Appendix 1 - Treasury Management Update Report Q1 2025/26

1. Introduction

1.1. The Council has 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 reports.

1.2. This report includes the requirement in the 2021 Code, Mandatory from 1st April 2023, of reporting the treasury management prudential indicators.

1.3. The Council's treasury management strategy for 2025/26 was approved at a full Council meeting on 3rd March 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.

2. External Context (provided by the Council's treasury management advisor, Arlingclose)

Economic background

2.1. The quarter started to significant financial market volatility as US President Donald Trump announced a wide range of 'reciprocal' trade tariffs in early April, causing equity markets to decline sharply which was subsequently followed by bond markets as investors were increasingly concerned about US fiscal policy. As the UK was included in these increased tariffs, equity and bond markets here were similarly affected by the uncertainty and investor concerns.

2.2. President Trump subsequently implemented a 90-day pause on most of the tariffs previously announced, which has been generally positive for both equity and bond markets since, but heighted uncertainty and volatility remained a feature over the period.

2.3. UK headline consumer price inflation (CPI) increased over the quarter, rising from an annual rate of 2.6% in March to 3.4% in May, well above the Bank of England's 2% target. The core measure of inflation also increased, from 3.4% to 3.5% over the same period. May's inflation figures were generally lower than in the previous month, however, when CPI was 3.5% and core CPI 3.8%. Services inflation was 4.7% in May, a decline from 5.4% in the previous month.

2.4. Data released during the period showed the UK economy expanded by 0.7% in the first quarter of the calendar year, following three previous quarters of weaker growth. However, monthly GDP data showed a contraction of 0.3% in April, suggesting growth in the second quarter of the calendar year is unlikely to be as strong as the first.

2.5. Labour market data appeared to show a softening in employment conditions as weaker earnings growth was reported for the period February to April 2025, in what would no doubt be welcome news to Bank of England (BoE) policymakers. Regular earnings (excluding bonuses) was 5.2%for the 3 month period, year on year, while total earnings was 5.3%. Both the employment and unemployment rates increased, while the economic inactivity rate and number of vacancies fell.

1.1. Having started the financial year at 4.5%, the Bank of England's Monetary Policy Committee (MPC) cut Bank Rate to 4.25% in May. The 5-4 vote was split with the majority wanting a 25bps cut, two members voting to hold rates at 4.5% and two voting for a 50bps reduction. At the June MPC meeting, the committee voted by a majority of 6-3 to keep rates on hold. The three dissenters wanted an immediate reduction to 4%.

This dovish tilt by the Committee was expected to continue with financial markets anticipating the next cut would be in August, in line with the publication of the next quarterly Monetary Policy Report (MPR) which was correct as the rate was further cut to 4%.

2.6. **Table 1: BoE Base Rate – Quarterly Movement**

	Sep-24	Dec-24	Mar-25	Jun-25
BoE Bank Rate	5.00%	4.75%	4.50%	4.25%

2.7. The May version of the MPR highlighted the BoE's view that disinflation in domestic inflation and wage pressures were generally continuing and that a small margin of excess supply had opened in the UK economy, which would help inflation to fall to the Bank's 2% over the medium term. While near-term GDP growth was predicted to be higher than previously forecast in the second quarter of calendar 2025, growth in the same period the following year was trimmed back, partly due to ongoing global trade developments.

2.8. Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would continue to fall, and that the BoE would focus more on weak GDP growth rather than stickier and above-target inflation. Two more cuts to Bank Rate are expected during 2025, taking the main policy rate to 3.75%, however the balance of risks is deemed to be to the downside as weak consumer sentiment and business confidence and investment impact economic growth.

2.9. Despite the uncertainty around US trade policy and repeated calls for action from the US President, the US Federal Reserve held interest rates steady during the period, maintaining the Fed Funds Rate at 4.25%-4.50%. The decision in June was the fourth consecutive month where no changes were made to the main interest rate and came despite forecasts from Federal policymakers that compared to a few months ago they now expected lower growth, higher unemployment and higher inflation.

2.10. The European Central Bank cut rates in June, reducing its main refinancing rate from 2.25% to 2.0%, and representing the eighth cut in just over a year. ECB noted heightened uncertainty in the near-term from trade and that stronger economic growth in the first quarter of the calendar may weaken. Inflation in the region rose to 2.0% in June, up from an eight-month low of 1.9% in the previous month but in line with the ECB's target. Inflation is expected to stay broadly around the 2% target over the next year or so.

Financial markets

2.11. After the sharp declines seen early in the quarter, sentiment in financial markets showed signs of improvement during the period, but bond and equity markets remained volatile. Early in the period bond yields fell, but then uncertainty from the impact of US trade policy caused bonds to sell-off but from the middle of May onwards, yields have steadily declined, but volatility continues. Equity markets sold off sharply in April but have seen gained back most of the previous declines, with investors seemingly remaining bullish in the face of ongoing uncertainty.

2.12. Over the quarter, the 10-year UK benchmark gilt yield started at 4.65% and ended at 4.49% having hit 4.82% early in April and falling to 4.45% by the end of the same month. While the 20-year gilt started at 5.18%, fell to 5.02% a few days later before jumping to 5.31% within a week, and then ending the period at 5.16%. The Sterling Overnight Rate (SONIA) averaged 4.31% over the quarter to 30th June.

2.13. The table below shows the movement of the major benchmark gilt yields throughout the period.

Table 2: Gilt Yields

Benchmark Gilt Yield	Sep-24	Dec-24	Mar-25	Jun-25
5 year	3.76%	4.35%	4.28%	3.95%
10 year	4.00%	4.57%	4.68%	4.49%
20 year	4.51%	5.08%	5.21%	5.16%

The Sterling Overnight Rate (SONIA) averaged 4.31% over the period 1st April to 30th June 2025.

Credit review

2.14. Arlingclose maintained its advised 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.

2.15. During the quarter, Fitch upgraded NatWest Group and related entities to AA- from A+ due to the generally stronger business profile. Fitch also placed Clydesdale Bank's long-term A- rating on Rating Watch Positive

2.16. 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.

2.17. Credit default swap prices on UK banks spiked in early April following the US trade tariff announcements but have since generally trended downwards and ended the quarter at levels broadly in line with those in the first quarter of the calendar year and throughout most of 2024.

2.18. European banks' CDS prices followed a fairly similar pattern, albeit some German banks are modestly higher compared to the previous quarter. Trade tensions between Canada and the US caused Canadian bank CDS prices to rise over the quarter and remain elevated compared to earlier in 2025 and in 2024, while Singaporean and Australian lenders CDS rose initially in April but have since trended downwards, albeit are modestly higher than in previous recent periods.

2.19. 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.

2.20. 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.

3. Local Context

3.1. On 30th June 2025, the Council had net borrowings of £951.8m arising from its revenue and capital income and expenditure. The Capital Financing Requirement (CFR) measures the underlying need to borrow for capital purposes. A breakdown of the CFR is summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.03.25

	Actual £m
General Fund CFR	704.5
HRA CFR	626.8
Total CFR[1]	**1,331.3**
Less: Other debt liabilities[2]	(73.3)
Borrowing CFR - comprised of:	**1,258.0**
External borrowing	981.3
Internal borrowing	276.8

[1]subject to audit
[2]finance leases, PFI liabilities and transferred debt that form part of the Council's total debt

3.2. The Council continued to pursue its long-standing strategy of keeping borrowing and investments below their underlying levels, also known as internal borrowing. This approach aims to manage both interest rate risk and refinancing risk. The goal is to minimise interest costs and provide flexibility when deciding whether the Council should take on new borrowing from external sources.

3.3. The treasury management position on 30th June 2025 and the change over the quarter is shown in Table 2 below.

Table 2: Treasury Management Summary

Type of Borrowing/Investment	31.03.25 Balance £m	Movement £m	30.06.25 Balance £m	30.06.25 Weighted Av. Rate %
Long-term borrowing	906.3	87.0	993.3	3.60%
Short-term borrowing	75.0	(18.0)	57.0	4.69%
Total borrowing	**981.3**	**69.0**	**1,050.3**	**3.62%**
Short-term investment	0.0	0.0	0.0	0.00%
Cash and cash equivalents	13.6	84.9	98.5	4.23%
Total investments	**13.6**	**84.9**	**98.5**	**4.52%**
Net borrowing	**967.6**	**(15.9)**	**951.8**	

4. Borrowing Activity

4.1. CIPFA's 2021 Prudential Code emphasises that local authorities should not borrow to invest primarily for financial returns. Local authorities should not make any investment or spending decision that increases the capital financing requirement, resulting in new borrowing, unless such decisions are directly and primarily related to the functions of the local authority. Local authorities are no longer permitted to secure PWLB loans for purchasing investment assets primarily for yield unless the loans are for refinancing purposes.

4.2. The Council has not invested in assets primarily for financial return or that are not primarily related to the functions of the Council. It has no plans to do so in the future.

Borrowing strategy during the period

4.3. As outlined in the treasury strategy, the Council's primary objective when borrowing is to strike an appropriately low-risk balance between securing low 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 longer-term stability of the debt portfolio.

4.4. After substantial rises in interest rates since 2021 many central banks have now begun to reduce their policy rates, albeit slowly. Gilt yields have been volatile but have reduced slightly except in the longer term in response to expectations of lower future interest rates. There has been a slight increase in gilt yields for period of around 30 years and longer, which is due primarily to an increased uncertainty premium being priced into the longer period.

4.5. The Public Works and Loans Board (PWLB) certainty rate for 10-year maturity loans was 5.42% at the end of March 25 and 5.27% at the end of quarter 1 2025/26. The lowest available 10-year maturity rate was 5.17% and the highest was 5.56%. Rates for 20-year maturity loans ranged from 5.71% to 6.16% during the period, and 50-year maturity loans from 5.46% to 5.97%. 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%.

4.6. Table 4 shows the movement in rates offered across the various PWLB maturities at the end of each quarter for the 12 months to 30th June 25. The rates shown include the 0.20% certainty discount rate offered by the PWLB to qualifying authorities

Table 4: PWLB Rates

PWLB Maturity	Sep-24 %	Dec-24 %	Mar-25 %	Jun-25 %
10 year	4.79	5.43	5.42	5.27
20 year	5.27	5.86	5.91	5.88
50 year	5.13	5.68	5.67	5.71

4.7. On 15 June 2023, a new HRA PWLB rate was made available to qualifying authorities. This rate offers a further 0.40% discount to the currently available certainty rate, 0.60% in total. The Autumn Budget 2024 confirmed the rate would now be available until March 2026. The discounted rate is to support local authorities borrowing for the Housing Revenue Account (HRA) and refinancing existing HRA loans. It provides an opportunity for the Council to undertake additional HRA-related borrowing and replace any maturing HRA loans during this period.

4.8. As part of its strategy for funding previous and current years' capital programmes, the Council held £1,050.3 million in loans at 30th June 2025, an increase of £69.0 million compared to 31st March 2025.

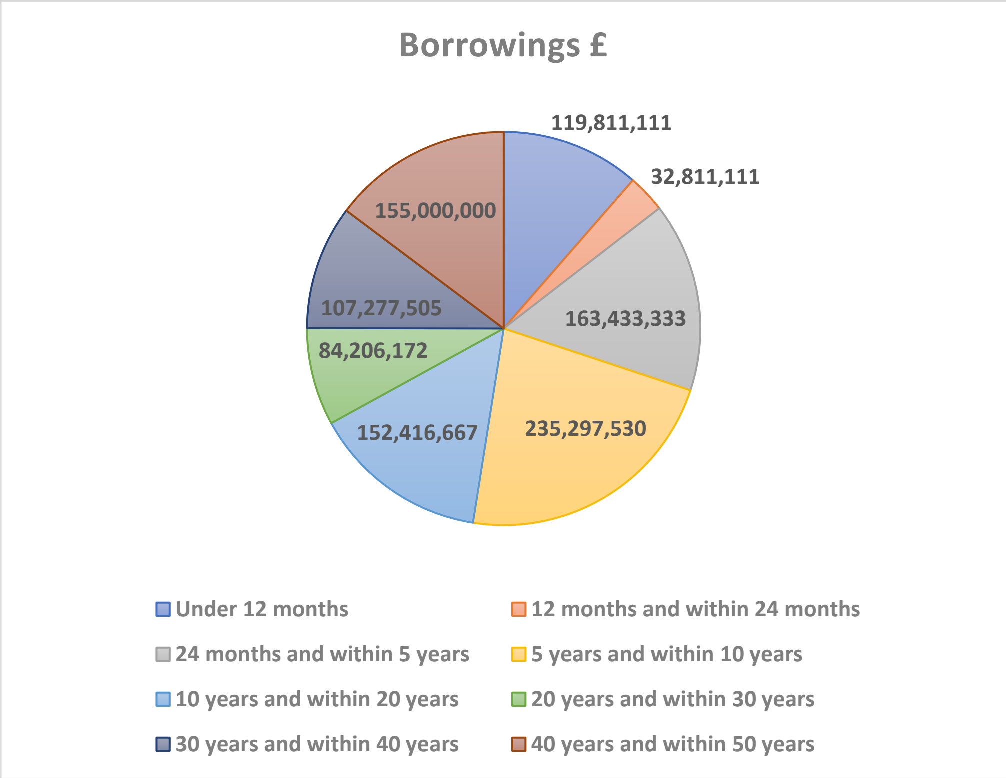
4.9. The outstanding loans on 30th June 25 are summarised in Table 5.

Table 5: Borrowing Position

Type of Borrowing	31.03.25 Balance £m	Net Movement £m	30.06.25 Balance £m	30.06.25 Weighted Ave. Rate %	30.06.24 Weighted Ave. Maturity years
Public Works Loan Board	806.3	137.0	943.	3.54%	17.1
Banks (LOBO)	100.0	(50.0)	50.0	4.75%	25.8
Local authorities	75.0	(18.0)	57.0	4.69%	0.7
Total borrowing	**981.3**	**69.0**	**1,050.3**	**3.66%**	**18.1**

4.10. The Council has a significant capital programme that extends into the foreseeable future. A large proportion of this program will need to be financed by borrowing. This borrowing will be undertaken by the Council during the current and upcoming years. The Council's borrowing decisions are not based on any single outcome for interest rates, and it maintains a balanced portfolio of short and long-term borrowing.

4.11. The maturity profile of the Council's borrowings on 30th June are shown in the chart below.



LOBO Loans

4.12. On 30th June 2025, the Council held £50m of LOBO loans (Lender's Options Borrower's Options), where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost.

4.13. At the beginning of the period the Council held £100m of LBOB loans. However, the Council has been able to successfully negotiate the repayment of £50m of those loans at a significant discount to the market value which was valued at £57m on 31st March 2025, by Arlingclose. The £7m representing a premium for the embedded options, above face value. It is estimated that the early redemption of the loans will garner a cost saving to the Council £227k over the next 3 years, inclusive of fees and charges, due to replacement borrowing from the PWLB being at a lower rate. The 3 year timeframe being the next option date of 2028.

4.14. With market interest rates having risen, the probability of call options on the LOBOs being called has been higher than in the recent past.

4.15. The Council currently holds £50m of LOBO loans with call dates within the next 12 months. The Council continues to engage with treasury management advisors, Arlingclose, to assess the likelihood of the options being exercised. If the option is exercised, the Council plans to repay the loan at no additional cost. In doing so, the Council will use any available cash or borrow from other local authorities or the PWLB to repay the LOBO loans.

Table 6: LOBO Position as at June 2025

Lender Name	End Date	Original Principal £'m	Interest rate	LOBO Frequency Yr	Next Call Date
FMS Wertman	10/04/2053	20.0	4.75%	0.5	10/04/2026
FMS Wertman	10/04/2053	20.0	4.75%	0.5	10/04/2026
Dexia Credit Local	10/04/2043	10.0	4.75%	0.5	10/04/2026
Total borrowing		**50.0**			

5. Treasury Investment Activity

5.1. The CIPFA Treasury Management Code now defines treasury management investments as investments that result from the Council's cash flows or treasury risk management activity. These investments represent balances that need to be invested until the cash is required for business operations.

5.2. The Council holds invested funds, which represent income received in advance of expenditure, as well as balances and reserves held. Throughout the period, the Council's investment balances ranged between £13.6m and £95.8m due to timing differences between income and expenditure. The investment position on 30 June 2025 is shown in Table 7 below.

Table 7: Treasury Investment Position

Type of Investment	31.03.25 Balance £m	Net Movement £m	30.06.25 Balance £m	30.06.25 Weighted Ave. Rate %	30.06.25 Weighted Ave. Maturity
Debt Management Office	0.0	68.5	68.5	4.20%	1 days
Money Market Funds	13.6	16.4	30.0	4.30%	1 days
Total Investments	**13.6**	**84.9**	**98.5**	**4.23%**	**1 day**

5.3. Both the CIPFA Code and government guidance require the Council to invest its funds prudently, taking into account the security and liquidity of its treasury investments before seeking the optimum rate of return or yield. The Council aims to strike an appropriate balance between risk and return when making treasury investments, while minimising the risk of incurring losses from defaults and receiving unsuitably low investment income.

5.4. Over the course of the quarter, the Debt Management Account Deposit Facility's (DMADF) overnight deposit rates ranged between 4.20% and 4.45%. The Money Market rates ranged between 4.25% and 4.54%.

5.5. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking is shown is Table 9 below. These results demonstrate that there has been an improvement in the credit ratings and score of the Council's investments over the first quarter.

Table 9: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Ave. Maturity (Days)	Rate of Return
31.03.2025	4.95	A+	100%	1	4.52%
30.06.2025	4.01	AA-	30%	1	4.23%
Similar Local Authorities	4.76	A+	78%	11	4.37%
All Local Authorities	4.56	A+	62%	10	4.36%

Scoring:
AAA = highest credit quality = 1; D = lowest credit quality = 26
Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

5.6. Most asset classes achieved positive performance over quarter 1 of 2025/26, although there was significant volatility across financial markets. The biggest source of this volatility was US trade policy uncertainty as US President Trump's 'Liberation Day' tariffs announced on 2nd April were higher and more wide ranging than had been expected.

5.7. This led to sharp drops in equity and bond market prices around the world while igniting worries about higher inflation and possible recession. With volatility ramping up, the US administration eventually softened its stance; tariff pauses and the start of a trade deal with China helping to appease investors and contributing to a relatively swift recovery in markets despite continuing uncertainty. War between Israel and Iran, with US intervention, was a major geopolitical event but had a muted impact on markets. Oil prices initially rose in reaction but ultimately ended the quarter at a similar level, allaying some fears of further inflation.

5.8. Improved investor sentiment after April, despite ongoing uncertainty, ultimately led to some strong equity market performance. In the US the S&P 500 rose by over 10% while in the UK the FTSE All-Share index achieved a 4.4% return and European equities 3.6%.

5.9. In fixed income markets, government bond yields generally ended the quarter lower despite significant volatility (so prices were higher) and corporate bond spreads recovered from tariff-induced widening, generally leading to low single-digit positive performance overall.

5.10. The gradual improvement in UK commercial real estate continued, with small rises in capital values across most sectors, while total returns continue to be driven by income.

6. <u>Treasury Performance</u>

6.1. The Council measures the financial performance of its treasury management activities in terms of its impact on revenue budget as shown in Table 10 below.

Table 10: Treasury Performance

Borrowing costs	Actual to date £m	Budget to date £m	Annual Budget £m	(Over)/under £m
General Fund borrowing	4.4	4.8	19.2	0.4
HRA borrowing	3.3	6.4	25.5	3.0
Total borrowing costs	**7.7**	**10.4**	**44.7**	**2.6**
Treasury investment income	**(1.0)**	**(0.5)**	**(2.0)**	**(0.5)**

6.2. Interest costs for borrowing the first quarter have been lower than budgeted for, principally due to the capital scheme spend not progressing as anticipated. Income generation has been slightly higher due the Council having higher than anticipated cash balances also due to the slower pace of capital spend.

7. Non-Treasury Investments

7.1. The definition of investments in CIPFA's revised 2021 Treasury Management Code includes all the financial assets of the local authority, as well as other non-financial assets that the local 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 or (made explicitly to further service objectives) or for commercial purposes (made primarily for financial return).

7.2. The Investment Guidance, issued by the Ministry of Housing, Communities and Local Government (MHCLG)) and Welsh Government, broadens the definition of investments to include all assets held partially or wholly for financial return.

8. Compliance

8.1. The Chief Finance Officer reports that all treasury management activities carried out during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

8.2. Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 11 below.

Table 11: Debt Limits

	30.06.25 Actual £m	2025/26 Operational Boundary £m	2025/26 Authorised Limit £m	Complied?
Borrowing	1,050.3	1,673.1	1,723.1	Yes
PFI and Finance Leases	73.3	12.7	13.9	No
Total debt	1,123.6	1,685.8	1,737.0	Yes

8.3. Although not classed as borrowing, the Council's PFI balances and finance leases increased have increased as a result of the reporting changes brought in by IFRS16. Unfortunately, the boundary and limit for 2025/26 were set before the impact on the adoption was known. The boundary and limit for PFI and Leases will be revised upwards for 2026/27's TMSS.

8.4. The operational boundary is a management tool for in-year monitoring. Therefore, it is not significant if the operational boundary is breached on occasion due to variations in cash flow, and this is not considered a compliance failure. However, the council's overall debt remained well below this limit throughout the entire financial year.

9. Treasury Management Indicators

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

Security

9.2. The Council has adopted a voluntary measure to assess its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. To calculate this score, a value is assigned to each investment based on its credit rating (AAA=1, AA+=2, etc.), and the arithmetic average is taken, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	30.06.25 Actual	2025/26 Target	Complied?
Portfolio average credit score	AA-, 4.01	Above A, 6.0 or lower	Yes

Liquidity

9.3. The Council has adopted a voluntary measure to monitor its exposure to liquidity risk. This is done by tracking the amount of cash available to meet unexpected payments over a rolling three-month period, without borrowing additional funds.

	30.06.25 Actual/£m	2025/26 Target/£m	Complied?
Total cash available within 3 months	98.5	30.0	Yes

Interest Rate Exposures

9.4. 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 interests was:

	30.06.25 Actual	2025/26 Target	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	£1.3m	£2m	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	£1.2m	£2m	Yes

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

Maturity Structure of Borrowing

9.6. 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:

	30.06.25 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	11.4%	50%	0%	Yes
12 months and within 24 months	3.1%	40%	0%	Yes
24 months and within 5 years	15.6%	40%	0%	Yes
5 years and within 10 years	22.4%	40%	0%	Yes
10 years and within 20 years	14.5%	40%	0%	Yes
20 years and within 30 years	8.0%	40%	0%	Yes
30 years and within 40 years	10.2%	50%	0%	Yes
40 years and within 50 years	14.8%	50%	0%	Yes
50 years and above	0.0%	40%	0%	Yes

9.7. 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.

9.8. In the past, the Council has extensively used short-term borrowing (less than 1 year in duration) from other local authorities as an alternative to longer-term borrowing from the PWLB. This was due to lower interest rates at the time, resulting in revenue savings.

9.9. However, short-term borrowing exposes the Council to refinancing risk. This is the risk that rates will rise quickly over a short period of time, and will be at significantly higher rates when loans mature and new borrowing is required. With this in mind, the Council has set a limit on the total amount of short-term local authority borrowing as a proportion of all borrowing.

	31.03.25 Actual	**2024/25 Limit**	**Complied?**
Upper limit on short-term borrowing from other local authorities as a percentage of total borrowing	5.43%	20%	Yes

Principal Sums Invested for Periods Longer than a year

9.10. 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 limits on the long-term principal sum invested to final maturities beyond the period end were:

	2024/25	**2025/26**	**2026/27**
Actual principal invested beyond year end	nil	nil	nil
Limit on principal invested beyond year end	£10m	£5m	£5m
Complied?	**Yes**	**Yes**	**Yes**