

## **Treasury Management Report - Quarter 3 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 27<sup>th</sup> 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:** Early in the first quarter was dominated by US trade tariffs and the negative impact on equity and bond markets. While this was reversed somewhat in the second quarter with equity markets making gains, it also saw a divergence in US and UK government bond yields. UK yields persisted at higher levels as investors demanded higher returns in the form of term premia due to the more uncertain UK fiscal and economic position.

The latter part of the period included the government's November autumn Budget. Despite much speculation and drip-feeding of potential policies in the weeks leading up to the event, what was ultimately announced was generally deemed more muted than had been anticipated, helping ease investors' fears of significantly higher government borrowing.

UK consumer price inflation (CPI) inflation was 3.2% in November 2025, down from 3.6% in the previous month and lower than the 3.5% expected, but still well above the Bank of England (BoE) target. Core CPI eased to 3.2% from 3.4%, against forecasts of it staying at 3.6%.

According to the Office for National Statistics (ONS), the UK economy expanded by 0.7% in the first quarter of the calendar year, by 0.3% in Q2 and by 0.1% in Q3. Of the subsequent monthly figures, the ONS estimated that GDP fell by 0.1% in October.

The labour market continued to ease over the period as unemployment rose, vacancies fell and inactivity remained flat. In the three months to October 2025, the

unemployment rate rose to 5.1%, higher than the level previously expected by the BoE, while the employment rate slipped to 74.9%.

The Bank of England's Monetary Policy Committee (MPC) voted 5-4 to cut Bank Rate to 3.75% in December 2025, as was expected. Policymakers wanting a cut judged that disinflation was established while those preferring to hold Bank Rate at 4% argued that inflation risks remained sufficiently material to leave it untouched at this stage.

The November BoE Monetary Policy Report projected GDP would expand by a modest 0.2% in calendar Q4 2025. Estimates of inflation in the report were quickly out of date when CPI fell quicker than expected in November. Predictions of a modestly growing economy were echoed by the Office for Budget Responsibility in its Economic and Fiscal Outlook published with the Autumn Statement which revised down its estimate of annual GDP to around 1.5% between 2025 and 2030.

Arlingclose, the authority's treasury adviser, held a central view that Bank Rate would be cut further in 2025/26 with most BoE policymakers remaining more worried about weak GDP growth than higher inflation. In line with Arlingclose's central forecast, Bank Rate was reduced to 3.75% in December. Further cuts are expected in 2026, with the central forecast being that Bank Rate will be eased to around 3.25%.

The US Federal Reserve continued cutting rates, reducing Fed Funds Rate target range by 0.25% at its December meeting to 3.50%-3.75%. The meeting minutes noted that most policymakers judged that further rate cuts would be likely in 2026 if inflation continues to ease, however they were still divided in their assessment of the risks between inflation and unemployment.

The European Central Bank (ECB) held its key interest rates in December for a fourth consecutive meeting, maintaining the deposit rate at 2.0% and the main refinancing rate at 2.15%. The ECB maintained that future policy decisions will remain data-dependent, that inflation is close to its 2% target and that the euro area economy continues to expand despite a challenging global environment, including heightened geopolitical risks and trade tensions.

**Financial markets:** After declining sharply early in the period, sentiment in financial markets has been mostly buoyant, but risky assets remained volatile. Bond yields initially declined early in the period, but increasing uncertainty around the UK's economic and fiscal outlook caused medium and longer yields to rise. Yields remained elevated until the third quarter when the potential negative impact of the UK Budget were deemed less than expected and yields eased modestly.

Equity markets gained the previous declines seen in the April sell-off and have continued to rise, even in the face of ongoing uncertainty around the existence of an AI-related 'bubble' and concentration in US and global stock markets.

Over the period, the 10-year UK benchmark gilt yield started at 4.65% and ended at 4.48%. However, these nine months saw significant volatility with the 10-year yield hitting a low of 4.39% and a high of 4.82%. It was a similar picture for the 20-year gilt which started at 5.18% and ended at 5.11% with a low and high of 5.05% and 5.55% respectively. The Sterling Overnight Rate (SONIA) averaged 4.10% over the nine months to 31st December.

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

Earlier 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. Fitch later upgraded Clydesdale Bank and HSBC, but downgraded Lancashire CC and Close Brothers.

In May, Moody's downgraded the United States sovereign long-term rating to Aa1 and affirmed OP Corporate's rating at Aa3. Moody's later upgraded Transport for London, Allied Irish Banks, Bank of Ireland, Toronto-Dominion Bank, DZ Bank, Nordea and HSBC and downgraded Close Brothers.

S&P upgraded Clydesdale Bank, Allied Irish Banks and Bank of Ireland, and assigned Warrington Council a BBB+ rating.

After spiking in April following the US trade tariff announcements, UK credit default swap (CDS) prices trended down before picking up modestly in October and November. They declined again in December and ended the year in line with levels seen in the first half of the year and most of 2024.

European banks' CDS prices have generally been flatter and lower compared to the UK, as have Singaporean and Australian lenders while some Canadian bank CDS prices have remained elevated since the beginning of the period in part due to ongoing trade tensions with the US.

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, and CDS 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 31<sup>st</sup> 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

usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	<b>31.3.25 Actual £m</b>	<b>31.3.26 Forecast £m</b>
General Fund CFR	35.2	34.1
HRA CFR	164.2	168.4
<b>Total CFR</b>	<b>199.4</b>	<b>202.5</b>
Less: *Other debt liabilities	0	0.3
<b>Borrowing CFR</b>	<b>199.4</b>	<b>202.8</b>
External borrowing**	(161.3)	(176.7)
<b>Internal borrowing</b>	<b>38.1</b>	<b>26.1</b>
Less: Balance sheet resources	(50.1)	(36.1)
<b>Net</b>	<b>12.0</b>	<b>10.0</b>

\* 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 on 31<sup>st</sup> December 2025 and the change over the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	<b>31.3.25 Balance £m</b>	<b>Movement £m</b>	<b>31.12.25 Balance £m</b>	<b>31.12.25 Rate %</b>
Long Term Borrowing – PWLB	161.3	15.4	176.7	3.94
<b>Total Borrowing</b>	<b>161.3</b>	<b>15.4</b>	<b>176.7</b>	<b>3.94</b>
Short-Term Investments	(12.0)	(28.0)	(40.0)	(3.87)
Cash and cash Equivalents	(4.1)	2.9	(1.2)	(3.90)
<b>Total Investments</b>	<b>(16.1)</b>	<b>(25.1)</b>	<b>(41.2)</b>	<b>(3.89)</b>
<b>Net Borrowing</b>	<b>145.2</b>	<b>(9.7)</b>	<b>135.5</b>	

### **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. Except in the much long term gilt yields have decreased slightly over the period, reflecting expectations of lower interest rates, a tepid economy and to some extent an improvement in the UK governments fiscal position following tax rises in the autumn budget.

The PWLB certainty rate for 10-year maturity loans was 5.38% at the beginning of the period and 5.34% 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 Authority. 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 Authority 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 a total of £21m of its £25m borrowing.

**Loans Portfolio:** On 31<sup>st</sup> December the Council held £176.7m of loans, an increase of £15.4m since 31<sup>st</sup> March 2025, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 31<sup>st</sup> December are summarised in Table 3A below.

Table 3A: Borrowing Position

<b>PWLB Borrowing</b>	<b>Maturity Profile 31 March 2025 £'000</b>	<b>Net Movement £'000</b>	<b>Maturity Profile 31 December 2025 £'000</b>
<b>Term</b>			
12 Months	9,800	(9,100)	700
1 - 2 years	11,897	1,000	12,897
2 - 5 years	16,680	11,893	28,573
5 - 10 years	35,833	4,107	39,940
10 - 15 years	42,000	7,500	49,500
Over 15 years	45,090	0	45,090
<b>Total PWLB Debt</b>	<b>161,300</b>	<b>15,400</b>	<b>176,700</b>

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.

### **Treasury Management Investment Activity**

CIPFA revised TM Code defines treasury management investments as those which arise from the Authority's cash flows or treasury risk management activity that ultimately represents balances which 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 31/12/25 £000's	Interest Received 31/12/25 £000's
Federated Fund 3	Call	3,000	2,657	(657)	5,000	(157)
Aberdeen Standard	Call	0	21,079	(16,079)	5,000	(79)
CCLA Public Sector Deposit Fund	1 Day Call	0	9,109	(4,109)	5,000	(109)
Aviva	Call	5,000	159	(159)	5,000	(159)
Invesco	Call	4,000	14,128	(13,128)	5,000	(128)
JP Morgan	Call	0	12,004	(7,004)	5,000	(4)
Goldman Sachs	Call	0	12,520	(7,520)	5,000	(20)
SSGA	Call	0	17,571	(12,571)	5,000	(71)
<b>Total</b>		<b>12,000</b>	<b>89,227</b>	<b>(61,227)</b>	<b>40,000</b>	<b>(727)</b>

### 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 three quarters of the financial year was £4.987m. 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 31 December 2025 is £74,725.27.

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 and to 3.75% in December 2025. Short term interest rates have largely followed these levels. Money Market Rates ranged between 3.79% and

3.93% by the end of December 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

	<b>Credit Score</b>	<b>Credit Rating</b>	<b>Bail-in Exposure</b>	<b>Weighted Average Maturity (days)</b>	<b>Rate of Return %</b>
31.03.2025 31.12.2025	4.66	A+	76%	1	3.87
Similar Las/All LAs	4.59	A+	60%	13	3.94

\*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.

### Non-Treasury Investments

The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority 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 £14.260m of such investments in

- Loans to Rykneld Homes Ltd £7.234m
- 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 £1.045m of investment income for the Council after taking account of direct costs, representing a rate of return of 5.58% as at 31<sup>st</sup> December 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

	<b>Actual £m</b>	<b>Budget £m</b>	<b>Over/ under</b>	<b>Actual %</b>	<b>Benchmark %</b>	<b>Over/ under</b>
PWLB Borrowing	176.7	168.5	Over	3.94	4.86	Under
<b>Total borrowing</b>	176.7	168.5	Over	3.94	4.86	Under
<b>Total debt</b>	176.7	168.5	Over	3.94	4.86	Under
Investments (see table 4)	40.0	10.0	Over	3.87	4.50	Under
<b>Total treasury investments</b>	40.0	10.0	Over	3.87	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

	<b>2025/26 Maximum per counterparty</b>	<b>31.12.25 Actual</b>	<b>2025/26 Limit</b>	<b>Complied?</b>
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	£40.0m	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

	<b>Q3 2025/26 Maximum £m</b>	<b>31.12.25 Actual £m</b>	<b>2025/26 Operational Boundary £m</b>	<b>2025/26 Authorised Limit £m</b>	<b>Complied?</b>
Borrowing	168.5	176.7	239.3	244.3	Yes
<b>Total debt</b>	<b>168.5</b>	<b>176.7</b>	<b>239.3</b>	<b>244.3</b>	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

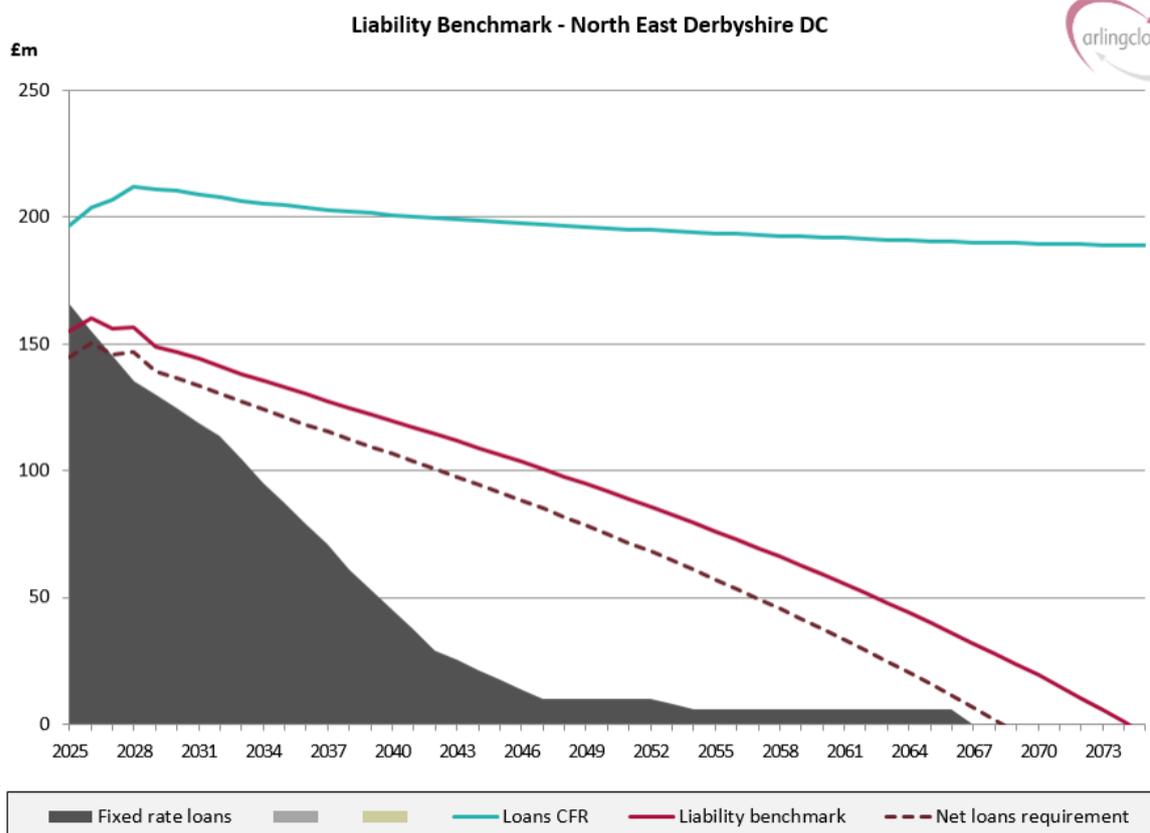
As required by the 2021 CIPFA Treasury Management Code, the Council monitors and measures the following treasury management prudential indicators.

## 1. Liability Benchmark:

This new 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.

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

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. 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 all borrowing were:

	Upper Limit	Lower Limit	31.12.25 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. 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 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	31.12.25 Actual	Complied?
Portfolio average credit rating	<3.0	1.00	Yes

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	31.12.25 Actual £m	Complied?
Total cash available within 3 months	10.0	40.0	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	31.12.25 Actual	Complied
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£1.75m	£0.0m	Yes
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	(£1.75m)	£0.0m	Yes

For context, the changes in interest rates during the quarter were:

	<u>31/3/25</u>	<u>31/12/25</u>
Bank Rate	4.50%	3.75%
1-year PWLB certainty rate, maturity loans	4.82%	4.37%
5-year PWLB certainty rate, maturity loans	4.94%	4.78%
10-year PWLB certainty rate, maturity loans	5.38%	5.34%
20-year PWLB certainty rate, maturity loans	5.88%	5.88%
50-year PWLB certainty rate, maturity loans	5.63%	5.71%

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.