Treasury Management Report - Quarter 2 2025/26

Introduction

In January 2023, the Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Council to approve, as a minimum, treasury management semi-annual and annual outturn reports.

This report includes the requirement in the 2021 code of quarterly reporting of the treasury management prudential indicators.

The Council's treasury management strategy for 2025/26 was approved at a meeting on 27th January 2025. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.

External Context

Economic background: The first quarter was dominated by the fallout from the US trade tariffs and their impact on equity and bond markets. The second quarter, still rife with uncertainty, saw equity markets making gains and a divergence in US and UK government bond yields, which had been moving relatively closely together.

From late June, amid a UK backdrop of economic uncertainty, concerns around the government's fiscal position and speculation around the autumn Budget, yields on medium and longer term gilts pushed higher, including the 30-year which hit its highest level for almost 30 years.

UK headline annual consumer price inflation (CPI) increased over the period, rising from 2.6% in March to 3.8% in August, still well above the Bank of England's 2% target. Core inflation also rose, from 3.4% to 3.6% over the same period, albeit the August reading was down % from 3.8% the previous month. Services inflation also fell from July to August, to 4.7% from 5.0%.

The UK economy expanded by 0.7% in the first quarter of the calendar year and by 0.3% in the second quarter. In the final version of the Q2 2025 GDP report, annual growth was revised upwards to 1.4% y/y. However, monthly figures showed zero growth in July, in line with expectations, indicating a sluggish start to Q3.

Labour market data continued to soften throughout the period, with the unemployment rate rising and earnings growth easing, but probably not to an extent that would make the more hawkish MPC members comfortable with further rate cuts. In addition, the employment rate rose while the economic inactivity rate and number of vacancies fell.

The BoE's Monetary Policy Committee (MPC) cut Bank Rate from 4.5% to 4.25% in May and to 4.0% in August after an unprecedented second round of voting. The final 5-4 vote was for a 25bps cut, with the minority wanting no change. In September, seven MPC members voted to hold rates while two preferred a 25bps cut. The Committee's views still differ on whether the upside risks from inflation expectations and wage setting outweigh downside risks from weaker demand and growth.

The August BoE Monetary Policy Report highlighted that after peaking in Q3 2025, inflation is projected to fall back to target by mid-2027, helped by increasing spare capacity in the economy and the ongoing effects from past tighter policy rates. GDP is expected to remain weak in the near-term while over the medium term outlook will be influenced by domestic and global developments.

Arlingclose, the Council's treasury adviser, maintained its central view that Bank Rate would be cut further as the BoE focused on weak GDP growth more than higher inflation. One more cut is currently expected during 2025/26, taking Bank Rate to 3.75%. The risks to the forecast are balanced in the near-term but weighted to the downside further out as weak consumer sentiment and business confidence and investment continue to constrain growth. There is also considerable uncertainty around the autumn Budget and the impact this will have on the outlook.

Against a backdrop of uncertain US trade policy and pressure from President Trump, the US Federal Reserve held interest rates steady for most of the period, before cutting the Fed Funds Rate to 4.00%-4.25% in September. Fed policymakers also published their new economic projections at the same time. These pointed to a 0.50% lower Fed Funds Rate by the end of 2025 and 0.25% lower in 2026, alongside GDP growth of 1.6% in 2025, inflation of 3%, and an unemployment rate of 4.5%.

The European Central Bank cut rates in June, reducing its main refinancing rate from 2.25% to 2.0%, before keeping it on hold through to the end of the period. New ECB projections predicted inflation averaging 2.1% in 2025, before falling below target in 2026, alongside improving GDP growth, for which the risks are deemed more balanced and the disinflationary process over.

Financial markets: After the sharp declines seen early in the period, sentiment in financial markets improved, but risky assets have generally remained volatile. Early in the period bond yields fell, but ongoing uncertainty, particularly in the UK, has seen medium and longer yields rise with bond investors requiring an increasingly higher return against the perceived elevated risk of UK plc. Since the sell-off in April, equity markets have gained back the previous declines, with investors continuing to remain bullish in the face of ongoing uncertainty.

Over the period, the 10-year UK benchmark gilt yield started at 4.65% and ended at 4.70%. However, these six months saw significant volatility with the 10-year yield hitting a low of 4.45% and a high of 4.82%. It was a broadly similar picture for the 20-year gilt which started at 5.18% and ended at 5.39% with a low and high of 5.10%

and 5.55% respectively. The Sterling Overnight Rate (SONIA) averaged 4.19% over the six months to 30th September.

Credit review: Arlingclose maintained its recommended maximum unsecured duration limit on the majority of the banks on its counterparty list at 6 months. The other banks remain on 100 days.

Early in the period, Fitch upgraded NatWest Group and related entities to AA- from A+ and placed Clydesdale Bank’s long-term A- rating on Rating Watch Positive. While Moody’s downgraded the long term rating on the United States sovereign to Aa1 in May and also affirmed OP Corporate’s rating at Aa3.

Then in the second quarter, Fitch upgraded Clydesdale Bank and also HSBC, downgraded Lancashire CC and Close Brothers while Moody’s upgraded Transport for London, Allied Irish Banks, Bank of Ireland and Toronto-Dominion Bank.

After spiking in early April following the US trade tariff announcements, UK credit default swap prices have since generally trended downwards and ended the period at levels broadly in line with those in the first quarter of the calendar year and throughout most of 2024.

European banks’ CDS prices has followed a fairly similar pattern to the UK, as have Singaporean and Australian lenders, while Canadian bank CDS prices remain modestly elevated compared to earlier in 2025 and in 2024.

Overall, at the end of the period CDS prices for all banks on Arlingclose’s counterparty list remained within limits deemed satisfactory for maintaining credit advice at current durations.

Financial market volatility is expected to remain a feature, at least in the near term and, credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Authority’s counterparty list recommended by Arlingclose remain under constant review

Local Context

On 31st March 2025, the Council had net borrowing of £145.2m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.25 Actual £m	31.3.26 Forecast £m
General Fund CFR	35.2	35.9
HRA CFR	164.2	198.4
Total CFR	**199.4**	**234.3**
Less: *Other debt liabilities	0	(0.8)
Borrowing CFR	**199.4**	**233.5**
External borrowing**	(161.3)	(168.5)
Internal borrowing	38.1	65.0
Less: Balance sheet resources	(50.1)	(75.0)
Net	**12.0**	**10.0**

* leases, PFI liabilities and transferred debt that form part of the Council's total debt
** shows only loans to which the Council is committed and excludes optional refinancing

The treasury management position at 30th September and the change over the six months is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.25 Balance £m	Movement £m	30.9.25 Balance £m	30.9.25 Rate %
Long Term Borrowing – PWLB	161.3	6.7	168.0	3.92
Total Borrowing	**161.3**	**6.7**	**168.0**	**3.92**
Short-Term Investments	(12.0)	(14.0)	(26.0)	(4.06)
Cash and cash Equivalents	(4.1)	3.4	(0.7)	(3.90)
Total Investments	**(16.1)**	**(10.6)**	**(26.7)**	**(4.04)**
Net Borrowing	**145.2**	**(3.9)**	**141.3**	

Borrowing strategy and activity

As outlined in the treasury strategy, the Council's chief objective when borrowing has been to strike an appropriate risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

After substantial rises in interest rates since 2021 central banks have now begun to reduce their policy rates, albeit slowly. Gilt yields however have increased over the H1 period amid concerns about inflation, the UK government's fiscal position and general economic uncertainty.

The PWLB certainty rate for 10-year maturity loans was 5.38% at the beginning of the period and 5.53% at the end. The lowest available 10-year maturity certainty rate was 5.17% and the highest was 5.62%. Rates for 20-year maturity loans ranged from 5.71% to 6.30% during the period, and 50-year maturity loans from 5.46% to 6.14%. The cost of short-term borrowing from other local authorities has been similar to Base Rate during the period at 4.0% to 4.5%.

CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Council. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes. The Council has no new plans to borrow to invest primarily for financial return.

The PWLB HRA rate which is 0.4% below the certainty rate is available up to March 2026. This discounted rate is to support local authorities borrowing for the Housing Revenue Account and for refinancing existing HRA loans, providing a window of opportunity for HRA-related borrowing and to replace the Council's loans relating to the HRA maturing during this time frame. During 2025/26 the Council has utilised the PWLB HRA rate for all borrowing to date.

Loans Portfolio: On 30th September the Council held £168.0m of loans, an increase of £6.7m since 31st March 2025, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 30th September are summarised in Table 3A below.

Table 3A: Borrowing Position

PWLB Borrowing **Term**	**Maturity Profile 31 March 2025 £'000**	**Net Movement £'000**	**Maturity Profile 30 September 2025 £'000**
12 Months	9,800	(8,850)	950
1 - 2 years	11,897	1,000	12,897
2 - 5 years	16,680	3,000	19,680
5 - 10 years	35,833	8,000	43,833
10 - 15 years	42,000	3,500	45,500
Over 15 years	45,090	0	45,090
Total PWLB Debt	**161,300**	**6,650**	**167,950**

The Council's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short-term and long-term borrowing was maintained.

There remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields + 0.80%. The Council will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.

The UK Infrastructure Bank is one alternative source of funding which offers funding at gilt yields + 0.40% (0.40% below the PWLB certainty rate) and the possibility of more flexible funding structures than the PWLB. Funding from UKIB is generally only available for certain types of projects that meet its criteria of green energy, transport, digital, water and waste. The minimum loan size is £5 million.

Treasury Management Investment Activity

The CIPFA Treasury Management Code defines treasury management investments as those investments which arise from the Council's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balances ranged between £10.0 and £38.0 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

Bank Name	Duration of Loan	B/Fwd 01/04/25 £000's	Amount Invested 2025/26 £000's	Amount Returned 2025/26 £000's	Balance Invested 30/09/25 £000's	Interest Received 30/09/25 £000's
Federated Fund 3	Call	3,000	2,606	(606)	5,000	(106)
Aberdeen Standard	Call	0	18,031	(13,031)	5,000	(31)
CCLA Public Sector Deposit Fund	1 Day Call	0	9,059	(4,059)	5,000	(59)
Aviva	Call	5,000	108	(108)	5,000	(108)
Invesco	Call	4,000	14,078	(13,078)	5,000	(78)
JP Morgan	Call	0	3,002	(3,002)	0	(2)
Goldman Sachs	Call	0	7,509	(7,509)	0	(9)
SSGA	Call	0	11,035	(10,035)	1,000	(35)
Total		**12,000**	**65,428**	**(51,428)**	**26,000**	**(428)**

Overnight Investments

The balance of the daily surplus funds can be placed as overnight investments with the Councils bank which is Lloyds. The maximum amount invested with Lloyds in the first two quarters of the financial year was £4.907m. There has been no breach of the £5m limit set in the Treasury Management Strategy. For clarity, this limit relates to the amount invested and doesn't include interest accruing as a result. The interest earned from daily balances up to 30 September 2025 is £49,591.43.

Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

As demonstrated by the liability benchmark in this report, the Council expects to be a long-term investor and treasury investments therefore include both short-term low risk instruments to manage day-to-day cash flows and longer-term instruments where limited additional risk is accepted in return for higher investment income to support local public services.

Bank Rate reduced from 4.50% to 4.25% in May 2025, followed by a further reduction to 4.00% in August 2025. Short term interest rates have largely followed these levels.

Money Market Rates ranged between 4.02% and 4.3% by the end of September 2025.

The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	**Credit Rating**	**Bail-in Exposure**	**Weighted Average Maturity (days)**	**Rate of Return %**
31.03.2025 30.09.2025	4.71	A+	81%	1	4.06
Similar Las/All LAs	4.53	A+	64%	53	4.06

*Weighted average maturity

Statutory override: Further to consultations in April 2023 and December 2024 MHCLG wrote to finance directors in England in February 2025 regarding the statutory override on accounting for gains and losses in pooled investment funds. On the assumption that when published regulations follow this policy announcement, the statutory override will be extended up until the 1st April 2029 for investments already in place before 1st April 2024. The override will not apply to any new investments taken out on or after 1st April 2024.

ESG policy: Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's strategy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

Non-Treasury Investments

The definition of investments in the Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

Investment Guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) and Welsh Government also includes within the definition of investments all such assets held partially or wholly for financial return.

The Council also held £13.264m of such investments in

- Loans to Rykneld Homes Ltd £6.238m
- Loans to Northwood Group Ltd £7.026m

The Council held £23.3m of investments made for commercial purposes

- Directly owned property £23.3m

These investments generated £2.063m of investment income for the Council after taking account of direct costs, representing a rate of return of 8.85% as at 30th September 2025.

Treasury Performance

The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below.

Table 6: Performance

	Actual £m	**Budget £m**	**Over/ under**	**Actual %**	**Benchmark %**	**Over/ under**
PWLB Borrowing	168.0	168.5	Under	3.92	4.86	Under
Total borrowing	168.0	168.5	Under	3.92	4.86	Under
Total debt	168.0	168.5	Under	3.92	4.86	Under
Investments (see table 4)	26.0	10.0	Over	4.04	4.50	Under
Total treasury investments	26.0	10.0	Over	4.04	4.50	Under

Compliance

The S151 Officer reports that all treasury management activities undertaken during the half year complied fully with the principles in the Treasury Management Code and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Table 7: Investment Limits

	2025/26 Maximum per counterparty	30.09.25 Actual	2025/26 Limit	Complied?
The UK Government	Unlimited	£0m	n/a	Yes
Local authorities & other government entities	£5m	£0m	Unlimited	Yes
Secured investments	£5m	£0m	Unlimited	Yes
Banks (unsecured)	£5m	£0m	Unlimited	Yes
Building societies (unsecured)	£5m	£0m	£20m	Yes
Registered providers (unsecured)	£5m	£0m	£20m	Yes
Money market funds	£5m	£26.0m	Unlimited	Yes
Strategic pooled funds	£5m	£0m	£20m	Yes
Real Estate Investment Trusts	£5m	£0m	£20m	Yes
Other investments	£5m	£0m	£20m	Yes

Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 8 below.

Table 8: Debt and the Authorised Limit and Operational Boundary

	Q2 2025/26 Maximum £m	30.09.25 Actual £m	2025/26 Operational Boundary £m	2025/26 Authorised Limit £m	Complied?
Borrowing	168.5	168.0	239.3	244.3	Yes
Total debt	**168.5**	**168.0**	**239.3**	**244.3**	Yes

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Treasury Management Prudential Indicators

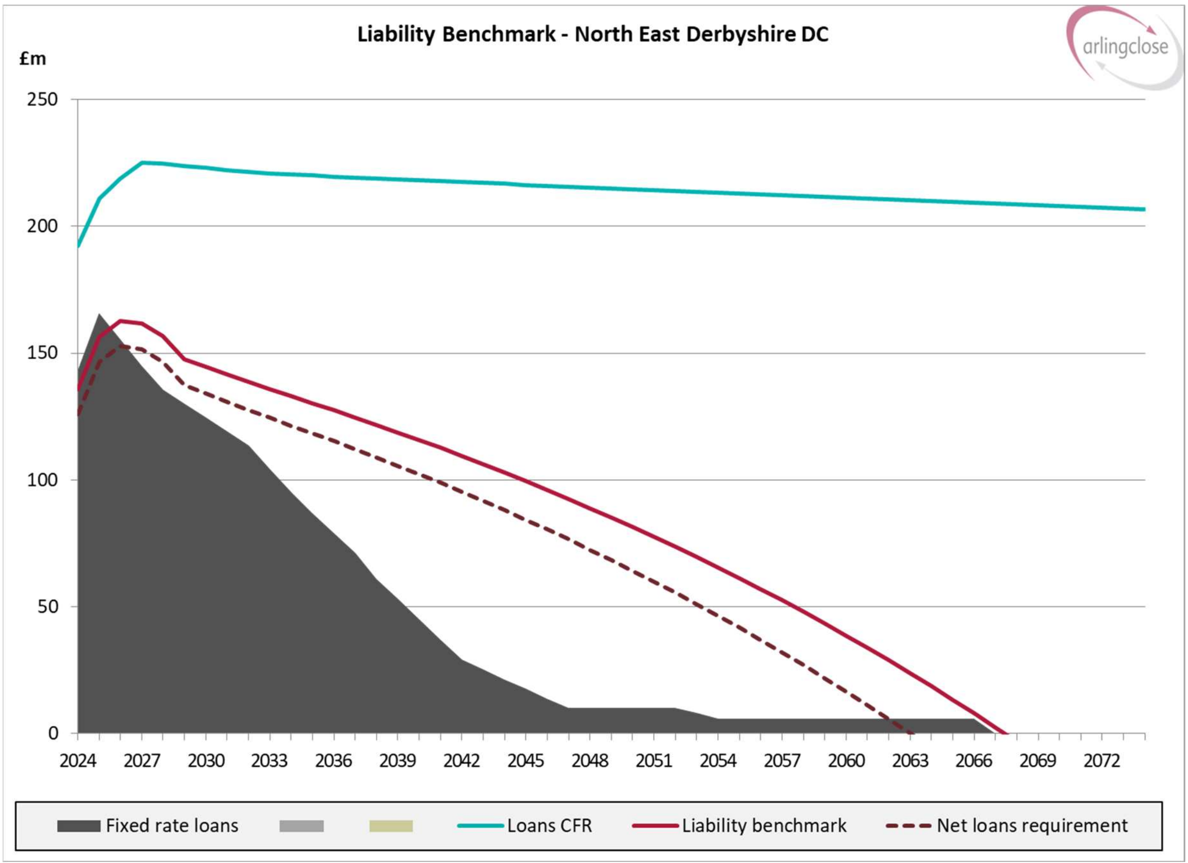
As required by the 2021 CIPFA Treasury Management Code, the Council monitors and measures the following treasury management prudential indicators.

1. Liability Benchmark**:**

This indicator compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. 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. It 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 of £10m required to manage day-to-day cash flow.

	31.3.25 Actual	**31.3.26 Forecast**	**31.3.27 Forecast**	**31.3.28 Forecast**
Loans CFR	199.4	234.3	237.0	234.0
Less: Balance sheet resources	(50.8)	(75.0)	(71.3)	(69.3)
Net loans requirement	**148.6**	**159.3**	**165.7**	**164.7**
Plus: Liquidity allowance	10.0	10.0	10.0	10.0
Liability benchmark	**158.6**	**169.3**	**175.7**	**174.7**
Existing borrowing	**161.3**	**168.5**	**175.1**	**174.2**

Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing of £14.9m in 2025/26, minimum revenue provision on new capital expenditure based on a 50-year asset life. This is shown in the chart below together with the maturity profile of the Council's existing borrowing.



Whilst borrowing may be above the liability benchmark, strategies involving borrowing which is significantly above the liability benchmark carry higher risk.

2. <u>Maturity Structure of Borrowing</u>**:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	Upper Limit	Lower Limit	30.09.25 Actual	Complied?
Under 12 months	20%	0%	5.81%	Yes
12 months and within 24 months	20%	0%	7.27%	Yes
24 months and within 5 years	40%	0%	11.10%	Yes
5 years and within 10 years	40%	0%	24.72%	Yes
10 years and above	90%	0%	51.09%	Yes

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

3. <u>Long-term Treasury Management Investments</u>**:** 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 limits are:

	2025/26	2026/27	2027/28	No fixed date
Limit on principal invested beyond year end	£20m	£20m	£20m	£20m
Actual principal invested beyond year end	£0m	£0m	£0m	£0m
Complied?	Yes	Yes	Yes	Yes

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

Additional indicators

Security**:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	2025/26 Target	30.09.25 Actual	Complied?
Portfolio average credit rating	<3.0	4.00	No

Liquidity**:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing / it can borrow each period without giving prior notice.

	2025/26 Target £m	30.09.25 Actual £m	Complied?
Total cash available within 3 months	10.0	26.0	Yes

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk.

Interest rate risk indicator	2025/26 Target	30.09.25 Actual	Complied
Upper limit on one-year revenue impact of a 1% rise in interest rates	£1.75m	£0.0m	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	(£1.75m)	£0.0m	Yes

For context, the changes in interest rates during the half year were:

	01/04/25	30/09/25
Bank Rate	4.50%	4.00%
1-year PWLB certainty rate, maturity loans	4.62%	4.38%
5-year PWLB certainty rate, maturity loans	4.74%	4.75%
10-year PWLB certainty rate, maturity loans	5.18%	5.33%
20-year PWLB certainty rate, maturity loans	5.68%	5.94%
50-year PWLB certainty rate, maturity loans	5.43%	5.78%

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at new market rates.