Report for: Audit Committee – 03rd November 2026

Item number: 12

Title: Treasury Management Q2 Report 2026-27

Report authorised by: Taryn Eves, Corporate Director of Finance & Resources (Section 151 Officer)

Lead Officer: Jamie Abbott, Head of Pensions and Treasury Management
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Ward(s) affected: N/A

Report for Key/ Non-Key Decision: N/A

1. Describe the issue under consideration

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 treasury management reports on a semi-annual and annual basis.

1.2. The Council's Treasury Management Strategy for 2026/27 was approved at a full Council meeting on 2nd March 2026. The Council undertakes borrowing and investment activities to support the delivery of its capital programme and manage day-to-day cash flow requirements. As a result, it is exposed to a range of financial risks, including credit risk, liquidity risk, refinancing risk and the impact of changes in interest rates. The effective identification, monitoring and management of these risks remains a fundamental component of the Council's Treasury Management Strategy, ensuring that security, liquidity and affordability are maintained.

1.3. This report provides an update to the Audit Committee on the Council's treasury management activities and performance for the six months ending 30th September 2026, in accordance with the CIPFA Code.

2. Cabinet Member Introduction

2.1. Not applicable.

3. Recommendations

The Audit Committee is requested:

3.1. To note the treasury management activity undertaken during the financial year to 30th September 2026 and the performance achieved which is attached as Appendix 1 to this report.

3.2. To note that all treasury activities were undertaken in line with the approved Treasury Management Strategy.

4. Reason for Decision

4.1. Not applicable.

5. Other options considered

5.1. Not applicable.

6. Background information

6.1. The Council's treasury management activity is underpinned by CIPFA's Treasury Management in Public Services: Code of Practice (the CIPFA Code), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement.

6.2. CIPFA has defined Treasury management as: "The management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

6.3. The CIPFA Code recommends that members are informed of treasury management activities at least twice a year. Following an amendment to the Council's constitution in 2023, it was determined that the reviewing and monitoring of treasury policy, strategy and activity is delegated to the Audit Committee. This Committee receives quarterly treasury management update reports, including a mid-year and annual report.

6.4. However, overall responsibility for treasury management remains with full Council, and the Council approved the Treasury Management Strategy Statement and set the Prudential Indicators for 2026/27 on 2nd March 2026.

6.5. Government guidance on local authority treasury management states that local authorities should consider the following factors in the order they are stated:

Security → Liquidity → Yield

6.6. The Treasury Management Strategy reflects these factors and is explicit that the priority for the Council is the security of its funds. However, no treasury activity is without risk, and the effective identification and management of risk are integral to the Council's treasury management activities.

Economic Background

6.7. Global economic conditions during the period were dominated by the conflict in the Middle East, which renewed upward pressure on energy prices and increased uncertainty around the inflation outlook. Oil and gas prices rose sharply during the quarter, reversing some of the easing seen earlier in the year and raising concerns that higher energy costs could feed through into wider inflationary pressures. Against this backdrop, central banks remained cautious, closely monitoring the risk that elevated energy prices could become embedded in wage growth and domestic pricing.

6.8. In the UK, inflation remained relatively contained despite the increase in energy costs. Headline CPI rose from 2.6% in June to 3.1% in August, driven largely by higher transport and energy-related costs, while core inflation remained stable at 2.6%, indicating that underlying price pressures were continuing to moderate. The labour market also showed signs of easing, with vacancies declining and earnings growth slowing, reducing the risk of sustained domestically generated inflation.

6.9. The Bank of England maintained Bank Rate at 3.75% throughout the period. However, Monetary Policy Committee voting became progressively more hawkish as concerns grew over the persistence of higher energy prices and the possibility of renewed inflationary pressures. While the Committee continued to expect restrictive monetary policy, spare capacity and a softer labour market to reduce inflation over time, it acknowledged that inflation risks had shifted to the upside.

6.10. Despite these challenges, UK economic growth proved more resilient than anticipated, with GDP growth of 0.6% in the first quarter and 0.5% in the second quarter. Looking ahead, the Council's treasury advisers, Arlingclose, expect Bank Rate to remain at 3.75%, although risks remain skewed towards higher rates due to ongoing geopolitical uncertainty, elevated energy prices and uncertainty surrounding future fiscal policy. These factors continue to influence borrowing costs, investment returns and the overall treasury management environment.

Borrowing Activity

6.11. 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.

6.12. Government bond yields increased materially during the period, reflecting evolving market expectations for inflation, interest rates and fiscal policy in the UK. Higher bond yields indicate market expectations that interest rates may remain elevated for longer, with implications for both local authority borrowing costs and investment returns.

6.13. The PWLB certainty rate for 10-year maturity loans was 5.86% at the beginning of the period and 6.41% at the end. The lowest available 10-year maturity certainty rate was 5.75% and the highest was 6.44%. Rates for 20-year maturity loans ranged from 6.23% to 6.85% during the period, and 50-year maturity loans from 6.09% to 6.68%. The cost of short-term borrowing from other local authorities has been similar to or a little above

the Base Rate for most of the period, with interest rates between 4.10% and 5.20%.

6.14. The Council has a significant capital programme which will largely be financed by new borrowing in the upcoming years. The Council plans to maintain a balanced portfolio of short and long-term borrowing.

6.15. As part of its strategy for funding previous and current years' capital programmes, the Council held £1,114 million in loans on 30th September 2026, an Decrease of £18.1m compared to 30th June 2026.

6.16. Further details on the borrowing activity of the Council over the period can be found in section 4 of Appendix 1 to this report.

Treasury Investment Activity

6.17. In accordance with the CIPFA Code and government guidance, the Council aims to strike an appropriate balance between risk and return, when making treasury investments. The aim is to prioritise the security and liquidity of its investments before seeking the optimum rate of return or yield.

6.18. The Council holds significant 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 £36.9m and £188.6m due to timing differences between income and expenditure. The investment position on 30th September 2026 is shown in Table 7 in Appendix 1 to this report.

6.19. Bank Rate remained unchanged at 3.75% throughout the period from April 2026 to September 2026, following the reduction from 4.00% in August 2025 and 3.75% in December 2025. Short-term interest rates broadly tracked this level. Rates available on Debt Management Account Deposit Facility (DMADF) overnight rate has been 3.70% and the average Money Market fund rate has been 3.77% for the period.

6.20. The following table shows how the Council's current Treasury investments compare with other local authorities.

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Ave. Maturity (Days)	Rate of Return
31.03.2026	4.95	A+	100%	1	4.23%
30.09.2026	4.01	A+	100%	1	3.91%
Similar Local Authorities	4.72	A+	87%	20	4.00%
All Local Authorities	4.58	A+	67%	10	4.15%

Further details on the Council's treasury investment activity over the period can be found in section 5 of Appendix 1 to this report.

Treasury Management Prudential Indicators

6.21. The Council measures and manages its exposures to treasury management risks using several indicators that are set when the Treasury Management Strategy is approved in advance of the new financial year.

6.22. 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 levels in comparison to the Operational Boundary and Authorised Limit as detailed in section 8 of Appendix 1, which was also reported in the Quarter 4 monitoring report for year 2025-26.

6.23. A detailed assessment of the Council's compliance with the agreed upon Treasury Management Indicators can be found in section 8 and 9 of Appendix 1 to this report.

7. Contribution to Strategic Outcomes

7.1. Borrowing at affordable levels underpins the delivery of the Capital programme. If the cost of borrowing rises beyond certain levels, capital schemes will become non-viable. Additionally, the generation of investment income is also crucial to manging the overall cost of capital to the Council.

8. Carbon and Climate Change

8.1. Not applicable.

9. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Legal and Governance, Equalities)

Finance and Procurement

9.1. Finance comments are included throughout the attached report.

Director of Legal and Governance [Haydee Nunes de Souza, Head of Legal Service]

9.2. The Head of Legal Services has been consulted in the preparation of this report. The report is consistent with legislation governing the financial affairs of the Council. In particular, the Council must comply with the requirements of the Local Government Act 2003, the Local Authorities (Capital Financing & Accounting – England) Regulations 2003 and the CIPFA Treasury Management code.

9.3. The Council's Constitution, at Part 3, Section B – Responsibility for Functions provides that the remit of the Audit Committee includes consideration of reports on the effectiveness of financial management arrangements, including compliance with CIPFA's Financial Management Code and reviewing and monitoring treasury management arrangements in accordance with Treasury Management in the Public Services: Code of Practice.

9.4. Equalities

9.5. There are no equalities issues arising from this report.

10. Use of Appendices

10.1. Appendix 1 – Treasury Management Outturn Report 2026-27

11. Background Papers

11.1. None