Appendix 1 - Treasury Management Update Report – Q2 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 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.

2.2. 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 duration gilt which hit its highest level for almost 30 years.

2.3. 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%.

2.4. 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.

2.5. 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.

2.6. 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.

Table 1: BoE Base Rate – Quarterly Movement

	Dec-24	Mar-25	Jun-25	Sep-25	Current Rate
BoE Bank Rate	4.75%	4.50%	4.25%	4.00%	4.00%

2.7. 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.

2.8. Arlingclose, the authority'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.

2.9. 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%.

2.10. 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

2.11. 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.

2.12. 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.

2.13. The table below shows the movement of the major benchmark over the four quarters to 30th September 2025.

Table 2: Gilt Yields at the End of Each Quater

Benchmark Gilt Yield	Dec-24	Mar-25	Jun-25	Sep-25
5 year	4.35%	4.28%	3.95%	3.89%
10 year	4.57%	4.68%	4.49%	4.70%
20 year	5.08%	5.21%	5.16%	5.39%

Credit review

2.14. 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.

2.15. 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.

2.16. 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.

2.17. 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.

2.18. 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.

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 September 2025, the Council had net borrowing of £1,003.0m 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 3.

3.2. **Table 3: 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

3.3. 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 objective is to minimise interest costs and provide flexibility when deciding whether the Council should take on new borrowing from external sources.

3.4. The treasury management position on 30th September 2025 and the change over the six-month period is shown in Table 4.

Table 4: Treasury Management Summary

Type of Borrowing/Investment	31.03.25 Balance £m	Movement £m	30.09.25 Balance £m	30.09.25 Weighted Av. Rate %
Long-term borrowing	906.3	115.5	1,021.8	3.64%
Short-term borrowing	75.0	(53.0)	22.0	4.45%
Total borrowing	**981.3**	**62.5**	**1,043.8**	**3.66%**
Short-term investment	0.0	0.0	0.0	0.00%
Cash and cash equivalents	13.6	27.1	40.7	4.05%
Total investments	**13.6**	**27.1**	**40.7**	**4.05%**
Net borrowing	**967.6**	**35.4**	**1,003.0**	

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 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.

4.4. 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 Qtr2 period amid concerns about inflation, the UK government's fiscal position and general economic uncertainty.

4.5. 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%.

4.6. Table 5 shows the movement in rates offered across the various Public Works Loan Board (PWLB) maturities on 30th September 2025. The rates shown include the 0.20% certainty discount rate offered by the PWLB to qualifying authorities.

Table 5: PWLB Rates

PWLB Maturity	Dec-24 %	Mar-25 %	Jun-25 %	Sept-25 %

10-year	5.43	5.42	5.27	5.53
20-year	5.86	5.91	5.88	6.14
50-year	5.68	5.67	5.71	5.98

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.

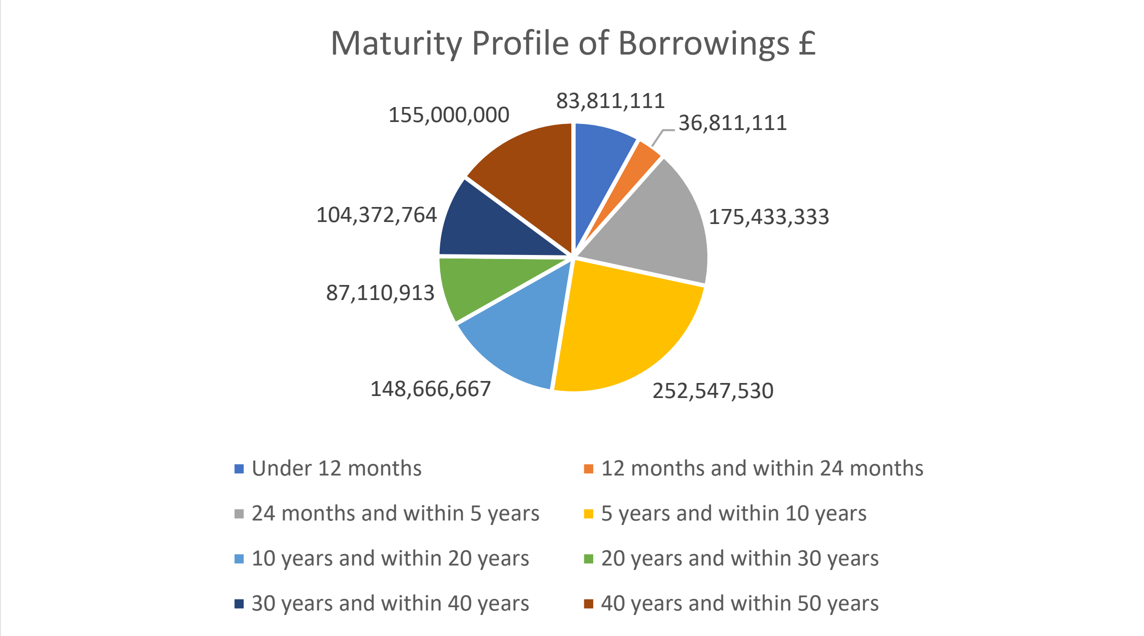
4.8. As part of its strategy for funding previous and current years' capital programmes, the Council held £1,043.8m in loans on 30th September 2025, an increase of £62.5m compared to 31st March 2025. The outstanding loans on 30th September are summarised in Table 6.

4.9. **Table 6: Borrowing Position**

Type of Borrowing	31.03.25 Balance £m	Net Movement £m	30.09.25 Balance £m	30.09.25 Weighted Ave. Rate %	30.09.25 Weighted Ave. Maturity years
Public Works Loan Board	806.3	165.5	971.8	3.58%	16.3
Banks (LOBO)	100.0	(50.0)	50.0	4.75%	25.5
Local authorities	75.0	(53.0)	22.0	4.45%	19.3
Total borrowing	**981.3**	**62.5**	**1,043.8**	**3.66%**	**18.3**

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 September 2025 is shown in the chart below.



LOBO Loans

4.12. On 30th September 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. 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 on 30th September 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 defines treasury management investments as those arising from an organisation's cash flows or treasury risk management activities. 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. Throughout the period, the Council's investment balances ranged between £13.6m and £98.5m due to timing differences between income and expenditure. The investment position on 30th September 2025 is shown in Table 7.

Table 7: Treasury Investment Position

Type of Investment	31.03.25 Balance £m	Net Movement £m	30.09.25 Balance £m	30.09.25 Weighted Ave. Rate %	30.09.25 Weighted Ave. Maturity
Debt Management Office	0.0	10.7	10.7	3.95%	1
Money market funds	13.6	16.4	30.0	4.08%	1
Total investments	**13.6**	**27.1**	**40.7**	**4.05%**	**1 days**

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 period, the Debt Management Account Deposit Facility's (DMADF) overnight deposit rates ranged between 3.95% and 4.45%. The Money Market rates ranged between 4.02% and 4.54%.

5.5. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 8.

Table 8: 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%
30.09.2025	4.52	A+	74%	1	4.05%
Similar Local Authorities	4.53	A+	75%	10	4.23%
All Local Authorities	4.38	AA-	62%	11	4.20%

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

6. Treasury Performance

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 9 below.

6.2. Interest costs have been lower budget over the period as we see a lower than anticipated spend across both the HRA and GF capital programmes. The Council has achieved higher than expected income generation due to larger cash balances however, as rates start to reduce, we will see a corresponding reduction in investment income.

Table 9: Treasury Performance

Borrowing costs	Actual to date £m	Budget to date £m	Annual Budget £m	Over/(under) £m
General Fund borrowing costs	5.7	9.6	19.2	(3.9)
HRA borrowing costs	7.6	12.8	25.5	(5.2)
Total borrowing costs	**13.3**	**22.35**	**44.7**	**(9.1)**

Treasury investment income	**(2.1)**	**(1.0)**	**(2.0)**	**(1.1)**

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 Corporate Director of Finance and Resources reports that all treasury management activities carried out during the period complied fully with the principles in the Treasury Management Code and the Council's approved Treasury Management Strategy with the exception of lease as detailed below

8.2. Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 10 below.

Table 10: Debt Limits

	30.09.25 Actual £m	2025/26 Operational Boundary £m	2025/26 Authorised Limit £m	Complied?
Borrowing	981.3	1,673.1	1,723.1	Yes
PFI and Finance Leases	73.3	12.7	13.9	No
Total debt	**907.7**	**1,685.8**	**1,737.0**	**Yes**

8.3. Although not classed as borrowing, the Council's PFI balances and finance leases 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 debt remained well below this limit throughout the period.

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.

	30.09.25 Actual	2025/26 Target	Complied?
Portfolio average credit score	A+, 4.52	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.

	30.09.25 Actual	2025/26 Target	Complied?
Total cash available within 3 months	£40.7m	£30.0m	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:

	30.09.25 Actual	2025/26 Target	Complied?
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£1.3m	£2m	Yes
Upper limit on one-year revenue impact of a 1% <u>fall</u> 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 new market rates.

9.6. For context, the changes in PWLB interest rates during the period were:

	31.03.25 %	30.09.25 %
Bank Rate	4.50	4.00
1-year PWLB certainty rate, maturity loans	4.82	4.58
5-year PWLB certainty rate, maturity loans	4.97	4.95
10-year PWLB certainty rate, maturity loans	5.42	5.53
20-year PWLB certainty rate, maturity loans	5.91	6.14
50-year PWLB certainty rate, maturity loans	5.67	5.98

Maturity Structure of Borrowing

9.7. 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:

	30.09.25 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	8.0%	50%	0%	Yes
12 months and within 24 months	3.5%	40%	0%	Yes
24 months and within 5 years	16.8%	40%	0%	Yes
5 years and within 10 years	24.2%	40%	0%	Yes
10 years and within 20 years	14.2%	40%	0%	Yes

20 years and within 30 years	8.3%	40%	0%	Yes
30 years and within 40 years	10.0%	50%	0%	Yes
40 years and within 50 years	14.9%	50%	0%	Yes
50 years and above	0.0%	40%	0%	Yes

9.8. 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.

9.9. 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.

9.10. 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.

	30.09.25 Actual	**2025/26 Limit**	**Complied?**
Upper limit on short-term borrowing from other local authorities as a percentage of total borrowing	2.11%	20%	Yes

Principal Sums Invested for Periods Longer than a year

9.11. 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:

	2025/26	**2026/27**	**2027/28**
Actual principal invested beyond year end	nil	nil	nil
Limit on principal invested beyond year end	£5m	£5m	£5m
Complied?	**Yes**	**Yes**	**Yes**