



**AUDIT COMMITTEE/ CABINET
/ COUNCIL**

Portfolio Area: Resources and Performance

Date: 4 November 2025 /
12 November 2025 /
17 December 2025



**MID YEAR TREASURY MANAGEMENT REVIEW 2025/26 AND PRUDENTIAL
INDICATORS**

NON-KEY DECISION

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1 PURPOSE

- 1.1 To update Members on the Treasury Management activities in 2025/26 and review effectiveness of the 2025/26 Treasury Management and Investment Strategy including the 2025/26 prudential and treasury indicators.

2 RECOMMENDATIONS

2.1 Audit Committee

That subject to any comments by the Audit Committee to the Cabinet, the 2025/26 Mid-Year Treasury Management Review, revised Minimum Revenue Provision Policy and Prudential indicators reports is recommended to Council for approval.

2.2 Cabinet

That subject to any comments made by the Cabinet, in addition to those made by the Audit Committee, the 2025/26 Mid-Year Treasury Management Review, revised Minimum Revenue Provision Policy and Prudential indicators report is recommended to Council for approval.

2.3 Council

That subject to any comments from the Audit Committee and the Cabinet, 2025/26 Mid-Year Treasury Management Review, revised Minimum Revenue Provision Policy and Prudential indicators report be approved by Council.

3 BACKGROUND

3.1.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity initially before considering optimising investment return.

3.1.2 The second main function of the treasury management service is the funding of the Council's capital plans, (subject to affordability). 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.

Accordingly, 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."

3.1.3 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 2021). 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.

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- 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 Audit committee.

3.1.4 In December 2021, CIPFA revised the Code to require, all local authorities to report on:

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.
- an overview of how the associated risk is managed.
- the implications for future financial sustainability.

These elements are covered in the annual Capital Strategy reported to Council in February each year.

3.1.5 CIPFA is currently consulting local authorities in respect of potential changes to the Codes. At this stage, the focus seems to be primarily on the non-treasury investment aspects of local authority activity. Officers will provide an update on any material developments/changes in due course.

3.1.6 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 half 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 compliance with Treasury and Prudential Limits for 2025/26.

3.2 Economics and interest rates

3.2.1 Economics update.

3.2.2 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.
- 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%.

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3.2.3 Looking ahead on the economy, 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%.

3.2.4 Yields on Gilts directly impact the councils cost to borrow from PWLB.

- The yield on the 10-year gilt rose from 4.46% to 4.60% in early July. 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%.

3.2.5 As the council invests excess cash mainly with banks, the impact of changes in the BOE base rate directly impacts the interest earned on those investments over time.

- In August, a further rate cut was implemented by the BOE. However, a 5-4 split vote for a rate cut to 4% laid bare the different views within the Monetary Policy Committee, with the accompanying commentary noting the decision was “finely balanced” and reiterating that future rate cuts would be undertaken “gradually and carefully”. Ultimately, Governor Bailey was the casting vote for a rate cut but with the CPI measure of inflation expected to reach at least 4% later this year, the MPC will be wary of making any further rate cuts until inflation begins its slow downwards trajectory back towards 2%. The Bank of England does not anticipate CPI getting to 2% until early 2027.

3.2.6 Interest Rate Forecasts

3.2.7 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, calculated as gilts plus 80bps) which has been accessible to most authorities since 1st November 2012.

3.2.8 The latest forecast (MUFG 10 October) sets out a view that short, medium, and long-dated interest rates will reduce gradually over the next year or two, as the Bank of England continues to prioritise controlling inflation.

Chart 1

Interest Rate Forecasts								
Bank Rate	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27
MUFG CM	4.00%	3.75%	3.75%	3.50%	3.50%	3.50%	3.50%	3.25%
Cap Econ	4.00%	3.75%	3.50%	3.25%	3.00%	3.00%	3.00%	3.00%
5Y PWLB RATE								
MUFG CM	4.70%	4.50%	4.40%	4.30%	4.30%	4.30%	4.20%	4.20%
Cap Econ	5.00%	4.80%	4.70%	4.60%	4.50%	4.50%	4.50%	4.60%
10Y PWLB RATE								
MUFG CM	5.20%	5.00%	4.90%	4.80%	4.80%	4.80%	4.70%	4.70%
Cap Econ	5.60%	5.40%	5.30%	5.20%	5.10%	5.10%	5.20%	5.30%
25Y PWLB RATE								
MUFG CM	5.90%	5.70%	5.70%	5.50%	5.50%	5.50%	5.40%	5.40%
Cap Econ	6.20%	6.00%	5.90%	5.70%	5.50%	5.60%	5.60%	5.70%
50Y PWLB RATE								
MUFG CM	5.60%	5.40%	5.40%	5.30%	5.30%	5.30%	5.20%	5.20%
Cap Econ	5.80%	5.60%	5.50%	5.30%	5.20%	5.20%	5.30%	5.40%

* Certainty Rate reduction HRA – 0.6% is not included above

4 Treasury Management Strategy Statement and Annual Investment Strategy Update

4.1.1 The Treasury Management Strategy was approved by Council on 26 February 2025.

4.1.2 In line with the changes to the MRP regulations and Guidance, Members are asked to authorise the revision to the Council's MRP policy for 2025/26 as it relates to capital loans, as follows -

Capital Loans

Where the Council has issued capital loans that are categorised as **non-commercial**, and have not been subject to a recognised credit loss in the current or any previous financial year, the provision of MRP will not apply on the following basis:

- (a) the loan is treated as capital expenditure in accordance with regulation 25(1)(b),
- (b) the loan is not a commercial loan, and
- (c) the local council has not recognised, in accordance with proper practices(c), any expected or actual credit loss in respect of that loan.

For capital loans which are classed as **commercial** then the Authority will provide MRP over a maximum of the useful life of the assets purchased by the third party.

A commercial loan is defined in regulation 27(5) as a loan from the council to another entity for a purpose which, if the council were to undertake itself, would be primarily for financial return; or, where the loan is itself, capital expenditure undertaken primarily for financial return.

Capital receipts received from the non-commercial and commercial loan repayments in the financial year will be used to reduce the debt liability i.e. the capital receipts will be used in lieu of MRP to reduce the CFR.

For capital loans to third parties granted before 7 May 2024 - Where those loans have been subject to an actual or expected credit loss in the current or any previous financial year then MRP will be provided over the useful life of the assets purchased by the third party.

For capital loans to third parties granted on or after 7 May 2024 - Where those loans are subject to an expected or actual credit loss, then the MRP charge will be at least

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the amount of the recognised credit loss for the financial year, after adjusting for any previous MRP or capital receipts applied to the loan”.

4.1.3 There are no other policy changes to the TMSS; the remaining details in this report update the position in the light of the updated economic position and budgetary changes already approved.

4.2 The Council's Capital Position (Prudential Indicators).

4.2.1 This part of the report is structured to update:

- The Council's capital expenditure plans and 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.

4.2.2 Prudential Indicator for Capital Expenditure and changes to Financing of the Capital Programme.

4.2.3 The table below shows the revised estimates for capital expenditure and financing and the changes since the capital programme was agreed at the Budget. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Table 1 Capital Expenditure and Financing			
	Original Capital Strategy (Council February 2025)	Revised Capital Strategy Q2	Movement¹
	£'000	£'000	£'000
Capital Expenditure:			
General Fund Capital Expenditure	51,821	41,433	(10,388)
HRA Capital Expenditure	51,399	39,387	(12,012)
Total Capital Expenditure	103,220	80,820	(22,400)
Financed by:			
Capital Receipts	(16,648)	(13,042)	3,607
Capital Grants /Contributions	(39,464)	(32,022)	7,442
Capital Reserves	(569)	(454)	115
Revenue contributions & Reserves	(617)	(1,011)	(394)

¹ This movement differs from that reported in the quarterly Capital Monitoring reports as that report uses the latest budget rather than the original as a comparator.

Table 1 Capital Expenditure and Financing			
	Original Capital Strategy (Council February 2025)	Revised Capital Strategy Q2	Movement¹
	£'000	£'000	£'000
Major Repairs Reserve	(13,138)	(13,138)	0
Total Financing	(70,436)	(59,666)	10,770
Borrowing requirement	32,784	21,154	11,630

4.2.4 The General Fund net reduction of £10.3Million includes:

- Re-phasing of £8.8Million of 2024/25 budgets into 2025/26 across all services.
- Re-phasing of £ (17.5) Million capital budgets in from 2025/26 into future years.
- Removal of budgets no longer required and addition of fully grant funded schemes – £ (1.6) Million (net).

Details are included in the quarterly monitoring reports referred to below.

4.2.5 The HRA net reduction of £12Million is due to re-phasing of the Housing Development and investment budgets.

4.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational

4.3.1 The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

We are on target to be within 3.4% of the original forecast CFR.

Prudential Indicator - the Operational Boundary for external debt.

We are on target to be within the original limit for external borrowing.

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Table 2 £000	2025/26 Original Estimate Council February 2025	2025/26 Revised Estimate Mid-Year
Prudential Indicator – Capital Financing Requirement		
CFR – non housing	70,561	61,750
CFR – housing	286,179	283,039
Total CFR	356,740	344,789
Net movement in CFR		(11,951)
Prudential Indicator – the Operational Boundary for external debt		
Borrowing	340,805	335,855
Other long-term liabilities	15,935	15,935
Total debt (year-end position)	356,740	351,790
Net movement in OB		(4,950)

4.4 Limits to Borrowing Activity

- 4.4.1 The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. **Gross external borrowing** should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2025/26 and next two financial years.
- 4.4.2 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Table 3 Authorised limits	Operational Boundary £'000	Authorised Limit £'000	Actual External Debt 30/09/2025 £'000
General Fund	66,751	68,750	24,842
HRA	285,039	294,039	275,250
Total Debt	351,790	362,789	300,092
CFR (projected year-end position)			344,789
Gross debt less than CFR			Yes

- 4.4.3 A temporary breach of the operational boundary is permissible for short term cash flow purposes however a breach of the authorised limit would require a report to Council. There have been no breaches of either limit in the period for 2025/26.

4.5 Borrowing

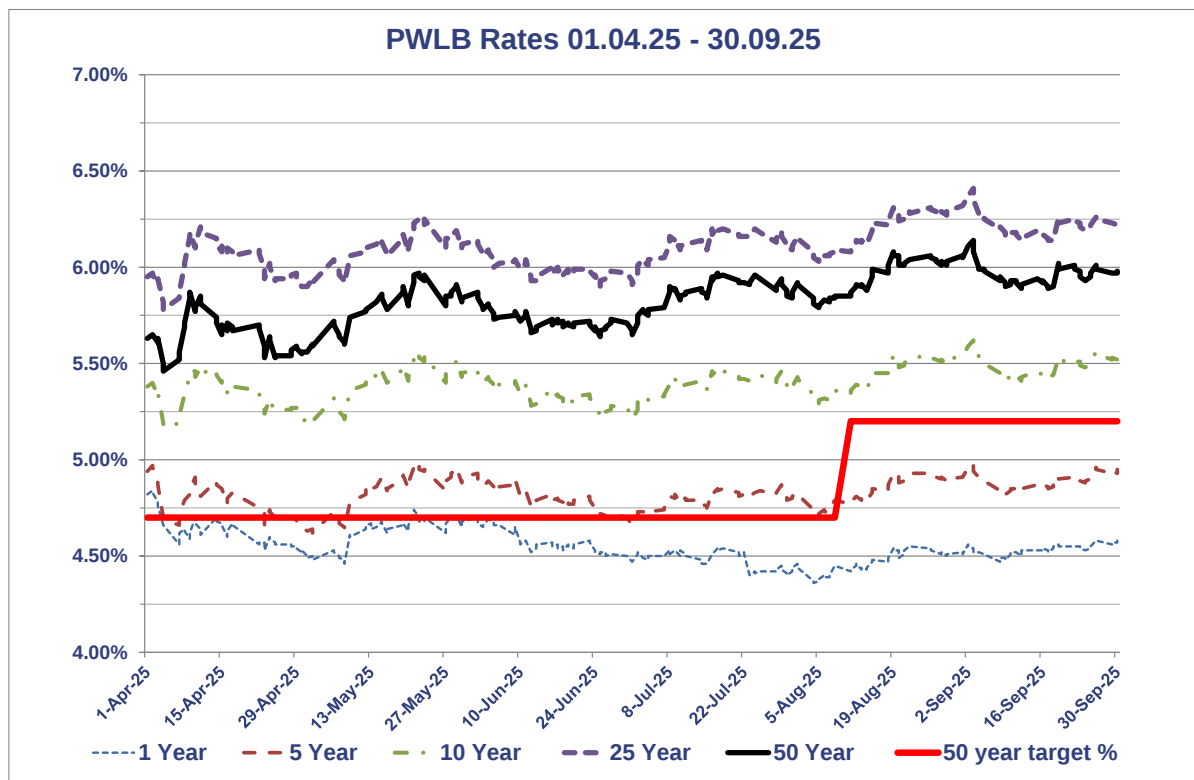
- 4.5.1 The Council's capital financing requirement (CFR) for 2025/26 is £345Million. The CFR denotes the Council's underlying need to borrow for capital

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purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing), or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. Table 3 shows the Council has borrowings of £300Million and if forecast to utilise £45Million of cash flow funds in lieu of borrowing (Forecast CFR less total forecast debt). This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring in the event that any upside risk to gilt yields prevails.

- 4.5.2 Capital programme is being kept under regular review due to the effects of inflationary pressures, shortages of materials and labour. The Council borrowing strategy will, therefore, also be regularly reviewed and then revised, if necessary, in order to achieve optimum value and risk exposure in the long-term.
- 4.5.3 No additional external borrowing has been taken out as at 30 September 2025.
- 4.5.4 It is anticipated that borrowing will be undertaken during the financial year in line with financing in table 1 above.
- 4.5.5 Borrowing rates from PWLB are based on Gilt yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields and Bank Rate, inflation expectations and movements in US treasury yields.
- 4.5.6 Gilt yields and PWLB certainty rates have remained relatively volatile throughout the six months under review, but the general trend has been for medium and longer dated parts of the curve to shift higher whilst the 5-year part of the curve finished September close to where it begun in April.
- 4.5.7 At this juncture, MUFG Corporate Markets (Council's Treasury Advisors) still forecasts rates to fall back over the next two to three years as inflation dampens, although there is upside risk to all forecasts at present. The CPI measure of inflation is expected to fall below 2% in early 2027 but hit a peak of 4% or higher later in 2025.
- 4.5.8 The Bank of England announced in September that it would be favouring the short and medium part of the curve for the foreseeable future when issuing gilts. Market reaction to national and international events is likely to be the decisive factor in future gilt market attractiveness to investors and their willingness to buy UK sovereign debt.
- 4.5.9 The Chart below shows the volatility of the PWLB borrowing rates from 2 April 2025 to 30 September 2025.

Chart 2



4.6 Compliance with Treasury and Prudential Limits

- 4.6.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30 September 2025 the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2025/26. The Chief Finance Officer reports that no difficulties are envisaged for the current or future years in complying with these indicators.
- 4.6.2 All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

4.7 Annual Investment Strategy

- 4.7.1 The Treasury Management Strategy Statement (TMSS) for 2025/26, which includes the Annual Investment Strategy, was approved by the Council on 26 February 2025. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:
- Security of capital
 - Liquidity
 - Yield
- 4.7.2 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also

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to seek out value available in periods up to 12 months with high credit quality financial institutions, using the MUFG Corporate Markets suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

- 4.7.3 There were no breaches to this policy in the year to 30 September 2025 with the investment activity conforming to the approved strategy. The Council had no liquidity difficulties, and no funds have been placed with the Debt Management Office (DMO), demonstrating that counterparty limits and availability for placing funds approved in the TM Strategy were working effectively. It is possible that surplus funds that may be borrowed during 2025/26 will be placed in the DMO temporarily, if PWLB borrowing rates are advantageous and cash balances due to timing of taking out new loans would breach other counterparty limits.

Creditworthiness

- 4.7.4 The UK's sovereign rating has proven robust through the first half of 2024/25. The Government is expected to outline in detail its fiscal proposals in the Budget scheduled for 26 November 2025.

Investment Counterparty criteria

- 4.7.5 The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function. It is noted that sentiment in the current economic climate can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.
- 4.7.6 Countries included are those where relevant banks are active in Sterling markets.
- 4.7.7 The Specified and Non-Specified Investment Criteria have been reviewed and updated in the Treasury Management Strategy 2025/26 which was agreed at Full Council in February 2025, and no further amendments are proposed at this stage.

4.8 Investment performance year to date as of 30 September 2025

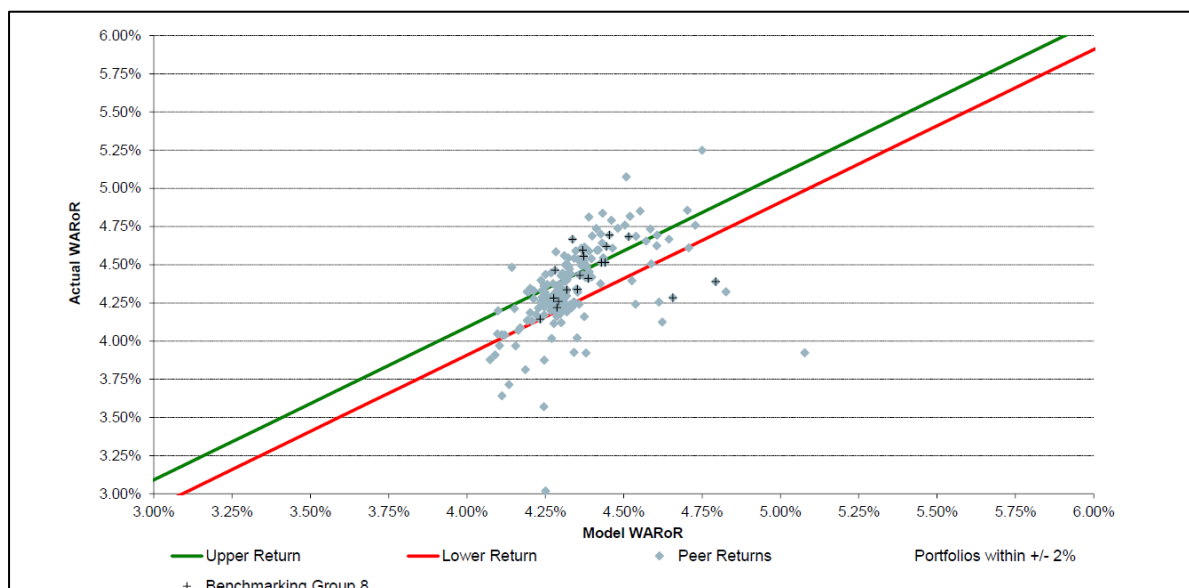
- 4.8.1 The Council's current investment portfolio consists of "conventional" cash investments: deposits with banks and building societies, Money Market Funds, and loans to other Local Authorities.
- 4.8.2 The average level of funds available for investment purposes during the first half of the financial year was £55Million, earning an average interest rate of 4.59%. Interest earned to 30 September 2025 was £1.265Million. Projected investment balances at 31 March 2026 are currently £35Million and forecast external interest receivable from investments is currently £2.2Million against a working budget of £2Million.
- 4.8.3 The council's treasury advisors (MUFG), provide regular benchmarking analysis of the performance of the council's investments against a group of 20 other local authorities. The September 2025 report shows performance of the

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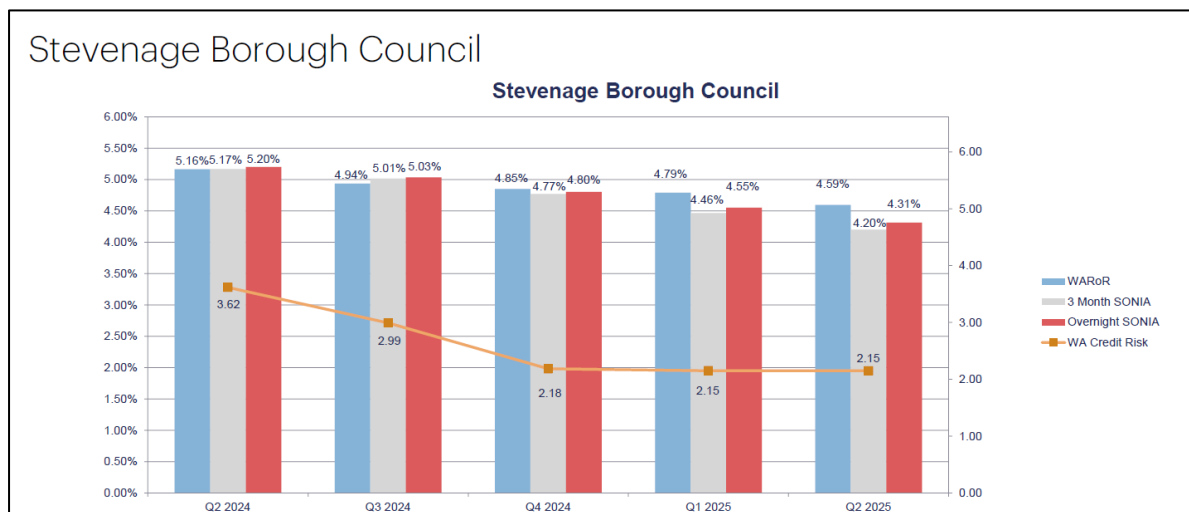
portfolio held at 30 September 2025 being in the upper return range against model returns (4.59% return against a target of 4.28%-4.46%)².

Chart 3 Benchmarking Group 8 September 2025



4.8.4 Performance against Sonia³, shows an improvement over the period from Q2 2024 partly as a result of an old poorly performing investment maturing and being reinvested at higher interest rates.

Chart 4 Performance against Sonia



4.8.5 The Council's balances are made up of cash reserves e.g. HRA and General Fund balances, restricted use receipts e.g. right to buy one for one receipts and balances held for provisions such as business rate appeals and debt repayment.

² WARoR = Weighted average rate of return on investments

³ Sonia is a benchmarking index administered by the BOE

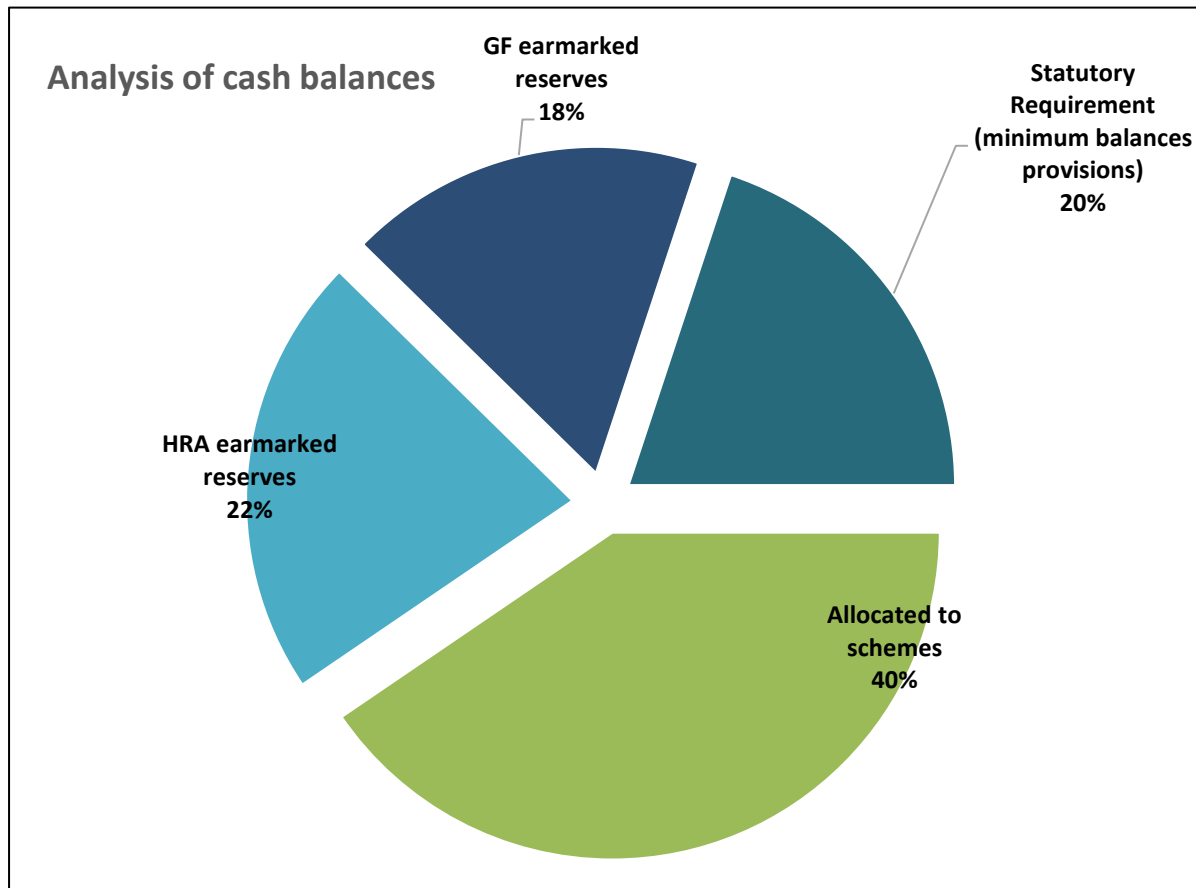
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4.8.6 In considering the Council's level of cash balances, Members should note that the General Fund MTFs and Capital Strategy have a planned use of resources over a minimum of five years and the HRA Business Plan (HRA BP) a planned use of resources over a thirty year period, which means, while not committed in the current year; they are required in future years.

4.8.7 The following chart shows the planned use of cash balances held as at 30 September 2025.

Chart 5



4.8.8 The restrictive use of a proportion of the cash balances set out above, plus the planned use of resources in line with the Council's capital and revenue strategies mean that the investment balance of £57Million as at 30 September 2025 is not available for new expenditure.

5 IMPLICATIONS

5.1 Financial Implications

5.1.1 This report is of a financial nature and reviews the treasury management function for 2025/26 to date. Any consequential financial impacts identified in the Capital strategy and Revenue budget monitoring reports have been incorporated into this report.

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- 5.1.2 During the financial year Officers operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury management practices.

5.2 Legal Implications

- 5.2.1 Approval of the Prudential Code Indicators and the Treasury Management Strategy are intended to ensure that the Council complies with relevant legislation and best practice.

5.3 Risk Implications

- 5.3.1 The current policy of minimising external borrowing only remains financially viable while cash balances are high and the differentials between investment income and borrowing rates remain. As these conditions change the Council may need to take borrowing at higher rates which would increase revenue costs.
- 5.3.2 The Council's Treasury Management Strategy is based on limits for counterparties to reduce risk of investing with only a small number of institutions.
- 5.3.3 The thresholds and time limits set for investments in the Strategy are based on the relative ratings of investment vehicles and counter parties. These are designed to take into account the relative risk of investments and also to preclude certain grades of investments and counterparties to prevent loss of income to the Council.
- 5.3.4 There is a risk to the HRA BP's ability to fund the approved thirty-year spending plans if interest rates rise above budgeted rates. Mitigation is included in the revision to the BP since 2023 (2025 revision now underway), including requiring higher levels of reserves to be maintained in the medium term to cover interest rate risks.

5.4 Equalities and Diversity Implications

- 5.4.1 This report is technical in nature and there are no implications associated with equalities and diversity within this report. In addition to remaining within agreed counterparty rules, the council retains the discretion not to invest in countries that meet the minimum rating but where there are concerns over human rights issues. Counterparty rules will also be overlaid by any other ethical considerations from time to time as appropriate.
- 5.4.2 The Treasury Management Policy does not have the potential to discriminate against people on grounds of age; disability; gender; ethnicity; sexual orientation; religion/belief; or by way of financial exclusion. As such a detailed Equality Impact Assessment has not been undertaken.

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5.5 Climate Change Implications

5.5.1 The council's investment portfolio is made up of short to medium term investments held to fund the council's activities. Ensuring these are secure, appropriately liquid and provide a return, aligns with the Council's ambition to attempt to be carbon neutral by 2030.

BACKGROUND PAPERS

- BD1 Annual Treasury Management Strategy including Prudential Code Indicators 2025/26 (Council 26 February 2025)
- BD2 Quarter 1 Revenue and Capital Monitoring Report 2025/26 – General Fund and HRA (Cabinet 17 September 2025)
- BD3 Quarter 2 Revenue and Capital Monitoring Report 2025/26 – General Fund and HRA (Cabinet 12 November 2025)

APPENDICES

- Appendix A Investment Portfolio
- Appendix B Approved Countries for Investments as of 30 September 2025
- Appendix C Minimum Revenue Provision Policy