# Appendix 1 - Treasury Management Update Report – Qtr3 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. 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

2.2. 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.

2.3. 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%.

2.4. 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.

2.5. 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%.

2.6. 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.

2.7. 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.

2.8. 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%.

2.9. 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.

2.10. 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**

2.11. 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.

2.12. 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.

2.13. 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

2.14. 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.

2.15. 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.

2.16. 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.

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

2.18. 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.

2.19. 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.

2.20. 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.

2.21. 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.

## 3. Local Context

3.1. On 31st December 2025, the Council had net borrowing of £1,068.9m 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 31st December 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 | 31.12.25 Balance £m | 31.12.25 Weighted Av. Rate % |
|---|---|---|---|---|
| Long-term borrowing | 906.3 | 208.7 | 1,114.9 | 3.71% |
| Short-term borrowing | 75.0 | (48.0) | 27.0 | 3.47% |
| **Total borrowing** | **981.3** | **160.7** | **1,141.9** | **3.73%** |
| Short-term investment | 0.0 | 0.0 | 0.0 | 0.00% |

| | | | | |
|---|---|---|---|---|
| Cash and cash equivalents | 13.6 | 59.4 | 73.0 | 3.85% |
| **Total investments** | **13.6** | **59.4** | **73.0** | **3.85%** |
| **Net borrowing** | **967.6** | **101.3** | **1,068.9** | |

## 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. 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.

4.5. 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%.

4.6. 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 2025 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.

4.7. As part of its strategy for funding previous and current years' capital programmes, the Council held £1,141.9m in loans on 31st December 2025, an increase of £160.7m compared to 31st March 2025. The outstanding loans on 31st September are summarised in Table 6.

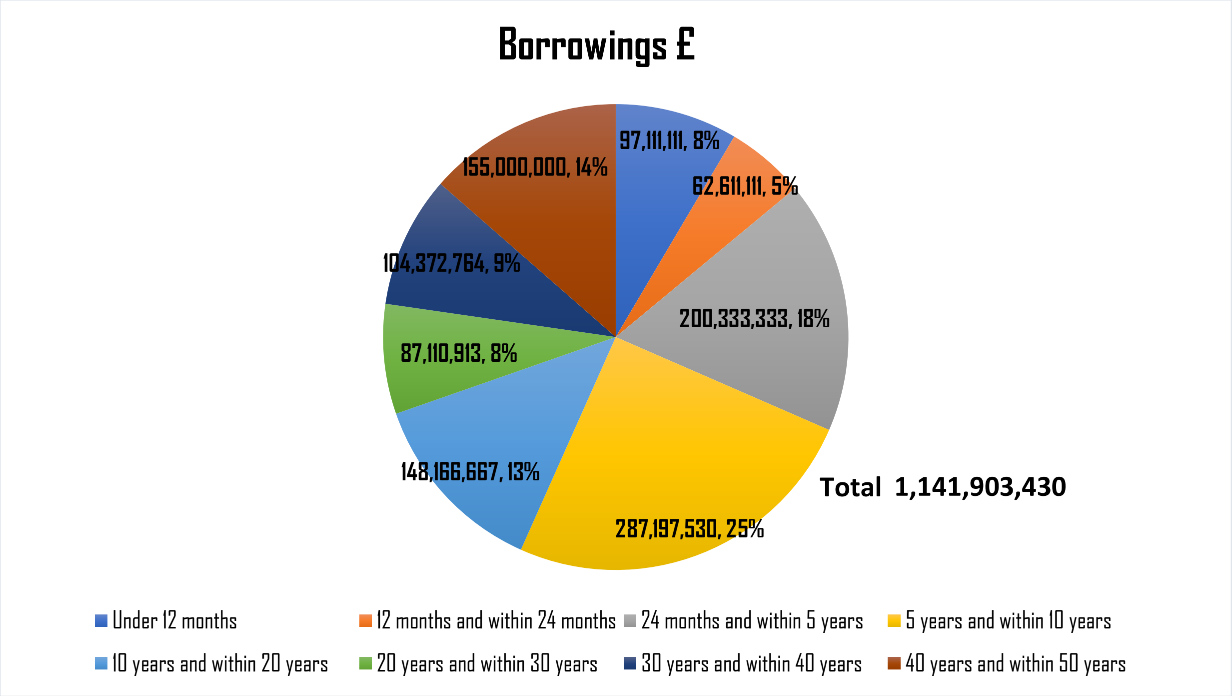
4.8. **Table 6: Borrowing Position**

| | 31.03.25 | | 31.12.25 | 31.12.25 | 31.12.25 |
|---|---|---|---|---|---|

| Type of Borrowing | Balance<br>£m | Net Movement £m | Balance<br>£m | Weighted Ave. Rate<br>% | Weighted Ave. Maturity years |
|---|---|---|---|---|---|
| Public Works Loan Board | 806.3 | 258.7 | 1,064.9 | 3.66% | 17.4 |
| Banks (LOBO) | 100.0 | (50.0) | 50.0 | 4.75% | 25.3 |
| Local authorities | 75.0 | (48.0) | 27.0 | 3.47% | 0.3 |
| **Total borrowing** | **981.3** | **160.7** | **1,141.9** | **3.73%** | **17.3** |

4.9. 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.

4.10. The maturity profile of the Council's borrowings on 31st December 2025 is shown in the chart below.




**LOBO Loans**

4.11. On 31st December 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.

4.12. 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 31st December 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 quarter, the Council's investment balances ranged between £54.2m and £126.6m due to timing differences between income and expenditure. The investment position on 31st December 2025 is shown in Table 7.

**Table 7: Treasury Investment Position**

| Type of Investment | 31.03.25 Balance £m | Net Movement £m | 31.12.25 Balance £m | 31.12.25 Weighted Ave. Rate % | 31.12.25 Weighted Ave. Maturity |
|---|---|---|---|---|---|
| Debt Management Office | 0.0 | 23.0 | 23.0 | 3.70% | 1 |
| Money market funds | 13.6 | 36.4 | 50.0 | 2.34% | 1 |
| **Total investments** | **13.6** | **59.4** | **73.0** | **3.85%** | **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 3.70% and 3.95%. The Money Market rates ranged between 3.70 % and 3.93%.

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% |
| 31.12.2025 | 4.23 | AA- | 68% | 1 | 3.84% |
| Similar Local Authorities | 4.74 | A+ | 83% | 7 | 3.96% |
| All Local Authorities | 4.46 | AA- | 60% | 12 | 3.94% |

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 | 14.0 | 14.4 | 19.2 | 0.4 |
| HRA borrowing costs | 19.1 | 19.7 | 26.2 | 0.5 |
| **Total borrowing costs** | **33.1** | **34.0** | **45.4** | **0.9** |
| | | | | |
| **Treasury investment income** | **(2.8)** | **(1.5)** | **(2.0)** | **1.3** |

## 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 | 1,141.9 | 1,673.1 | 1,723.1 | Yes |
| PFI and Finance Leases | 73.3 | 12.7 | 13.9 | No |
| **Total debt** | **1,054.5** | **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.

| | 31.12.25 Actual | 2025/26 Target | Complied? |
|---|---|---|---|
| Portfolio average credit score | AA-, 4.23 | 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.

| | 31.12.25 Actual | 2025/26 Target | Complied? |
|---|---|---|---|
| Total cash available within 3 months | £70.0m | £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:

| | 31.12.25 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 new market rates.

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

| | 31.03.25 % | 31.12.25 % |
|---|---|---|
| Bank Rate | 4.50 | 3.75 |
| 1-year PWLB certainty rate, maturity loans | 4.82 | 4.57 |
| 5-year PWLB certainty rate, maturity loans | 4.97 | 4.98 |
| 10-year PWLB certainty rate, maturity loans | 5.42 | 5.54 |
| 20-year PWLB certainty rate, maturity loans | 5.91 | 6.08 |

| | | |
|---|---|---|
| 50-year PWLB certainty rate, maturity loans | 5.67 | 5.91 |

**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 | 8.5% | 50% | 0% | Yes |
| 12 months and within 24 months | 5.5% | 40% | 0% | Yes |
| 24 months and within 5 years | 17.5% | 40% | 0% | Yes |
| 5 years and within 10 years | 25.2% | 40% | 0% | Yes |
| 10 years and within 20 years | 13.0% | 40% | 0% | Yes |
| 20 years and within 30 years | 7.6% | 40% | 0% | Yes |
| 30 years and within 40 years | 9.1% | 50% | 0% | Yes |
| 40 years and within 50 years | 13.6% | 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 | 2.36% | 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** |