

Report to: Audit & Accounts Committee Meeting 10 December 2025

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Report Summary	
Report Title	Treasury Management Mid-Year Report 2025/26
Purpose of Report	To provide an update on the Council's Treasury Activity and Prudential Indicators for the first half of 2025/26
Recommendations	That the treasury management activity be noted and recommend to Full Council on 16 December 2025; and The Prudential Indicators detailed in Section 6 & 7 of the report be noted.
Reason for Recommendation	To allow Committee to note Treasury Management Activity and recommend it to Full Council and To allow Committee to note the Prudential Indicators

1.0 **Background Information**

1.1 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017). The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report, (stewardship report), covering activities during the previous year.

- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit and Governance Committee.

1.4 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2025/26 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Council's investment portfolio for 2025/26;
- A review of the Council's borrowing strategy for 2025/26;
- A review of any debt rescheduling undertaken during 2025/26;
- A review of compliance with Treasury and Prudential Limits for 2025/26.

1.5 Treasury Management is defined as: "The management of the local authority's borrowing, 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".

1.6 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

2.0 Summary of Treasury Balances as at 30 September 2025

2.1 Below is a summary of the Council's borrowing position as at 30 September 2025, further information is available at section 4.

Balance on 01/04/2025 £m		Balance on 30/09/2025 £m
109.799	Total Borrowings	109.062
4.738	Total Other Long-Term Liabilities	5.000
114.537	TOTAL EXTERNAL DEBT	114.062

2.2 Below is a summary of the Council's investment position as at 30 September 2025, further information is available at section 5.

Balance on 01/04/2025 £m		Balance on 30/09/2025 £m
36.528	Total Short Term Investments	41.114
12.500	Total Long Term Investments	12.500
49.028	TOTAL INVESTMENTS	53.614

- 2.3 Below is a summary of the Councils capital expenditure position as at 30 September 2025, further information is available at section 3.

Capital Expenditure	2025/26 Initial Capital Budget £m	2025/26 Revised Estimate £m	2025/26 Current Expenditure £m
General Fund Expenditure	35.489	28.089	7.552
HRA Expenditure	23.295	18.734	4.626
Total Capital Expenditure	58.784	46.823	12.178

- 2.4 **Prudential Indicators**, during the first half of the financial year there was no breach in the prudential indicators.

Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy update

- 2.5 The Treasury Management Strategy Statement (TMSS) for 2025/26 was approved by Full Council on 6 March 2025. There are no suggested policy changes to the TMSS within this report; the details in this report update the position in the light of the updated economic position and capital budget changes approved throughout the year.

3.0 The Council's Capital Position

- 3.1 This part of the report is structured to update:
- The Council's capital expenditure plans;
 - How these plans are being financed;
 - The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
 - Compliance with the limits in place for borrowing activity.
- 3.2 The table below shows the revised estimates for capital expenditure and the changes since the Capital Programme was agreed within the Capital budget on 6 March 2025

Capital Expenditure	2025/26 Original Budget Approved 6 March 2025 £m	2025/26 Revised Budget as at 30 September 2025 £m	Actual Spend as at 30 September 2025 £m
General Fund Expenditure	35.489	28.089	7.552
HRA Expenditure	23.295	18.734	4.626
Total Capital Expenditure	58.784	46.823	12.178
Financed By:			
Capital Receipts	3.639	1.440	0.375
Capital Grants & CIL	10.238	8.882	2.310
Capital Reserves	10.472	6.064	1.577
Revenue	2.574	2.731	0.710
Total Financing	26.923	19.117	4.972
Borrowing Requirement	31.861	27.706	7.206

- 3.3 The financing of the Capital Programme will be determined by the S151 Officer at the year-end based on best use of resources.

The movement from the Budget approved 6 March 2025 relates to approved capital carry forward requests and approved variations to the capital programme as shown in the table below.

Original Capital Budget Approved 2025/26	£58.784m
Capital Slippages Carried Forward	£7.816m
Cabinet Approvals 8 July 2025	(£11.361m)
Cabinet Variations requested 3 December 24	(£8.417m)
New Revised Budget	£46.823m

4.0 Borrowing Strategy

- 4.1 At 30 September 2025 the Council held £94.922m of loans, as part of its strategy for funding previous years' borrowing within those capital programmes.

4.2 Borrowing Activity in 2025/26

	General Fund		HRA	
	Balance on 01/04/2025 £m	Balance on 30/09/2025 £m	Balance on 01/04/2025 £m	Balance on 30/09/2025 £m
Short Term Borrowing	0.901	1.184	0.000	0.000
Long Term Borrowing	3.500	3.500	105.397	104.379
Total Borrowing	4.401	4.684	105.397	104.379
Other Long-Term Liabilities	4.738	5.000	0.000	0.000
Total External Debt	9.139	9.684	105.397	104.379
CFR	63.910	51.874	119.165	117.164
Under / (over) borrowing	54.771	42.191	13.768	12.2857

- 4.3 As the Council is in a significant under borrowed position, as per the table in 4.2, there may be a requirement during the remainder of the financial year where new borrowing is required. Any new borrowing will be within the approved Treasury Management Borrowing Strategy framework and will have been reviewed by the S151 Officer for cost effectiveness as whether to borrow shorter term or long term in relation to interest rate forecasts.
- 4.4 **LOBOs:** The Council holds £3.5m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. All of the £3.5m of LOBOs had options during the last 6 months, none of which were exercised by the lender. The Council acknowledges there is an element of refinancing risk even though in the current interest rate environment lenders are unlikely to exercise their options.
- 4.5 **Internal borrowing:** For the Council, the use of internal resources in lieu of borrowing has continued to be the most cost effective means of funding of capital expenditure that has not been funded from grants and other resources. This has lowered overall treasury risk by reducing both external debt and temporary investments. However, this position will not be sustainable over the medium to longer term as the Council needs to use reserves for the purpose they were set aside for, and external borrowing may need to be undertaken.
- 4.6 **Debt rescheduling:** The premium charge for early repayment of PWLB debt remains relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken or is proposed during the rest of the financial year as a consequence.

5.0 Investment Activity

- 5.1 The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a return commensurate with these principles.

5.2 Investment Activity in 2025/26

Type of Investment	Balance on 01/04/2025 £m	Balance on 30/09/2025 £m	Average Interest Rate
Short term Investments			
<i>Fixed Term Deposits:</i>			
Santander	5.000	5.000	3.97%
Lloyds Call Account	6.000	6.000	4.28%
Standard Chartered Sustainable Deposit	3.000	3.000	4.40%
<i>Money Market Funds:</i>			
Goldman Sachs	0.310	0.310	4.18%
Deutsche Bank	0.535	1.591	4.19%
Invesco	11.835	12.000	4.26%
Northern Trust	7.608	10.973	4.26%

CCLA	2.240	2.240	4.39%
Total Short Term Investments	36.528	41.114	
Long term Investments			
CCLA Property Fund	7.000	7.000	4.33%
CCLA Diversified Income Fund	5.500	5.500	3.42%
Total Long Term Investments	12.500	12.500	
TOTAL INVESTMENTS	49.028	53.614	
Increase/ (Decrease) in Investments		4.586	

- 5.3 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

6.0 **Non-Treasury Investments**

- 6.1 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return or regeneration purposes. This is replicated in MLUHC's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return or regeneration purposes.

Breakdown below of current Non-Treasury Investments held;

Counterpart	Balance at 30/09/2025 £m
Loans to Housing Associations	0.010
Loans to Parish Councils	0.009
Loan to Arkwood	6.867

- 6.2 These investments are due to generate £0.420m of investment income for the Council after taking account of direct costs, representing a rate of return of 6.11%.

- 6.3 Maturity Structure of Fixed Rate Borrowing.** This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

	Upper Limit %	Actual at 30/9/25 £m	Actual at 30/9/25 %	Compliance
Under 12 Months	25%	23.000	23.50%	Yes
12-24 Months	25%	6.000	6.13%	Yes
2-5 Years	40%	11.689	11.94%	Yes
5-10 Years	100%	6.325	6.46%	Yes
Over 10 Years	100%	50.865	51.97%	Yes

Limits to Investing Activity

- 6.4 Security.** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target	Actual	Compliance
Portfolio average credit rating	A	AA	Yes

- 6.5 Liquidity Risk Indicator.** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a banding period, without additional borrowing.

Total Cash Available within;	Limit	Actual 30/09/25	Compliance
3 Months	100%	62%	Yes
3-12 Months	80%	15%	Yes
Over 12 Months	60%	23%	Yes

- 6.6 Principal Sums Invested for over 364 Days.** 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.

Price risk indicator	Limit	Actual 30/09/25	Compliance
Limit on principal invested beyond year end	£15m	£12.5m	Yes

7.0 Limits to Capital Activity

- 7.1 Capital Financing Requirement.** The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose.

	2025/26 Original Estimate £m	2025/26 Revised Estimate £m
CFR – non housing	63.910	51.874
CFR – housing	119.165	117.164
Total CFR	183.075	169.038
Estimated Net Movements in CFR		-14.037

- 7.2 Capital Financing Costs to Net Revenue Stream.** Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

	2025/26 Original Estimate £m	2025/26 Revised Estimate £m
<i>General Fund</i>		
Financing Costs	-1.299	-1.299
Proportion of net revenue stream	-5.14%	-5.14%
<i>Housing Revenue Account</i>		
Financing Costs	12.860	12.861
Proportion of net rental stream	41.98%	41.98%

8.0 Economic Background/Interest Rate Forecast

- 8.1 **Appendix A and Appendix B** gives a summarised outlook for the economic background and interest rate forecast from our Treasury Consultants, Link.

Background Papers and Published Documents

Nil.

Economics Update

- The first half of 2025/26 saw:
 - A 0.3% pick up in GDP for the period April to June 2025. More recently, the economy flatlined in July, with higher taxes for businesses restraining growth.
 - The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% to 4.8% in July.
 - CPI inflation has ebbed and flowed but finished September at 3.8%, whilst core inflation eased to 3.6%.
 - The Bank of England cut interest rates from 4.50% to 4.25% in May, and then to 4% in August.
 - The 10-year gilt yield fluctuated between 4.4% and 4.8%, ending the half year at 4.70%.
- From a GDP perspective, the financial year got off to a bumpy start with the 0.3% m/m fall in real GDP in April as front-running of US tariffs in Q1 (when GDP grew 0.7% on the quarter) weighed on activity. Despite the underlying reasons for the drop, it was still the first fall since October 2024 and the largest fall since October 2023. However, the economy surprised to the upside in May and June so that quarterly growth ended up 0.3% q/q. Nonetheless, the 0.0% m/m change in real GDP in July will have caused some concern, with the hikes in taxes for businesses that took place in April this year undoubtedly playing a part in restraining growth. The weak overseas environment is also likely to have contributed to the 1.3% m/m fall in manufacturing output in July. That was the second large fall in three months and left the 3m/3m rate at a 20-month low of -1.1%. The 0.1% m/m rise in services output kept its 3m/3m rate at 0.4%, supported by stronger output in the health and arts/entertainment sectors. Looking ahead, ongoing speculation about further tax rises in the Autumn Budget on 26 November will remain a drag on GDP growth for a while yet. GDP growth for 2025 is forecast by Capital Economics to be 1.3%.
- Sticking with future economic sentiment, the composite Purchasing Manager Index for the UK fell from 53.5 in August to 51.0 in September. The decline was mostly driven by a fall in the services PMI, which declined from 54.2 to 51.9. The manufacturing PMI output balance also fell, from 49.3 to 45.4. That was due to both weak overseas demand (the new exports orders balance fell for the fourth month in a row) and the cyber-attack-induced shutdown at Jaguar Land Rover since 1 September reducing car production across the automotive supply chain. The PMIs suggest tepid growth is the best that can be expected when the Q3 GDP numbers are released.
- Turning to retail sales, and the 0.5% m/m rise in volumes in August was the third such rise in a row and was driven by gains in all the major categories except fuel sales, which fell by 2.0% m/m. Sales may have been supported by the warmer-than-usual weather. If sales were just flat in September, then in Q3 sales volumes would be up 0.7% q/q compared to the 0.2% q/q gain in Q2.
- With the November Budget edging nearer, the public finances position looks weak. Public net sector borrowing of £18.0bn in August means that after five months of the financial year, borrowing is already £11.4bn higher than the OBR forecast at the Spring

Statement in March. The overshoot in the Chancellor's chosen fiscal mandate of the current budget is even greater with a cumulative deficit of £15.3bn. All this was due to both current receipts in August being lower than the OBR forecast (by £1.8bn) and current expenditure being higher (by £1.0bn). Over the first five months of the financial year, current receipts have fallen short by a total of £6.1bn (partly due to lower-than-expected self-assessment income tax) and current expenditure has overshoot by a total of £3.7bn (partly due to social benefits and departmental spending). Furthermore, what very much matters now is the OBR forecasts and their impact on the current budget in 2029/30, which is when the Chancellor's fiscal mandate bites. As a general guide, Capital Economics forecasts a deficit of about £18bn, meaning the Chancellor will have to raise £28bn, mostly through higher taxes, if she wants to keep her buffer against her rule of £10bn.

- The weakening in the jobs market looked clear in the spring. May's 109,000 m/m fall in the PAYE measure of employment was the largest decline (barring the pandemic) since the data began and the seventh in as many months. The monthly change was revised lower in five of the previous seven months too, with April's 33,000 fall revised down to a 55,000 drop. More recently, however, the monthly change was revised higher in seven of the previous nine months by a total of 22,000. So instead of falling by 165,000 in total since October, payroll employment is now thought to have declined by a smaller 153,000. Even so, payroll employment has still fallen in nine of the ten months since the Chancellor announced the rises in National Insurance Contributions (NICs) for employers and the minimum wage in the October Budget. The number of job vacancies in the three months to August stood at 728,000. Vacancies have now fallen by approximately 47% since its peak in April 2022. All this suggests the labour market continues to loosen, albeit at a declining pace.
- A looser labour market is driving softer wage pressures. The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% in April to 4.8% in July. The rate for the private sector slipped from 5.5% to 4.7%, putting it on track to be in line with the Bank of England's Q3 forecast (4.6% for September).
- CPI inflation fell slightly from 3.5% in April to 3.4% in May, and services inflation dropped from 5.4% to 4.7%, whilst core inflation also softened from 3.8% to 3.5%. More recently, though, inflation pressures have resurfaced, although the recent upward march in CPI inflation did pause for breath in August, with CPI inflation staying at 3.8%. Core inflation eased once more too, from 3.8% to 3.6%, and services inflation dipped from 5.0% to 4.7%. So, we finish the half year in a similar position to where we started, although with food inflation rising to an 18-month high of 5.1% and households' expectations for inflation standing at a six year high, a further loosening in the labour market and weaker wage growth may be a requisite to UK inflation coming in below 2.0% by 2027.
- An ever-present issue throughout the past six months has been the pressure being exerted on medium and longer dated gilt yields. The yield on the 10-year gilt moved sideways in the second quarter of 2025, rising from 4.4% in early April to 4.8% in mid-April following wider global bond market volatility stemming from the "Liberation Day" tariff announcement, and then easing back as trade tensions began to de-escalate. By the end of April, the 10-year gilt yield had returned to 4.4%. In May, concerns about

stickier inflation and shifting expectations about the path for interest rates led to another rise, with the 10-year gilt yield fluctuating between 4.6% and 4.75% for most of May. Thereafter, as trade tensions continued to ease and markets increasingly began to price in looser monetary policy, the 10-year yield edged lower, and ended Q2 at 4.50%.

- More recently, the yield on the 10-year gilt rose from 4.46% to 4.60% in early July as rolled-back spending cuts and uncertainty over Chancellor Reeves' future raised fiscal concerns. Although the spike proved short lived, it highlighted the UK's fragile fiscal position. In an era of high debt, high interest rates and low GDP growth, the markets are now more sensitive to fiscal risks than before the pandemic. During August, long-dated gilts underwent a particularly pronounced sell-off, climbing 22 basis points and reaching a 27-year high of 5.6% by the end of the month. While yields have since eased back, the market sell-off was driven by investor concerns over growing supply-demand imbalances, stemming from unease over the lack of fiscal consolidation and reduced demand from traditional long-dated bond purchasers like pension funds. For 10-year gilts, by late September, sticky inflation, resilient activity data and a hawkish Bank of England have kept yields elevated over 4.70%.
- The FTSE 100 fell sharply following the "Liberation Day" tariff announcement, dropping by more than 10% in the first week of April - from 8,634 on 1 April to 7,702 on 7 April. However, the de-escalation of the trade war coupled with strong corporate earnings led to a rapid rebound starting in late April. As a result, the FTSE 100 closed Q2 at 8,761, around 2% higher than its value at the end of Q1 and more than 7% above its level at the start of 2025. Since then, the FTSE 100 has enjoyed a further 4% rise in July, its strongest monthly gain since January and outperforming the S&P 500. Strong corporate earnings and progress in trade talks (US-EU, UK-India) lifted share prices and the index hit a record 9,321 in mid-August, driven by hopes of peace in Ukraine and dovish signals from Fed Chair Powell. September proved more volatile and the FTSE 100 closed Q3 at 9,350, 7% higher than at the end of Q1 and 14% higher since the start of 2025. Future performance will likely be impacted by the extent to which investors' global risk appetite remains intact, Fed rate cuts, resilience in the US economy, and AI optimism. A weaker pound will also boost the index as it inflates overseas earnings.

Interest rate forecasts

Appendix B

The Council has appointed MUFG Corporate Markets as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

MUFG Corporate Markets' latest forecast on 11 August sets out a view that short, medium and long-dated interest rates will fall back over the next year or two, although there are upside risks in respect of the stickiness of inflation and a continuing tight labour market, as well as the size of gilt issuance.

MUFG Corporate Markets Interest Rate View 11.08.25													
	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28
BANK RATE	4.00	4.00	3.75	3.75	3.50	3.50	3.50	3.50	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	4.00	4.00	3.80	3.80	3.50	3.50	3.50	3.50	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	4.00	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.30	3.30	3.40	3.40	3.40
12 month ave earnings	4.00	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.30	3.40	3.50	3.60	3.60
5 yr PWLB	4.80	4.70	4.50	4.40	4.30	4.30	4.30	4.20	4.20	4.20	4.20	4.10	4.10
10 yr PWLB	5.30	5.20	5.00	4.90	4.80	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60
25 yr PWLB	6.10	5.90	5.70	5.70	5.50	5.50	5.50	5.40	5.40	5.30	5.30	5.30	5.20
50 yr PWLB	5.80	5.60	5.40	5.40	5.30	5.30	5.30	5.20	5.20	5.10	5.10	5.00	5.00