Appendix 1 - Treasury Management Update Report Q2 2026/27

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 2026/27 was approved at a full Council meeting on 10th February 2026. 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 key story remained the conflict in the Middle East and its impact on global energy prices and inflation, while on the UK politics side, Andy Burham became the new Prime Minister. Although energy prices had shown signs of moderating towards the end of (calendar) Q2, the continuing conflict pushed oil and gas up sharply once again in Q3. Around mid-September, Brent oil and UK gas prices were over 30% and 70% higher respectively compared to the period preceding the Bank of England's (BoE) July Monetary Policy Report (MPR).

2.2. Given the inflationary impact of the previous energy shock from the Russia/Ukraine war, central bank policymakers remained alert to higher energy prices feeding into wider price and wage-setting behaviour ('second-round effects'). In the UK, higher fuel and energy prices were evident in headline inflation, but there was limited evidence of material second-round effects. At the same time, underlying wage pressures continued to moderate, and the labour market remained relatively loose.

2.3. The BoE's Monetary Policy Committee (MPC) maintained Bank Rate at 3.75% throughout the period. In April the MPC voted by 8-1 to leave rates unchanged, with one member wanting a 0.25% increase. The voting subsequently became more hawkish, moving to 7-2 in June and 6-3 in both July and September, with all dissenters preferring to increase Bank Rate to 4.00%. The change in voting patterns reflected increasing policymaker concern over the persistence of the energy shock and the risk that higher headline inflation could become embedded in domestic prices and wages.

2.4. At the September MPC meeting, the Committee judged the inflation risks were further to the upside compared to its July MPR. Energy prices had risen again and borrowing costs were materially higher than before the US/Iran conflict. Despite expecting inflation would rise further in the near-term, most members believed that a soft labour market, spare capacity and restrictive monetary conditions would reduce inflation over time. Moreover, the data showed there was still little evidence of material second-round effects, although the MPC emphasised that the risk of these effects would increase the longer elevated and volatile energy prices persisted.

2.5. UK headline consumer price inflation (CPI) initially declined, suggesting the initial energy shock was not spreading into a wider range of goods and services. However, later in the

period inflation picked up again, with CPI rising from 2.6% in June to 3.1% in August due largely to higher transport costs. Core CPI was 2.6% in July and August, suggesting the divergence between that and headline inflation was due to energy rather than a broad increase in underlying inflation.

2.6. UK economic activity was somewhat stronger than initially anticipated over the period. GDP expanded by 0.6% in the first quarter of the calendar year and 0.5% in the second quarter, slightly stronger than the initial estimate of 0.4%. Monthly activity was more volatile, with a contraction of -0.1% in April, followed by gains of 0%, 0.3% and 0.4% in May, June and July respectively.

2.7. Labour market data continued to show softening employment conditions. The unemployment rate fell to 4.9% in April and remained at that level to July, against expectations it would tick up. Job vacancies also continued to decline, to 702,000 in the three months to July. Earnings growth moderated, with regular earnings at 3.5% in the three months to July and total earnings at 3.9%, suggesting weaker labour demand was continuing to restrain domestic wage pressures.

2.8. Arlingclose, the authority's treasury adviser, expects Bank Rate will stay at 3.75%. However, higher energy prices due to the ongoing conflict(s) and uncertainty around the government's upcoming Budget have increased the near-term upside risks. Moreover, stronger inflation projections, which accompanied the September MPC decision, shifted market expectations for Bank Rate higher. In addition, despite little evidence of second-round effects to date, the changing tone of the MPC minutes suggests it may not need something seismic to tip the Committee to increase Bank Rate.

2.9. Following a 0.25% increase in June, the European Central Bank raised its three key policy rates by a further 0.25% in September, taking the deposit facility rate to 2.50%. Inflation increased from 2.9% in July to 3.2% in August, and an initial estimate suggested a further rise to 3.8% in September, with energy prices the principal driver. The ECB emphasised the uncertainty around the duration of the energy shock and the risk prolonged higher inflation could feed into wider price-setting.

Financial markets

2.10. After the sharp deterioration early in the period, financial market sentiment improved somewhat as there were ongoing hopes that the US/Iran war would be resolved. However, towards the end of the period, signs of any potential resolution appeared premature and oil prices rose alongside inflation and bond yields while equity market volatility increased as investors weighed conflict-related as well as AI-related concerns.

2.11. Bond yields in both the US and UK increased markedly over the period, with the gap between gilts and US Treasuries tightening towards the end of the period. While term premia are still embedded in gilt yields given the relatively uncertain fiscal outlook, a more hawkish Fed alongside persistent US inflation and fiscal concerns have pushed the yields on US Treasuries to their highest levels in years.

2.12. Some relatively market-friendly announcements were made by Andy Burham in his speech at the Labour Party conference, but it will be the Budget at the end of October that will hopefully provide some clarity on what the UK's fiscal position might look like going forward.

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

Table 2: Gilt Yields

Benchmark Gilt Yield	Dec-25	Mar-26	Jun-26	Sep-26

5 year	3.93%	4.47%	4.30%	4.98%
10 year	4.48%	4.92%	4.76%	5.42%
20 year	5.11%	5.48%	5.39%	5.90%

The Sterling Overnight Rate (SONIA) averaged 3.73% over the quarter to 30th September.

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 period, Fitch upgraded numerous banks due to a rating methodology change, as well as the reference obligations used for Issuer Default Ratings and introduced more differentiated notching between deposits, senior preferred, senior unsecured and senior non-preferred debt ratings.

2.16. After spiking in April following escalation in the Iran war, credit default swap prices on UK banks declined during most of the period but started to pick up again in September. They ended the period well below levels that may give cause for concern but remain under constant monitoring.

2.17. European banks' CDS prices followed a similar pattern to the UK, while Canadian bank CDS prices rose early in the period and then remained at similar levels, while Australian and Singaporean banks tended to trend downwards. 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.

2.18. 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 2026, the Council had net borrowings of £1,114.0m 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 1 below.

3.2. **Table 1: Balance Sheet Summary**

	31.03.26 Actual £m	31.03.27 Forecast £m
General Fund CFR	760.5	1,229.2
HRA CFR	804.5	777.0
Total CFR[1]	**1,565.0**	**2,005.7**
Less: Other debt liabilities[2]	(45.0)	(45.0)
Borrowing CFR - comprised of:	**1,520.0**	**1,960.7**
External borrowing	1,213.4	1,515.1
Internal borrowing	306.6	445.60

[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 goal 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 2026 and the change over the quarter is shown in Table 2 below.

Table 2: Treasury Management Summary

Type of Borrowing/Investment	30.06.26 Balance £m	Movement £m	30.09.26 Balance £m	30.09.26 Weighted Av. Rate %
Long-term borrowing	1,196.4	-58.5	1,137.9	3.24%
Short-term borrowing	17.0	6.0	23.0	19.17%
Total borrowing	1,213.4	**-52.5**	1,160.9	3.78%
Short-term investment	0.0	0.0	0.0	0.00%
Cash and cash equivalents	81.3	-34.4	46.9	3.84%
Total investments	81.3	**-34.4**	46.9	3.84%
Net borrowing	1,132.1	**-18.1**	1,114.0	

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 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. Gilt yields have been volatile, reflecting expectations of tighter monetary policy compared to previous expectations due to the war. Long-term gilt yields are very high, with investors lacking confidence in UK fiscal plans amid political uncertainty.

4.5. The PWLB certainty rate for 10-year maturity loans was 5.62% at the beginning of the period and 6.17% at the end. Rates for 20-year maturity loans moved from 6.13% to 6.61% during the period, and 50-year maturity loans from 6.01% to 6.37%. The cost of short-term borrowing from other local authorities has been above Bank Rate during the period at 3.8% to 5.5%: costs have risen throughout the period. This is primarily due to many local authorities avoiding more expensive long-term rates and relying more heavily on the short-term market. Low cash levels and the non-receipt of SEND grants are also likely to have contributed to a high borrowing demand.

4.6. The PWLB HRA rate which is 0.4% below the certainty rate is available up to March 2027. 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 £1,160.9million in loans at 30th September 2026, a decrease of £52.5million compared to 31st March 2026.

4.8. The outstanding loans on 30th September 26 are summarised in Table 5.

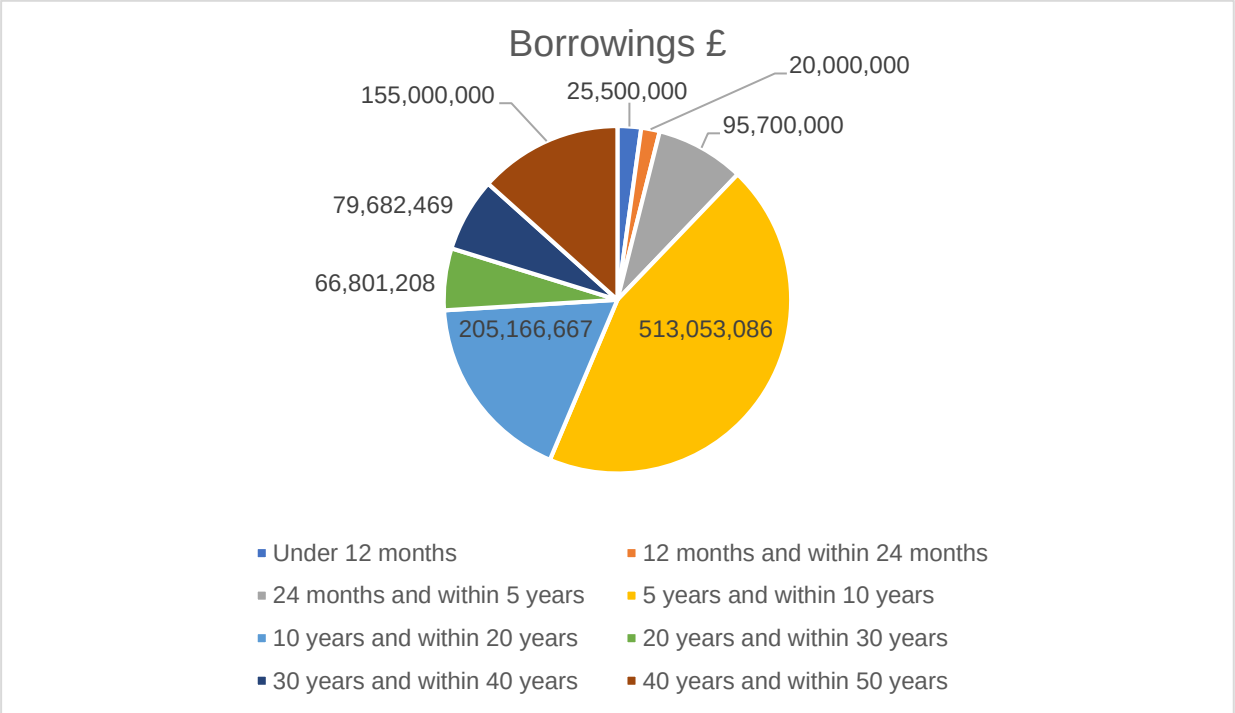
Table 5: Borrowing Position

Type of Borrowing	31.03.26 Balance £m	Net Movement £m	30.09.26 Balance £m	30.09.26 Weighted Ave. Rate %	30.09.26 Weighted Ave. Maturity years
Public Works Loan Board	1,146.4	(18.5)	1,127.9	**3.23%**	**15.4**
Banks (LOBO)	50.0	(40.0)	10.0	**4.75%**	**16.5**
Local authorities	17.0	6.0	23.0	**19.17%**	**36.4**
Total borrowing	**1,213.4**	**(52.5)**	**1,160.9**	**3.78%**	**16.2**

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 borrowing on 30th September 2026 is shown in the chart below.

4.11. There is a refinancing risk within the Council's debt portfolio, as existing borrowing matures and must be replaced at current market interest rates, which are significantly higher than the historic rates on many legacy loans. As borrowing is refinanced, this increases the overall cost of debt and places additional pressure on the revenue budget through higher interest expenditure.



LOBO Loans

4.12. On 30th September 2026, the Council held £10m 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 year the Council held £50m of LOBO loans. However, the Council has been able to successfully negotiate the repayment of £40m of those loans at a significant discount to the market value which was valued at £57m on 31st March 2026, 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 £10m 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 30th September 2026

Lender Name	End Date	Original Principal £'m	Interest rate	LOBO Frequency Year	Next Call Date
Dexia Credit Local	10/04/2043	10.0	4.75%	0.5	10/04/2027
Total borrowing		**10.0**			

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 £36.9m and £188.6m due to timing differences between income and expenditure. The investment position on 30 September 2026 is shown in Table 7 below.

Table 7: Treasury Investment Position

Type of Investment	31.03.26 Balance £m	Net Movement £m	30.09.26 Balance £m	30.09.26 Weighted Ave. Rate %	30.09.26 Weighted Ave. Maturity
Debt Management Office	31.3	(31.3)	0.0	**0.0%**	**1 days**
Money Market Funds	50.0	(3.1)	46.9	**3.84%**	**1 days**
Total Investments	**81.3**	**(34.4)**	**46.9**	**3.84%**	**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 rate was 3.70%. The Money Market rates ranged between 3.70% and 4.9%.

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
31.03.2026	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%

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. Financial markets experienced significant volatility over the six months to 30th September 2026, although performance varied considerably between asset classes. Equity markets generally performed well, recovering strongly from the falls seen in March and remaining resilient despite renewed geopolitical uncertainty and higher interest rates. UK equities recorded gains over the period, while global equities were also supported by generally resilient corporate earnings and continued strength in technology-related stocks.

5.7. Bond markets were considerably weaker, particularly towards the end of the period. Government bond yields rose as higher energy prices and rising inflation increased expectations that interest rates would remain higher for longer. Longer-dated yields were also affected by concerns over elevated government borrowing and bond issuance, with investors demanding greater compensation for holding longer-term debt. These pressures were not confined to the UK, with government bond yields rising across most major developed economies. This rise placed downward pressure on the capital values of funds with exposure to bonds.

5.8. Income distributions from strategic pooled funds generally remained resilient over the period, despite the volatility in underlying asset prices. However, distributions from individual funds can vary between periods depending on their payment frequency, the timing of underlying income receipts and fund distribution policies. Performance over a six-month period should therefore not be viewed in isolation when assessing the longer-term income generated by these investments.

5.9. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's medium- to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates.

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 10 below.

Table 10: Treasury Performance

Borrowing costs	Actual to date £m	*Forecast 2026/27 £m	Annual Budget £m	Forecast (Over)/under £m
General Fund borrowing	3.6	34.4	36.0	(1.6)
HRA borrowing	7.0	26.8	26.7	0.1
Total borrowing costs	**10.6**	**61.2**	**62.7**	**(1.5)**
Treasury investment income	**(1.8)**	**(3.5)**	**(2.0)**	**(1.7)**

*Forecast figures are based on the assumption that planned future borrowing will be undertaken in line with current expectations. Consequently, these forecasts may change if borrowing occurs later than anticipated, is not required, or exceeds the levels currently assumed.

6.2. Borrowing costs as at quarter two have been lower than budgeted for, principally due to the capital scheme spend not progressing as anticipated. It is also in relation to the timing of the interest repayments due, with the bulk of the expected expenditure to occur in the final two quarters of the year.

6.3. Income generation has been higher due the Council having higher than anticipated cash balances also due to the slower pace of capital spend, so the Council has held higher cash balances for longer periods than initially expected.

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

	30.09.26 Actual £m	2026/27 Operational Boundary £m	2026/27 Authorised Limit £m	Complied?
Borrowing	1,160.9	1,591.0	1,641.0	Yes
PFI and Finance Leases	45.0	51.0	56.0	Yes
Total debt	**1,205.9**	**1,642.0**	**1,697.0**	**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.

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.

	30.09.26 Actual	2026/27 Target	Complied?
Portfolio average credit score	A+, 4.68	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.

	30.09.26 Actual/£m	2026/27 Target/£m	Complied?
Total cash available within 3 months	50.0	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:

	30.09.26 Actual	2026/27 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:

	30.09.26 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	6.7%	40%	0%	Yes
12 months and within 24 months	6.5%	40%	0%	Yes
24 months and within 5 years	22.3%	50%	0%	Yes
5 years and within 10 years	28.1%	50%	0%	Yes
10 years and within 20 years	10.4%	100%	0%	Yes
20 years and within 30 years	5.8%	100%	0%	Yes
30 years and within 40 years	6.9%	100%	0%	Yes
40 years and within 50 years	13.4%	100%	0%	Yes
50 years and above	0.0%	100%	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.

	30.09.26 Actual	2026/27 Limit	Complied?
Upper limit on short-term borrowing from other local authorities as a percentage of total borrowing	1.11%	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**