Corporate Governance, Audit and Standards Committee
23rd July 2025

EXECUTIVE HEAD OF FINANCE
REPORT NO: FIN2515

TREASURY MANAGEMENT AND NON-TREASURY INVESTMENT OPERATIONS 2025/26 – Quarter 1 and 2024/25 Outturn

SUMMARY:
This report sets out the activities of the Treasury Management and non-Treasury Investment Operations for quarter 1 in the financial year 2025/26, and reports on compliance with Prudential Indicators along with 2024/25 outturn figures.

RECOMMENDATIONS:
Members are requested to:
(i) Make any recommendations, as appropriate, to the Cabinet on the contents of this report in relation to the treasury management and non-treasury investment operations carried out.

1. INTRODUCTION

1.1 This report sets out the Treasury Management and Non-Treasury Investment operation performance for Quarter 1 2025/26 and the 2024/25 outturn position. This report is a statutory requirement under the CIPFA Code of Practice on Treasury Management.

1.1 Full Council approved the Annual Treasury Management Strategy and Non-Treasury Investment Strategy for the financial year 2025/26 in February 2025. The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management 2021 ("the Code") and is fully incorporated into the Council's adopted strategy.

2. PURPOSE

2.1 This report sets out compliance with the strategy and performance against Prudential Indicators to the end of June 2025/26 within appendices (1-4):

<u>**Appendix 1**</u>

- The **Treasury Management operations** which sets out how the Council's treasury service operated during the period to June 2025;
- The **Treasury Management Borrowing** which sets out the Council's borrowing during the period to June 2025, and;
- The **Treasury Management Investments** which sets out the Council's Treasury Management investment operations for the period to June 2025.

Appendix 2

- the **Prudential indicators** performance is compared to the indicators set out in the Annual Capital Strategy for the year 2025/26.

Appendix 3

- The list of borrowing counterparties as at end of June 2025.

Appendix 4

- Market commentary regarding from the Council's treasury management advisors Arlingclose

3 BACKGROUND

3.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) have issued guidance on the aims and requirements of a Capital Strategy focusing on a whole organisation approach to prudent, sustainable, and resilient local government investment.

3.2 CIPFA have also issued two professional Codes of Practice to which the Council is required to "have regard to". These Codes provide frameworks that are designed to support local strategic planning, local asset management planning and proper option appraisal:

- The Prudential Code – developed to support local authorities in taking decisions around their capital investment programmes. The objectives of the Prudential Code are to ensure, within a clear reporting framework, that a local authority's capital expenditure plans and investment plans are affordable and proportionate; that all external borrowing and other long-term liabilities are within prudent and sustainable levels; that the risks associated with investments for commercial purposes are proportionate to their financial capacity; and that treasury management decisions are taken in accordance with good professional practice.
- The Treasury Management Code - Treasury Management is defined as 'The management of the organisation's borrowing, investments, and cash flows, including 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'.

3.3 The primary purpose of the treasury management operation is to ensure that cash flow is adequately planned, with cash being available when it is needed to deliver the Councils services. The secondary function of the treasury management operation is the funding of the Council's capital programme and manage cashflow requirements over a longer-term period.

3.4 Non-treasury investment operations should ensure that all investments made primarily for service reasons. Then, second to this, the function of investment management is to generate returns.

3.5 This quarterly report provides an additional update and includes the requirement in the 2021 Code of quarterly reporting of the treasury management prudential indicators.

4 POOLED FUNDS

4.1 Accounting Standard IFRS9 impact – The statutory override for pooled funds in England – requires change in value of the original capital invested (i.e., current market price resulting in gains and losses) to be held as a value on the Balance Sheet until the fund is sold (i.e., when the gain or loss becomes real) – is set to end in 2025-26, i.e., the last year it will be in place will be 2024-25. The long-term pooled funds investment is currently valued below cost, i.e. at a loss if they were to be redeemed. However, the statutory override was recently further extended to March 2029.

5 CONCLUSIONS ON THE TREASURY MANAGEMENT AND NON-TREASURY INVESTMENT OPERATIONS DURING 2024/25

5.1 All treasury activity was conducted within the approved Treasury Management Practices (TMP's).

5.2 The majority of borrowing was short-term Local Authority (LA), although this report shows that there has been a change, in line with the strategy, to have more longer term borrowing with PWLB locking in rates at equivalent to or lower than the borrowing rate set within the MTFS (4.78%). This diversifies the borrowing the Council holds.

6 KEY RISKS

6.1 The Council has borrowed 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 Authority's treasury management strategy.

6.2 The key risks to the Councils delivery of successful treasury and non-treasury investment options include:

- Inflation levels
  Inflation rates are now reducing after a prolonged period of increased levels.
- Bank of England Base rate
  Base rate has reduced to 4.50%. Expectations are that this will reduce further, however a slow reduction is anticipated.
- Delivery of Capital Programme
  Will impact borrowing requirements and timing will impact rates achievable for both borrowing and investments during the years

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APPENDIX 1

Treasury Management Report Q1- 2025/26 and 2024/25 Outturn

Introduction

The Council applies the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code). This quarterly report provides an update of the treasury management prudential indicators. The non-treasury prudential indicators are included in Appendix 2.

The Council's treasury management strategy for 2025/26 was approved at the Council meeting on 27th February 2025. 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.

Local Context

On 31st March 2025, the Council had net borrowing of £127m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), in Table 1 below.

Table 1: Balance Sheet Summary

	2024-25 Estimate	**31.3.25 Actual £m**	**31.3.26 Forecast £m**
General Fund CFR	167.9	174.2	161.6
Less: Other debt liabilities (leases)	0.8	0.6	0.6
Borrowing CFR	**167.1**	**173.6**	**161.0**
Less: Internal borrowing (surplus cashflow timing difference)	5.0	7.6	20.8
External borrowing*	162.1	166.0	94.0

* shows only loans to which the Authority is committed and excludes optional refinancing.

APPENDIX 1

The treasury management position at 31st March 2025 and the change over quarter 1 is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.25 Balance £m	Movement £m	30.06.25 Balance £m	30.06.25 Rate %
Long-term borrowing				
- Other (local authorities)	2.0	5.0	7.0	4.64
- PWLB	62.0	30.0	92.0	4.83
Short-term borrowing	102.0	(55.0)	102.0	4.92
Total borrowing	**166.0**	**(20.0)**	**146.0**	
Long-term investments	16.0	(3.0)	13.0	6.03
Short-term investments	5.0	(5.0)	0	N/A
Cash and cash equivalents	18.0	0.6	18.6	4.35
Total investments	**39.0**	**(7.4)**	**31.6**	
Net borrowing	**127.0**	**(12.6)**	**114.4**	

Borrowing Strategy and Activity

As outlined in the treasury strategy, the Authority's chief objective when borrowing has been to strike an appropriate risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

After substantial rises in interest rates since 2021 many central banks have now begun to reduce their policy rates, albeit slowly. Gilt yields have been volatile but have reduced slightly except in the longer term in response to expectations of lower future interest rates. There has been a slight increase in gilt yields for period of around 30 years and longer, which is due primarily to an increased uncertainty premium being priced into the longer period.

The PWLB certainty rate for 10-year maturity loans was 5.38% at the beginning of the period and 5.27% at the end. The lowest available 10-year maturity rate was 5.17% and the highest was 5.56%. Rates for 20-year maturity loans ranged from 5.71% to 6.16% during the period, and 50-year maturity loans from 5.46% to 5.97%. The cost of short-term borrowing from other local authorities has been similar to Base Rate during the period at 4.0% to 4.5%.

For the majority of the year the cost of short-term borrowing from other local authorities closely tracked Base Rate at around 5.00% - 5.25%. However, from late 2024 rates began to rise, peaking at around 6% in February and March 2025.

CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes. The Authority has no new plans to borrow to invest primarily for financial return.

The Council currently holds £148m in commercial property investments of which the majority were primarily for financial return and were purchased prior to the change in the CIPFA Prudential Code.

Before undertaking further additional borrowing the Council will review the options for exiting these investments.

Loans Portfolio

At 30th June 2025 the Council held £146m of loans, (a decrease of £20m on 31st March 2025), as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 30th June 2025 are summarised in Table 3A below.

Table 3A: Borrowing Position

	31.3.25 Balance £m	**Net Movement £m**	**30.06.25 Balance £m**	**30.06.25 Weighted Average Rate %**
Local authorities (long-term)	2.0	5.0	7.0	4.64
Local authorities (short-term)	102.0	(55.0)	47.0	4.92
PWLB Maturity Loan	62.0	30.0	92.0	4.83
Total borrowing	**166.0**	**20.0**	**146.0**	

The average rate on the Council's short-term loans at 30th June 2025 on £47m was 4.92%, this compares with 5.16% on £102m loans 3 months ago.

Table 3B: Long-dated Loans borrowed

	Amount £m	**Rate %**	**Period (Years)**
Horsham District Council	2.0	5.10	2
PWLB Maturity Loan	92.0	4.83	1.5-4
South Yorkshire Mayoral Combined Authority	5.0	4.45	3
Total borrowing	**99.0**		

The Council's new borrowing decisions to replace existing borrowing as current loans mature are determined by a cashflow projection.

Forward starting loans

To enable certainty of cost to be achieved without suffering a cost of carry in the intervening period, the Council arranged £5m of forward starting loans with fixed interest rate of 4.85% for the delivery of cash in the following months' time, details of which are below.

Table 3C: Forward starting loans

	Amount £m	**Rate %**	**Loan Period (Years)**	**Forward Period (Months)**
South Yorkshire Mayoral CA Police Fund	10	4.25	1	0.25
PWLB	10	4.58	3	0.25
Total borrowing	**20**	**4.42**		

There remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below PWLB rates. The Council will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.

Treasury Investment Activity

The CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (revised in 2021) defines treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

The Council holds some invested funds, representing income received in advance of expenditure plus balances and reserves held. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.25 Balance £m	31.3.25 Income Return %	Net Movement £m	30.06.25 Balance £m	30.06.25 Income Return %
Banks & building societies	0.3	4.85	(0.2)	0.1	4.22
Local authorities	5	6.00	(5)	0	N/A
Money Market Funds	17.7	5.20-5.30	0.8	18.5	4.37
Other Pooled Funds					
- *Strategic bond funds*	6	4.57		6	4.87
- *Equity income funds*	5	7.64		5	11.15
- *Property funds*	3	5.12	(3)	0	N/A
- *Multi asset income funds*	2	2.79		2	7.19
Total investments	**39**		**(7.4)**	**31.6**	

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.

As demonstrated by the liability benchmark in this report, the Council expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.

Externally Managed Pooled Funds

£13m of the Council's investments is invested in externally managed strategic pooled funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability.

Most asset classes achieved positive performance over quarter 1 of 2025/26, although there was significant volatility across financial markets and had a marginal positive effect on the combined value of the Council's strategic funds since March 2025. The change in the Council's funds' capital values and income return over the period is shown in Table 4.

The Council has budgeted £540k income from these investments in 2025/26. Income up to 30th June £223k.

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 Council'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 minimum period total returns will exceed cash interest rates.

Statutory override

Further to consultations in April 2023 and December 2024 MHCLG wrote to finance directors in England in February 2025 regarding the statutory override on accounting for gains and losses in pooled investment funds. On the assumption that when published regulations follow this policy announcement, the statutory override will be extended up until the 1st April 2029 for investments already in place before 1st April 2024. The override will not apply to any new investments taken out on or after 1st April 2024. The Authority had set up a reserve of £1m to mitigate the impact of the statutory override not being extended. The authority has reviewed its options for this reserve in lieu of the recent extension and will not maintain the reserve.

Non-Treasury Investments

The definition of investments in the 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. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

Investment Guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) and Welsh Government also broadens the definition of investments to include all such assets held partially or wholly for financial return.

The Council also held £155.9m of such investments in:

- directly owned property £148m
- loans to local businesses and landlords £6.5m
- subsidiaries £1.4m

A full list of the Council's non-treasury investments is available.

Treasury Performance

The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates.

MRP Regulations

On 10th April 2024 amended legislation and revised statutory guidance were published on Minimum Revenue Provision (MRP). The majority of the changes take effect from the 2025/26 financial year, although there is a requirement that for capital loans given on or after 7th May 2024 sufficient MRP must be charged so that the outstanding Capital Financing Requirement (CFR) in respect of the loan is no higher than the principal outstanding less the Expected Credit Loss (ECL) charge for that loan.

The regulations also require that local authorities cannot exclude any amount of their CFR from their MRP calculation unless by an exception set out in law. Capital receipts cannot be used to directly replace, in whole or part, the prudent charge to revenue for MRP (there are specific exceptions for capital loans and leased assets).

Compliance

The S151 Officer reports that all treasury management activities undertaken during the year complied fully with the principles in the Treasury Management Code and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 6 below.

Table 6: Investment Limits

	30.06.25 Actual	2025/26 Limit	Complied?
Any group of pooled funds under the same management	0	15	Yes
Negotiable instruments held in a broker's nominee account	0	15	Yes
Limit per foreign countries	0	6	Yes

Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 7 below.

Table 7: Debt and the Authorised Limit and Operational Boundary

	30.06.25 Actual	2025/26 Operational Boundary	2025/26 Authorised Limit	Complied?
Borrowing	146	150	180	Yes
Leases	0.6	1.8	2	Yes
Total debt	**146.6**	**151.8**	**182**	Yes

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Treasury Management Prudential Indicators

As required by the 2021 CIPFA Treasury Management Code, the Council monitors and measures the following treasury management prudential indicators.

1. Liability Benchmark

This indicator compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £21m. This incorporates £16m invested in strategic pooled funds, that cannot be sold at short notice, and an additional £5m liquidity buffer to manage short-term cashflow requirements.

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	31.3.25 Actual	31.3.26 Forecast	31.3.27 Forecast
Loans CFR	173.6	164.2	160.9
Less: Balance sheet resources	-45.4	-42.8	-41.5
Net loans requirement	128.2	121.4	119.4
Plus: Liquidity allowance	21	21	21
Liability benchmark	**149.1**	**142.4**	**140.4**
Existing borrowing	**166**	**140.2**	**139**

Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing, minimum revenue provision on new capital expenditure based on variable year asset lives and income, expenditure and reserves all increasing by inflation. This is shown in the chart below together with the maturity profile of the Council's existing borrowing.

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	Actual	Forecasts	£m								
Position at 31 March	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**
Loans CFR	173.6	164.2	160.9	159.4	153.4	152.0	151.0	149.9	148.7	147.6	146.3
External borrowing	-166.0	-94.0	-45.0	-35.0	-5.0	0.0	0.0	0.0	0.0	0.0	0.0
Internal (over) borrowing	7.6	70.2	115.9	124.4	148.4	152.0	151.0	149.9	148.7	147.6	146.3
Balance sheet resources	-45.4	-42.8	-41.5	-42.0	-42.2	-43.2	-44.2	-45.2	-46.2	-47.3	-48.3
Investments (new borrowing)	37.9	-27.4	-74.4	-82.4	-106.1	-108.9	-106.8	-104.7	-102.5	-100.3	-98.0
Treasury investments	37.9	21.0	21.0	21.0	21.0	21.5	22.1	22.6	23.2	23.8	24.4
New borrowing	0.0	48.4	95.4	103.4	127.1	130.4	128.9	127.3	125.7	124.1	122.3
Net loans requirement	128.1	121.4	119.4	117.4	111.1	108.9	106.8	104.7	102.5	100.3	98.0
Liquidity allowance	21.0	21.0	21.0	21.0	21.0	21.5	22.1	22.6	23.2	23.8	24.4
Liability benchmark	149.1	142.4	140.4	138.4	132.1	130.4	128.9	127.3	125.7	124.1	122.3

Whilst borrowing may be above the liability benchmark, strategies involving borrowing which is significantly above the liability benchmark carry higher risk.

2. <u>Maturity Structure of Borrowing</u>

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:

	Upper Limit	Lower Limit	30.06.25 Actual	Complied?
Under 12 months	100%	0%	25%	Yes
12 months and within 24 months	100%	0%	58%	Yes
24 months and within 5 years	100%	0%	17%	Yes
5 years and within 10 years	100%	0%	0%	Yes
10 years and above	100%	0%	0%	Yes

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.

3. <u>Long-term Treasury Management Investments</u>

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 prudential limits on the long-term treasury management limits are:

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	2024/25	2025/26	2026/27
Limit on principal invested beyond year end	£30m	£30m	£20m
Actual principal invested beyond year end	£13m	£13m	£13m
Complied?	Yes	Yes	Yes

Long-term investments with no fixed maturity date include strategic pooled funds, real estate investment trusts and directly held equity but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

<u>Additional indicators</u>

<u>Security</u>
The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating and credit score 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.

	2025/26 Target	30.06.25 Actual	Complied?
Portfolio average credit rating	A+	A+	Yes
Portfolio average credit score	5.0	4.79	Yes

The previous Treasury Management report stated that the Council was not compliant with the ‘portfolio average credit score’. However, this was an error with Arlingclose’s data. The data overstated the impact of Lancashire’s withdrawal rating, which unnecessarily increasing the average credit score. This has now been rectified and the Council was compliant with the performance indicator.

<u>Liquidity</u>
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 rolling three-month period, without additional borrowing.

	30.06.25 Actual	2025/26 Target	Complied?
Total cash available within 3 months	£18.6m	£5m	Yes

APPENDIX 2

Prudential Indicators Q1 - 2025/26

The Authority measures and manages its capital expenditure, and borrowing with references to the following indicators.

It is now a requirement of the CIPFA Prudential Code that these are reported on a quarterly basis.

Capital Expenditure

The Authority has undertaken and is planning capital expenditure as summarised below:

	2024/25 actual	2025/26 Budget	2026/27 Forecast	2027/28 Forecast
Capital expenditure	14.6	14	2.2	2

The main General Fund capital projects to date have included Union Yard, and Aldershot Crematorium.

Capital Financing Requirement

The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt.

	31.3.2025 actual	31.3.2026 forecast	31.3.2027 forecast
CFR	174.2	161.6	159.8

Gross Debt and the Capital Financing Requirement: Statutory guidance is that debt should remain below the capital financing requirement, except in the short term. The Authority has complied and expects to continue to comply with this requirement in the medium term as is shown below.

	31.3.2025 actual	31.3.2026 forecast	31.3.2027 forecast
Debt (incl. PFI & leases)	166.6	143.4	140.5
Capital Financing Requirement	174.2	161.6	159.8

Debt and the Authorised Limit and Operational Boundary: The Authority is legally obliged to set an affordable borrowing limit (also termed the Authorised Limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

	Debt at 30.6.25	2025/26 Authorised Limit	2025/26 Operational Boundary	Complied?
Borrowing	146	180.0	150.0	Yes
Leases	0.6	2.0	1.8	Yes
Total debt	**146.6**	**182.0**	**151.8**	Yes

Since the operational boundary is a management tool for in-year monitoring it is not significant if the boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Net Income from Commercial and Service Investments to Net Revenue Stream: The Authority's income from commercial and service investments as a proportion of its net revenue stream has been and is expected to be as indicated below.

	2024/25 actual	**2025/26 forecast**	**2026/27 forecast**
Total net income from service and commercial investments	7.9	7.9	8.0
Proportion of net revenue stream	56.99%	56.54%	57.96%

Proportion of 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.

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.

	2024/25 actual	**2025/26 forecast**	**2026/27 forecast**
Financing costs (£m)	7.0	6.9	6.5
Proportion of net revenue stream	50.59%	49.15%	46.85%

Treasury Management Indicators: These indicators (Liability Benchmark, Maturity Structure of Borrowing, Long-Term Treasury Management Investments) are within the Treasury Management Report Outturn 2024/25 at Appendix 1.

APPENDIX 3

LIST OF DEBT COUNTERPARTIES AS AT 30 JUNE 2025

	Amount
PWLB	5,000,000
PWLB	5,000,000
South Yorkshire Mayoral Combined	5,000,000
North Ayrshire Council	5,000,000
West of England Combined Authority	10,000,000
Hyndburn District Council	2,000,000
South Oxfordshire District Council	5,000,000
West Yorkshire Combined Authority	5,000,000
Furness Building Society	5,000,000
Lancashire Combined Fire Authority	5,000,000
PWLB	20,000,000
PWLB	12,000,000
PWLB	20,000,000
PWLB	10,000,000
PWLB	15,000,000
PWLB	5,000,000
Bolton Metropolitan Borough Council	5,000,000
Thames Valley PCC	5,000,000
Horsham District Council	2,000,000
	146,000,000

APPENDIX 4

External Context

Economic background

The quarter started to significant financial market volatility as US President Donald Trump announced a wide range of 'reciprocal' trade tariffs in early April, causing equity markets to decline sharply which was subsequently followed by bond markets as investors were increasingly concerned about US fiscal policy. As the UK was included in these increased tariffs, equity and bond markets here were similarly affected by the uncertainty and investor concerns.

President Trump subsequently implemented a 90-day pause on most of the tariffs previously announced, which has been generally positive for both equity and bond markets since, but heighted uncertainty and volatility remained a feature over the period.

UK headline consumer price inflation (CPI) increased over the quarter, rising from an annual rate of 2.6% in March to 3.4% in May, well above the Bank of England's 2% target. The core measure of inflation also increased, from 3.4% to 3.5% over the same period. May's inflation figures were generally lower than in the previous month, however, when CPI was 3.5% and core CPI 3.8%. Services inflation was 4.7% in May, a decline from 5.4% in the previous month.

Data released during the period showed the UK economy expanded by 0.7% in the first quarter of the calendar year, following three previous quarters of weaker growth. However, monthly GDP data showed a contraction of 0.3% in April, suggesting growth in the second quarter of the calendar year is unlikely to be as strong as the first.

Labour market data appeared to show a softening in employment conditions as weaker earnings growth was reported for the period February to April 2025, in what would no doubt be welcome news to Bank of England (BoE) policymakers. Regular earnings (excluding bonuses) was 5.2% 3mth/yoy while total earnings was 5.3%. Both the employment and unemployment rates increased, while the economic inactivity rate and number of vacancies fell.

Having started the financial year at 4.5%, the Bank of England's Monetary Policy Committee (MPC) cut Bank Rate to 4.25% in May. The 5-4 vote was split with the majority wanting a 25bps cut, two members voting to hold rates at 4.5% and two voting for a 50bps reduction. At the June MPC meeting, the committee voted by a majority of 6-3 to keep rates on hold. The three dissenters wanted an immediate reduction to 4%. This dovish tilt by the Committee is expected to continue and financial market expectations are that the next cut will be in August, in line with the publication of the next quarterly Monetary Policy Report (MPR).

The May version of the MPR highlighted the BoE's view that disinflation in domestic inflation and wage pressures were generally continuing and that a small margin of excess supply had opened in the UK economy, which would help inflation to fall to the Bank's 2% over the medium term. While near-term GDP growth was predicted to be higher than previously forecast in the second quarter of calendar 2025, growth in the same period the following year was trimmed back, partly due to ongoing global trade developments.

Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would continue to fall, and that the BoE would focus more on weak GDP growth rather than stickier and above-target inflation. Two more cuts to Bank Rate are expected during 2025, taking the main policy rate to 3.75%, however the balance of risks is deemed to be to the downside as weak consumer sentiment and business confidence and investment impact economic growth.

APPENDIX 4

Despite the uncertainty around US trade policy and repeated calls for action from the US President, the US Federal Reserve held interest rates steady the period, maintaining the Fed Funds Rate at 4.25%-4.50%. The decision in June was the fourth consecutive month where no changes were made to the main interest rate and came despite forecasts from Fed policymakers that compared to a few months ago they now expected lower growth, higher unemployment and higher inflation.

The European Central Bank cut rates in June, reducing its main refinancing rate from 2.25% to 2.0%, and representing the eighth cut in just over a year. ECB noted heightened uncertainty in the near-term from trade and that stronger economic growth in the first quarter of the calendar may weaken. Inflation in the region rose to 2.0% in June, up from an eight-month low of 1.9% in the previous month but in line with the ECB's target. Inflation is expected to stay broadly around the 2% target over the next year or so.

Financial markets

After the sharp declines seen early in the quarter, sentiment in financial markets showed signs of improvement during the period, but bond and equity markets remained volatile. Early in the period bond yields fell, but then uncertainty from the impact of US trade policy caused bonds to sell-off but from the middle of May onwards, yields have steadily declined, but volatility continues. Equity markets sold off sharply in April but have seen gained back most of the previous declines, with investors seemingly remaining bullish in the face of ongoing uncertainty.

Over the quarter, the 10-year UK benchmark gilt yield started at 4.65% and ended at 4.49% having hit 4.82% early in April and falling to 4.45% by the end of the same month. While the 20-year gilt started at 5.18%, fell to 5.02% a few days later before jumping to 5.31% within a week, and then ending the period at 5.16%. The Sterling Overnight Rate (SONIA) averaged 4.31% over the quarter to 30th June.

Credit review

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.

During the quarter, Fitch upgraded NatWest Group and related entities to AA- from A+ due to the generally stronger business profile. Fitch also placed Clydesdale Bank's long-term A- rating on Rating Watch Positive

Moody's downgraded the long term rating on the United States sovereign to Aa1 in May and also affirmed OP Corporate's rating at Aa3.

Credit default swap prices on UK banks spiked in early April following the US trade tariff announcements but have since generally trended downwards and ended the quarter at levels broadly in line with those in the first quarter of the calendar year and throughout most of 2024.

European banks' CDS prices followed a fairly similar pattern, albeit some German banks are modestly higher compared to the previous quarter. Trade tensions between Canada and the US caused Canadian bank CDS prices to rise over the quarter and remain elevated compared to earlier in 2025 and in 2024, while Singaporean and Australian lenders CDS rose initially in April but have since trended downwards, albeit are modestly higher than in previous recent periods.

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.

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.