Part I
Release to Press

AUDIT COMMITTEE/ CABINET / COUNCIL

Portfolio Area: Resources and Performance

Date: **10 November 2026 / 19 November 2026 / 16 December 2026**

MID YEAR TREASURY MANAGEMENT REVIEW 2026/27 AND PRUDENTIAL INDICATORS

NON-KEY DECISION

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1 PURPOSE

1.1 To update Members on the Treasury Management activities in 2026/27 and review effectiveness of the 2026/27 Treasury Management and Investment Strategy including the 2026/27 prudential and treasury indicators.

2 RECOMMENDATIONS

2.1 Audit Committee

That subject to any comments by the Audit Committee to the Cabinet, the 2026/27 Mid-Year Treasury Management Review, revised Minimum Revenue Provision Policy and Prudential indicators report 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 2026/27 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, 2026/27 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:

a. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

b. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

c. 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.

d. 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.

e. 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 committee.

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

a. a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.
b. an overview of how the associated risk is managed.
c. 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 has undertaken consultation on the Prudential Code for Capital Finance and Treasury Management (closed August 2026). At this stage, the outcomes are not yet known. 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 current Code of Practice on Treasury Management, and covers the following:

a. An economic update for the first half of the 2026/27 financial year.
b. A review of the Treasury Management Strategy Statement and Annual Investment Strategy.
c. The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators.
d. A review of the Council's investment portfolio for 2026/27.
e. A review of the Council's borrowing strategy for 2026/27.
f. A review of compliance with Treasury and Prudential Limits for 2026/27.

3.2 Economics and interest rates

3.2.1 Economics update.

3.2.2 The first half of 2026/27 saw:

a. Continued resilience in the face of the ongoing energy shock, with real GDP up 0.4% month/month in July, following on from GDP of 0.5% quarter/quarter (1.4% year/year) for the quarter ending 30 June 2026.
b. CPI inflation stuck at 2.8% in May, but is now ticking upwards, standing at 3.5% in September and forecast to rise to 4.3% by January 2027.
c. The Bank of England (BOE) left interest rates unchanged at 3.75% although it intimated in its September meeting that rates will be hiked in November or December if a resolution to the conflict in the Middle East is not forthcoming before then.

d. The 10-year gilt yield fluctuated between 5.43% and 4.69%, ending September at 5.43%.

3.2.3 Looking ahead on the economy, the economy's prolonged resilience is unlikely to last as the drag from rising energy prices (the January energy cap is projected to increase by circa 20%) and borrowing costs will be felt before long.

3.2.4 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.

3.2.5 **Interest Rate Forecasts**

3.2.6 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.

3.2.7 The latest forecast (MUFG 23 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.

3.2.8 More details of the Economic outlook from the Councils treasury advisors can be found in Appendix C

Chart 1

Interest Rate Forecasts								
Bank Rate	**Dec-26**	**Mar-27**	**Jun-27**	**Sep-27**	**Dec-27**	**Mar-28**	**Jun-28**	**Sep-28**
MUFG CM	4.00%	4.00%	4.00%	3.75%	3.50%	3.25%	3.25%	3.25%
Cap Econ	4.00%	4.25%	4.25%	4.25%	4.00%	3.75%	3.75%	3.50%
5Y PWLB RATE								
MUFG CM	5.60%	5.60%	5.30%	5.10%	4.70%	4.50%	4.50%	4.40%
Cap Econ	5.20%	5.10%	4.90%	4.80%	4.60%	4.60%	4.60%	4.60%
10Y PWLB RATE								
MUFG CM	6.00%	5.90%	5.60%	5.40%	5.00%	4.80%	4.80%	4.70%
Cap Econ	5.80%	5.70%	5.60%	5.40%	5.30%	5.30%	5.30%	5.30%
25Y PWLB RATE								
MUFG CM	6.50%	6.40%	6.10%	5.90%	5.60%	5.30%	5.30%	5.30%
Cap Econ	6.30%	6.20%	6.00%	5.90%	5.80%	5.80%	5.80%	5.80%
50Y PWLB RATE								
MUFG CM	6.10%	6.10%	5.80%	5.50%	5.30%	5.10%	5.00%	5.00%
Cap Econ	6.00%	5.80%	5.70%	5.60%	5.40%	5.40%	5.40%	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 Statement (TMSS) was approved by Council on 25 February 2026.

4.1.2 Members are asked to approve revisions to the Council's MRP Policy for 2026/27, as set out in Appendix B. These amendments clarify and strengthen the Council's compliance with the revised framework relating to capital loans to third parties and the treatment of capital receipts financing.

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:

a. The Council's capital expenditure plans and how these plans are being financed.
b. The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
c. Compliance with the limits in place for borrowing activity.

4.2.2 Prudential Indicator for Capital Expenditure and changes to Financing

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 2026) £'000	Revised Capital Strategy Q2 £'000	*Movement*[1] £'000
Capital Expenditure:			
General Fund Capital Expenditure	47,461	48,925	1,464
HRA Capital Expenditure	75,634	65,723	(9,911)
Total Capital Expenditure	123,095	114,648	(8,447)
Financed by:			
Capital Receipts	(19,548)	(18,630)	918
Capital Grants /Contributions	(41,180)	(47,446)	(6,492)
Capital Reserves	(338)	(591)	(253)
Revenue contributions & Reserves	(3,290)	(4,314)	(1,709)
Major Repairs Reserve	(13,630)	(13,894)	(264)
Total Financing	(77,985)	(84,875)	(7,800)
Borrowing requirement	45,110	29,773	(15,337)

[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.

4.2.4 The General Fund net reduction of £1.5 Million includes:

a. Re-phasing of £5 Million of 2025/26 budgets into 2026/27 across all services.

b. Re-phasing of £(4) Million capital budgets in from 2026/27 into future years.

c. Addition of fully funded (Grants / CIL) budgets £765K.

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

4.2.5 The HRA net reduction of £10 Million is mainly due to re-phasing of the Housing Development budgets into future years.

4.2.6 Reduced borrowing requirement of £15 Million is a result of expenditure slippage into future years combined with additional grants and contributions replacing borrowing to fund projects.

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

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

The Council is on target to be within 6% of the original forecast CFR.

Prudential Indicator - the Operational Boundary for external debt.

The Treasury Team is on target to be within the original limit for external borrowing. No revision to the limit is proposed.

Table 2 £000	**2026/27 Original Estimate Council February 2026**	**2026/27 Revised Estimate Mid-Year**
Prudential Indicator – Capital Financing Requirement CFR)		
CFR – non housing	66,748	65,110
CFR – housing	310,634	288,673
Total CFR (includes internal borrowing)	**377,382**	**353,783**
Net movement in CFR		**(23,599)**
Prudential Indicator – the Operational Boundary for external debt		
Borrowing	368,728	368,728
Other long-term liabilities[2]	15,654	15,654
Total debt (year-end position)	**384,382**	**384,382**
Net movement in OB		**(0)**

[2] Finance leases

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 2026/27 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 for external debt	Operational Boundary £'000	Authorised Limit £'000	Actual External Debt 30/09/2026 £'000
General Fund	71,747	78,747	25,019
HRA	312,634	323,634	281,611
Total Debt	**384,381**	**402,381**	**306,630**
CFR (projected year-end position)			**353,783**
Gross external 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 2026/27.

4.5 Borrowing

4.5.1 The Council's capital financing requirement (CFR) for 2026/27 is forecast to be £354Million. The CFR denotes the Council's underlying need to borrow for capital 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.

4.5.2 Table three shows the Council has forecast borrowings of £306Million and is expected to utilise £57Million of cash flow funds in lieu of borrowing (Forecast CFR less total forecast debt effectively internal borrowing). 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.

4.5.3 The 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.

4.5.4 No additional external borrowing has been taken out as at 30 September 2026.

4.5.5 It is anticipated that borrowing will be undertaken during the financial year in line with financing in table 1 above, this includes external and internal borrowing.

4.5.6 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.

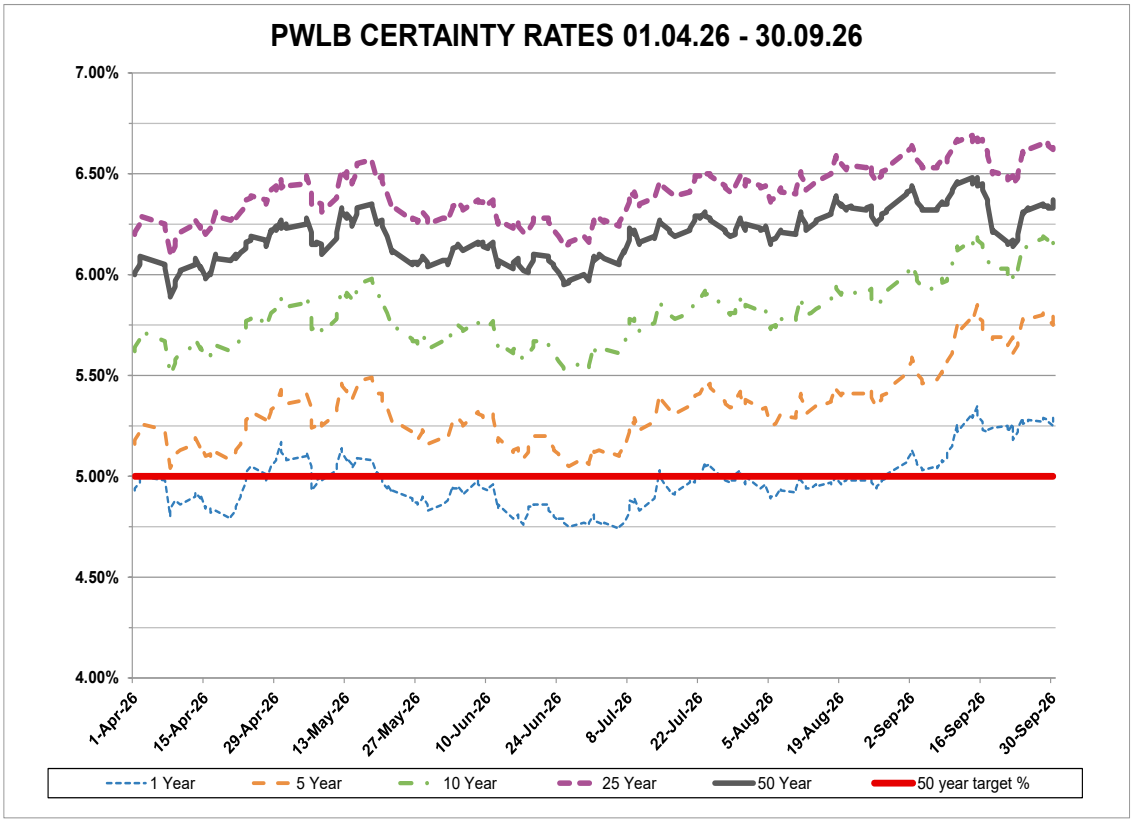
4.5.7 Gilt yields and PWLB certainty rates have remained relatively volatile throughout the six months under review, but the general trend has been for medium and longer dated parts of the curve to shift higher on the back of inflation concerns and a pessimistic outlook for fiscal aspects, both domestically and internationally

4.5.8 At this juncture, MUFG Corporate Markets forecasts rates to fall back over the next one to three years as inflation dampens, but in the near-term there are upside risks should the second-round effects of inflation, primarily from energy price shocks emanating in the Middle East, become embedded. That scenario could lead to wage increases becoming more challenging from an inflation-management perspective, resulting in monetary policy tightening further than currently forecast (one increase in Bank Rate of 0.25% in either November or December 2026).

4.5.9 Conversely, a swift resolution to the conflict in the Middle East could see energy prices fall back swiftly and, therein, an easing in inflation concerns and monetary policy, respectively. Currently, the CPI measure of inflation is expected to hit a high of 4.3% in early 2027 before falling back towards the 2% target rate by 2028.

4.5.10 The Chart below shows the volatility of the PWLB borrowing rates from April 2026 to September 2026.

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 2026 the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2026/27. 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 2026/27, which includes the Annual Investment Strategy, was approved by the Council on 25 February 2026. 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 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 2026 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 2026/27 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 2026/27. The Government is expected to outline in detail its fiscal proposals in the Budget scheduled for 28 November 2026.

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 No counterparty amendments to the TMSS are proposed at this stage.

4.8 **Investment performance year to date as of 30 September 2026**

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.

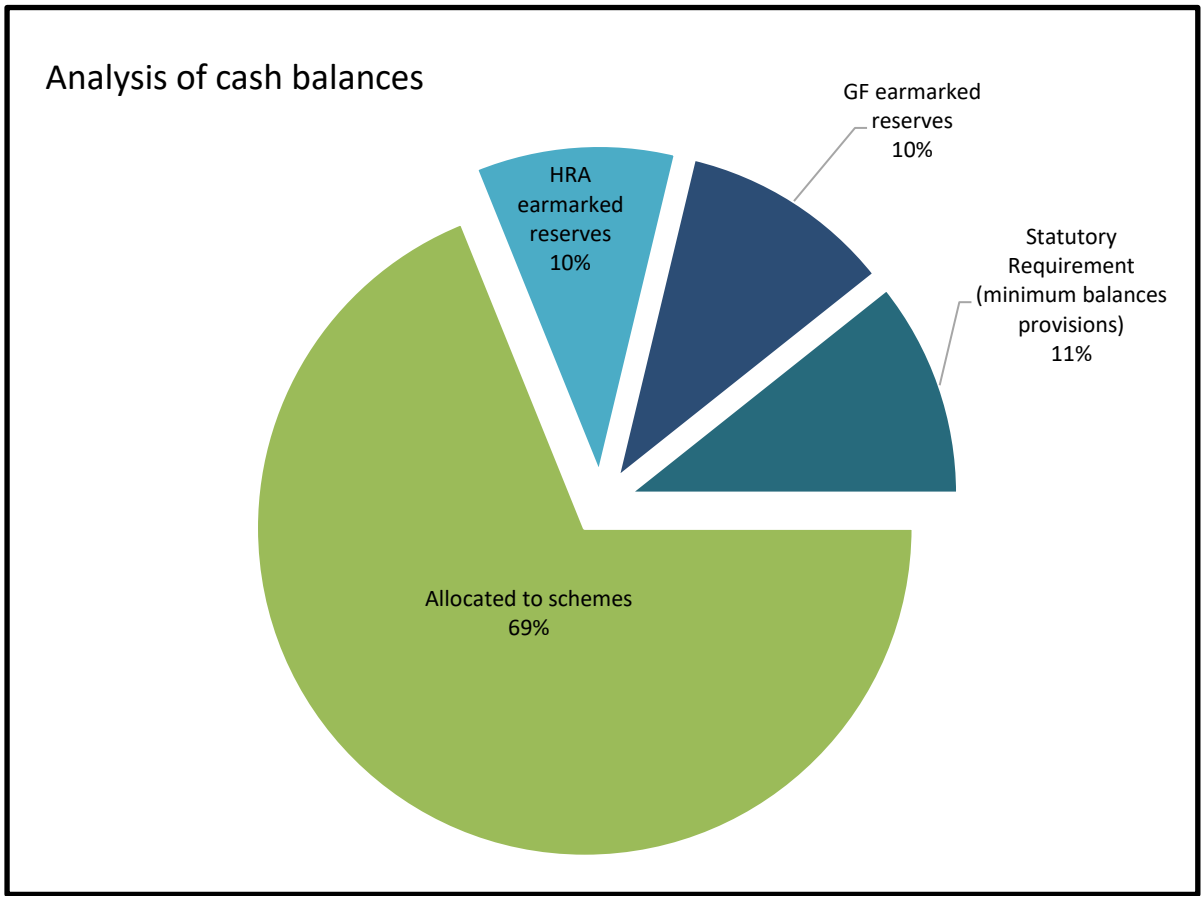
4.8.2 The average level of funds available for investment purposes during the first half of the financial year was £75Million, earning an average interest rate of 4.28%. Interest earned to 30 September 2026 was £1.6Million. Projected investment balances at 31 March 2027 are currently £41Million and forecast external interest receivable from investments is currently £2.8Million against a working budget of £2.8Million.

4.8.3 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.

4.8.4 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.

4.8.5 The following chart shows the planned use of cash balances held as at 30 September 2026.

Chart 5



4.8.6 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 £65Million as at 30 September 2026 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 2026/27 to date. Any consequential financial impacts identified in the Capital strategy and Revenue budget monitoring reports have been incorporated into this report.

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's ability to fund the approved thirty-year spending plans if interest rates rise above budgeted rates. Mitigation has been incorporated within the revised HRA Business Plan and HRA MTFS, including maintaining higher reserve levels and the continued use of internal borrowing where appropriate.

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.

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 Councils ambition to attempt to be carbon neutral by 2030.

Part I
Release to Press

BACKGROUND PAPERS

- BD1 Annual Treasury Management Strategy including Prudential Code Indicators 2026/27 (Council 25 February 2026)
- BD2 Quarter 1 Revenue and Capital Monitoring Report 2026/27 – General Fund and HRA (Cabinet 10 September 2026)
- BD3 Quarter 2 Revenue and Capital Monitoring Report 2026/27 – General Fund and HRA (Cabinet 19 November 2026)

APPENDICES

- Appendix A Investment Portfolio
- Appendix B Minimum Revenue Provision Policy
- Appendix C Economics Update (MUFG)