sep-29
BANK RATE	4.00	4.00	4.00	3.75	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	4.00	4.00	4.00	3.80	3.50	3.30	3.30	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	4.20	4.10	4.00	3.80	3.70	3.50	3.40	3.40	3.40	3.40	3.40	3.40
12 month ave earnings	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.70	3.70	3.70	3.70	3.70
5 yr PWLB	5.60	5.60	5.30	5.10	4.70	4.50	4.50	4.40	4.40	4.30	4.30	4.30
10 yr PWLB	6.00	5.90	5.60	5.40	5.00	4.80	4.80	4.70	4.70	4.60	4.60	4.60
25 yr PWLB	6.50	6.40	6.10	5.90	5.60	5.30	5.30	5.30	5.30	5.30	5.20	5.20
50 yr PWLB	6.10	6.10	5.80	5.50	5.30	5.10	5.00	5.00	5.00	5.00	4.90	4.90

2.3 Treasury Management Strategy

The Treasury Management Strategy Statement (TMSS) for 2026/27, which includes the Annual Investment Strategy, was approved by Council on 4 March 2026, and sets out the Council's investment priorities as:

- Security of capital;
- Liquidity;
- Yield.

Whilst the Council will always seek to obtain the optimum return (yield) on its investments, this will at all times be commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate either to keep investments short term to cover cash flow needs, or to extend the period up to 12 months with highly rated financial institutions, selected by the use of the MUFG creditworthiness methodology (see below) which includes consideration of sovereign ratings.

For 2026/27, the Council's investment counterparty limit remains at **£3m** for each individual counterparty, other than Money Market Funds and the Debt Management Office. With effect from 1 April 2026, the limit for each Money Market Fund was increased from **£4m to £5m**, reflecting the inherent diversification of these investment vehicles. No counterparty limit applies to investments placed with the Debt Management Office (DMO), as these represent lending to the UK Government. The Chief Financial Officer has delegated authority to vary these limits where appropriate, with any changes subsequently reported to Cabinet through the next treasury management report.

Limits with investment counterparties have not exceeded the prevailing levels approved by the CFO during the period 1 April to 31 July 2026.

Credit ratings advice is taken from MUFG and the Chief Financial Officer has adopted the MUFG credit rating methodology for the selection of investment counterparties. This employs a sophisticated modelling approach utilising credit ratings from all three of the main rating agencies to give a suggested maximum duration for investments. Accordingly, it does not place undue reliance on any one agency's ratings.

The methodology subsequently applies an “overlay” to take account of positive and negative credit watches and/or credit outlook information, which may increase or decrease the suggested duration of investments. It then applies a second overlay based on the credit default swap spreads for institutions, the monitoring of which has been shown to give an early warning of likely changes in credit ratings. It also incorporates sovereign ratings to ensure selection of counterparties from only the most creditworthy countries. The current Treasury Strategy permits the use of any UK counterparties subject to their individual credit ratings under the MUFG methodology. It also permits the use of counterparties from other countries with a minimum sovereign rating of AA minus. For information, the UK currently has a rating of AA with S&P Global and AA minus with Fitch.

The MUFG modelling approach combines all the various factors in a weighted scoring system and results in a series of colour coded bands which indicate the creditworthiness of counterparties. The colour bandings are as follows:

- Yellow 5 years (UK Government debt or its equivalent)
- Dark pink 5 years for Ultra Short Dated Bond Funds (credit score 1.25)
- Light pink 5 years for Ultra Short Dated Bond Funds (credit score 1.50)
- Purple 2 years
- Blue 1 year (nationalised or semi nationalised UK banks only)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

Significant downgrades by the Ratings agencies have not materialised since the beginning of the Covid-19 crisis in March 2020. Where changes were made these were generally limited to “outlooks”. However, as economies re-opened some instances of previous reductions were reversed.

Credit ratings are monitored weekly and the Council is also alerted to interim changes by its use of the MUFG creditworthiness service, however ratings under the methodology, including sovereign ratings, will not necessarily be the sole determinant of the quality of an institution. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

The ultimate decision on what is prudent and manageable for the Council will be taken by the Chief Financial Officer under the approved scheme of delegation.

2.4 Treasury Activity during Period 1 to 4 of 2026/27

The Treasury Activity Report for the period ended 31 July 2026 is attached at Appendix 1, in accordance with the Treasury Management Strategy.

Members will note that investment interest of £224,042 was generated from MMF activity, term deposits with banks and building societies, and the property fund, during the period from 1 April to 31 July 2026. This represents an overall equated rate for the Council of 3.79% which is marginally lower than the compounded Sterling Overnight Index Average (SONIA) rate, which averaged 3.90%.

During the period from 1 April to 31 July 2026, significant use was made of the Council's three Money Market Funds (MMFs). These are AAA rated investment vehicles which allow the pooling of many billions of pounds into highly diversified funds, thus reducing risk. The current rates of return on these funds are circa 3.8% which remain generally in line with the overnight treasury deposit rates, and the rate obtainable from the Debt Management Office (DMO).

The Council made an investment of £1m in the CCLA Local Authority Property Fund (LAPF) on 1 December 2017. The LAPF is a local government investment scheme approved by the Treasury under the Trustee Investments Act 1961 (section 11). Dividends are treated as revenue income and have in previous years averaged around 4%.

The fund decreased by £11,613 between 1 April 2026 and 31 July 2026. A dividend of £10,006 was received in the first quarter of the year.

This investment allows the Council to introduce a property element into its investment portfolio without the risks associated with the direct purchase of assets. It should be noted however that the capital value is **not** guaranteed and can fall as well as rise. The certificated value of the investment at 31 July 2026 was £882,323 which was lower than the original investment of £1m, this represents a £117,677 loss. However, this investment is regarded as a long-term commitment and fluctuations should be expected. The CCLA suggested that the investment is expected to increase over the course of the next few years and dividends continue to be received of approximately £40k per annum.

Interest rates remain relatively favourable for investment returns, although the outlook is uncertain. Bank Rate has remained at 3.75% throughout 2026 and, while MUFG's forecast at the date it was prepared assumed that it would remain at this level for the rest of the financial year, increased inflationary pressures have created a risk that rates may remain higher for longer or rise further. As investments mature, every effort will continue to be made to reinvest funds at favourable rates, with security and liquidity remaining the overriding priorities in the Council's treasury management activities.

At the start of 2026/27 the Bank of England base rate stood at 3.75%, this was maintained by The Monetary Policy Committee (MPC) at its July 2026 meeting. The Council was expecting a large Capital Receipt from the sale of land however this sale has been delayed and this capital receipt has been excluded from the investment income estimate for the 2026/27 financial year.

2.5 New borrowing

At 31 July 2026 no new borrowing had been undertaken.

Advice will continue to be taken from MUFG with regard to the amount and timing of any additional borrowing, and should conditions become advantageous, some borrowing in advance of need will also be considered by the Chief Financial Officer. The Council's Capital Financing Requirement (CFR) represents its underlying need to borrow to finance capital investment. Due to favourable interest rates, borrowing in advance of need is sometimes desirable, with the result that the CFR can differ to the actual borrowing planned in the year.

Councils may not borrow in advance of need purely to profit from the investment of the extra sums borrowed. However, prudent early borrowing for a demonstrable service objective is permitted. Serious consideration must be given to the cost of carrying any additional borrowing during the period prior to it being required for the financing of capital expenditure since this places a further burden on the General Fund.

2.6 Debt rescheduling

When the current day PWLB rate for the same term is higher than that being paid on an existing loan there is the potential for a discount to be receivable if the loan is repaid prematurely.

However, debt rescheduling opportunities are limited in the current economic climate, and due to the structure of PWLB interest rates. Advice in this regard will continue to be taken from MUFG. No debt rescheduling has been undertaken during the period from 1 April to 31 July 2026.

2.7 Compliance with Prudential and treasury indicators

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limit. The Council's approved Prudential and Treasury Indicators (affordability limits) are included in the Treasury Management Strategy Statement (TMSS) approved by Full Council on 4 March 2026.

During the financial year to date, the Council has operated in compliance with its Treasury Management Practices and within the approved treasury limits. Most Prudential Indicators remain within their approved levels; however, the projected ratio of financing costs to the net revenue stream and the projected ratio of internal

borrowing to the Capital Financing Requirement are above their approved indicators, as explained below. The Prudential and Treasury Indicators as at 31 July 2026 are shown at Appendix 2.

The Prudential Indicator relating to capital expenditure remains at the approved level of **£10,194,800**. Any changes in the Capital Programme for 2026/27 are being reported to Members through the Budget Monitoring and Virement Report for the period April to July 2026.

The Prudential Indicator relating to the ratio of financing costs to net revenue stream is currently at 6.12% which is above the approved indicator of 5.45%. This change is mainly driven by the expected full year decrease in investment income.

All treasury limits were complied with during the period April to July 2026. Other than the projected ratio of financing costs to the net revenue stream and the projected ratio of internal borrowing to the Capital Financing Requirement, all Prudential Indicators remain within their approved levels.

- Prudential Indicators:

These indicators are based on estimates of expected outcomes, and are key indicators of “affordability”. They are monitored on a regular basis, and Appendix 2 compares the approved indicators with the projected outturn for 2026/27, and shows variances on the indicators, as described below:

- Capital Expenditure

The latest projected outturn shows that total capital expenditure is expected to be £9,988,700. This is the same as the budgeted projected position.

- Capital Financing Requirement (CFR)

The CFR represents the historic outstanding capital expenditure which has not yet been paid for from capital or revenue resources, and is essentially a measure of the Council’s underlying borrowing need. The CFR does not increase indefinitely since the minimum revenue provision (MRP) is a statutory annual revenue charge for the economic consumption of capital assets.

At 31 July the projected closing CFR for 2026/27 is £21,073,365. This differs to the approved indicator of £22,194,000 due to the slippage of the programme in 2025/26.

- Gearing ratio

The concept of “gearing” compares the total underlying borrowing need (the CFR) to the Council’s total fixed assets and the gearing ratio can provide

an early indication where debt levels are rising relative to long term assets held.

The projected gearing ratio at 31 July 2026 is 43%, which is in line with the approved indicator and is broadly comparable with the average gearing ratio for councils of a similar size.

- Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of borrowing net of investment income against the net revenue stream. Financing costs represent the element of the Council's budget to which it is committed even before providing any services.

The projected outturn of 6.12% is higher than the approved indicator of 5.45%, due to a projected £150,000 reduction in investment income for 2026/27.

- Maximum gross debt

The Council must ensure that its gross debt does not, except in the short term, exceed the opening capital financing requirement, plus estimates of any additional CFR for 2026/27 and the following two financial years. This allows flexibility for early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes. The Council's gross debt at 31 July 2026 was £10.812m, which was within the approved indicator.

2.9 Ratio of internal borrowing to CFR

The Council is currently maintaining an "internal borrowing" position, i.e. the underlying borrowing need (CFR) has not yet been fully funded with loan debt as cash supporting the Council's reserves and balances is being used as a temporary measure.

The current projected outturn for internal borrowing is 49%, which has increased from 45% per the Budget 2026/27. The approved indicator remains at 45%. This is a temporary fluctuation due to last years slippage of the capital programme, and is expected to be back in line later in the year as schemes from the current year are rephased.

At 31 July 2026, Gedling had not undertaken any additional long-term borrowing and had utilised internal borrowing wherever possible to support capital projects. However, depending on the timing of capital expenditure and the Council's cash-flow and liquidity position, external borrowing may be required later in the financial year. Advice will continue to be sought from the Council's Treasury Management advisers on the optimal timing and terms of any new borrowing, with a further

update provided in the next treasury management monitoring report.

- Treasury Management Indicators:

These indicators are based on limits, beyond which activities should not pass without management action. They include two key indicators of affordability and four key indicators of prudence.

Affordability:

- Operational boundary for external debt

This is the limit which external debt is not “normally” expected to exceed. In most cases, this would be a similar figure to the CFR, but it may be lower or higher depending on the levels of actual debt and must allow for unusual cash flow movements.

- Authorised limit for external debt

This limit represents a control on the “maximum” level of borrowing. It is the statutory limit determined under s3 (1) of the Local Government Act 2003 and represents the limit beyond which external debt is prohibited. The Authorised Limit must be set, and revised if necessary, by Full Council. It reflects a level of external debt which, while not desirable, could be afforded in the short term, but is not sustainable in the longer term. The Government retains an option to control either the total of all councils’ plans, or those of a specific council, although this power has not yet been exercised.

Prudence:

- Upper limits for the maturity structure of borrowing

These are set to reduce the Council’s exposure to large fixed rate sums falling due for refinancing.

- Maximum new principal sums to be invested during 2026/27 for periods in excess of one year (365 days)

All such investments are classified as “non-specified”. This indicator is subject to the overall limit for non-specified investments set out in the TMSS, and to the overall limit per counterparty.

- Interest rate exposure

The latest Treasury Management Code requires a statement in the TMSS explaining how interest rate exposure is managed and monitored by the Council, and this is repeated below:

The Council has a general preference for fixed rate borrowing in order to minimise uncertainty and ensure stability in the charge to revenue, however it is acknowledged that in certain circumstances, some variable rate borrowing may be prudent, for example if interest rates are expected to fall. The Council's investments are generally for cashflow purposes and accordingly a mix of fixed and variable rates will be used to maximise flexibility and liquidity. Interest rate exposure will be managed and monitored on a daily basis by the Chief Financial Officer.

Local indicators for the proportions of fixed and variable rate loans, have been retained by the Council for information purposes.

Appendix 2 shows the actual position as at 31 July 2026, and demonstrates that all activities are contained within the currently approved limits.

Risk Management:

The CIPFA Prudential Code and Treasury Management Code (both updated in 2021) have placed greater importance on risk management. Where a local authority changes its risk appetite (for example, moving surplus cash into or out of certain types of investment funds or other investment instruments) then this change in risk appetite should be brought to Members attention in treasury management update reports.

There have been no changes in risk appetite and there are no other significant treasury management issues that have arisen since approval of the TMSS on 4 March 2026 that need to be brought to the attention of Members.

There are a number of risks inherent within any treasury management strategy, the most significant risks include:

- Reporting is not compliant with statutory guidelines.
- Investment and borrowing activity is outside the approved TM framework.
- Long term borrowing is taken at rates that are not advantageous.
- Investment of principal sums with insecure counterparties.
- Investment returns are volatile and may not meet budgeted amounts.
- Borrowing is not affordable.

These risks are mitigated by the controls included in the TMSS and are detailed at section 2.3 - Treasury Management Strategy above.

3 Alternative Options

An alternative option is to fail to present a Prudential Code Indicator Monitoring and Treasury Activity Report, however this would contravene the requirement of the Council's Treasury Management Strategy Statement (TMSS).

4 Financial Implications

The financial implications are set out within the report. The projected reduction in investment income has increased the ratio of financing costs to the net revenue stream above its approved indicator. In addition, if external borrowing is required later in the financial year, higher-than-forecast interest rates could increase financing costs and place additional pressure on the Council's revenue budget. These risks will continue to be monitored through the Council's treasury management arrangements and future monitoring reports.

5 Legal Implications

There are no legal implications arising from this report.

6 Equalities Implications

There are no equalities implications arising from this report.

7 Carbon Reduction/Environmental Sustainability Implications

There are no carbon reduction/environmental sustainability implications arising from this report.

8 Local Government Reorganisation Implications

- 8.1 On 7 September 2026, the Government announced a national review of the Local Government Reorganisation programme and confirmed that the Nottingham and Nottinghamshire reorganisation would be paused while that review is undertaken. Although the Government remains committed to local government reorganisation, no revised timetable has yet been confirmed. This creates continuing uncertainty for Gedling Borough Council in planning for the medium term, including the future operating model, service alignment, governance arrangements, transition costs and longer-term financial assumptions. Existing council services and responsibilities remain unchanged during the pause.
- 8.2 The Council will therefore continue to manage its current budgets and services prudently, maintain financial and operational flexibility, work collaboratively with partner councils and the Ministry of Housing, Communities and Local Government,

and prepare proportionately for further developments once the outcome of the review is known.

9 Appendices

1. Treasury Activity Report 2026/27 for Period 1 to 4 (31 July 2026).
2. Prudential and Treasury Indicator Monitoring 2026/27 for Period 1 to 4 (31 July 2026).

10 Background Papers

None identified.

11 Reasons for Recommendation

To comply with the requirements of the Council's Treasury Management Strategy Statement.

Statutory Officer approval:

Approved by: Chief Financial Officer
Date:

Approved by: Monitoring Officer
Date: