

MEETING:	GOVERNANCE AND AUDIT COMMITTEE
DATE:	9 OCTOBER 2025
TITLE:	TREASURY MANAGEMENT QUARTERLY UPDATE
PURPOSE:	CIPFA's Code of Practice requires that the prudential indicators are reported on a quarterly basis
RECOMMENDATION:	RECEIVE THE REPORT FOR INFORMATION
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1. Introduction

The Council has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Council to approve, as a minimum, treasury management semi- annual and annual outturn reports.

This quarterly report provides an additional update up to 30th June 2025 and includes the requirement in the 2021 Code of quarterly reporting of the treasury management prudential indicators.

The Council's Treasury Management Strategy for 2025/26 was approved at Full Council on 6th March 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 are therefore central to the Council's Treasury Management Strategy.

2. 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 heightened 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 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.

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.

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.

3. Treasury Management Summary

On 30th June 2025, the Council had net borrowing of £18.8m arising from its revenue and capital income and expenditure.

The Council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

	31.3.25 Balance £m	Movement £m	30.6.25 Balance £m
Long- term borrowing	90.1	0.0	90.1
Short-term borrowing	4.0	0.0	4.0
PFI	5.5	0.0	5.5
Total borrowing	99.6	0.0	99.6
Short-term investments	(86.9)	24.8	(62.1)
Cash and cash equivalents	(66.0)	47.3	(18.7)
Total investments	(152.9)	72.1	(80.8)
Net borrowing/ (investment)	(53.3)	72.1	18.8

Borrowing Strategy and Activity: No new long-term borrowing was undertaken in 2024/25 or the first quarter of 2025/26, with existing loans maturing without replacement. This strategy enabled the Council to reduce net borrowing costs (despite foregoing investment income) and reduce overall treasury risk.

Treasury Investment Activity: The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held for the Pension Fund. During the year, the Council's investment balances ranged between £61.3m and £111.3m due to timing differences between income and expenditure.

Treasury Investment Position

	31.3.25 Balance £m	Movement £m	30.06.25 Balance £m
Banks & building societies (unsecured)	6.0	(0.3)	5.7
Local Authorities	25.0	20.0	45.0
Money Market Funds	65.0	(47.0)	18.0
Debt Management Office	45.0	(45.0)	0.0
Pooled Funds	11.9	0.2	12.1
Total investments	152.9	(72.1)	80.8

4. Treasury Management Prudential Indicators

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

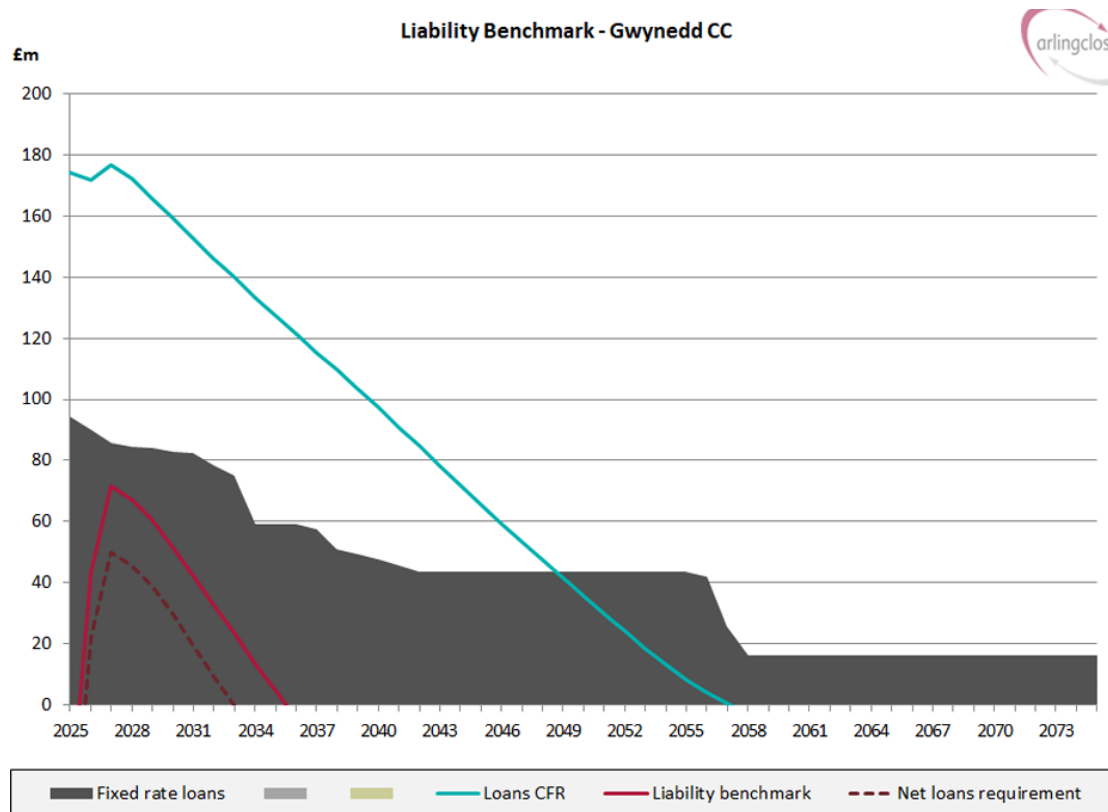
- 1. Liability Benchmarking:** This indicator compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term 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 £21.5m required to manage day-to-day cash flow.

	31.3.25 Actual £m	31.3.26 Estimate £m	31.3.27 Estimate £m	31.3.28 Estimate £m
Loans CFR	174.4	171.8	176.9	172.4
Less: Balance Sheet resources	(232.8)	(149.8)	(126.9)	(126.9)
Net loans requirements	(58.4)	22.0	50.0	45.5
Plus: Liquidity allowance	21.5	21.5	21.5	21.5
Liability benchmark	(36.9)	43.5	71.5	67.0
Existing borrowing	94.2	73.9	69.4	68.2

The table shows that the Council expects to remain borrowed above its liability benchmark up until 2026. This is because the Council holds reserves, and cash outflows to date have been below the assumptions made when the loans were borrowed.

Following on from the medium-term forecast above, the long-term liability benchmark assumes no new capital expenditure funded by borrowing, minimum revenue

provision on new capital expenditure based on a 50 year straight line method. This is shown in the chart below together with the maturity profile of the Council's existing borrowing.



The chart shows that there is no need to borrow long- term based on current projections.

- 2. Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	30.6.25 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	4.26%	25%	0%	✓
12 months and within 24 months	4.86%	25%	0%	✓
24 months and within 5 years	3.03%	50%	0%	✓
5 years and within 10 years	25.13%	75%	0%	✓
10 years and above	62.72%	100%	0%	✓

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. Long-term Treasury Management Investments:** 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:

	2025/26	2026/27	2027/28	No precise date
Actual principal invested beyond year end	£13m	£0	£0	£0
Limit on principal invested beyond year end	£40m	£20m	£20m	£20m
Complied	✓	✓	✓	✓

Additional indicators:

The Council measures and manages its exposures to treasury management risks using the following indicators:

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the time-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment and taking the arithmetic average, weighted by the length of each investment. Unrated investments are assigned a score based on their perceived risk.

	30.06.25 Actual	2025/26 Target	Complied
Portfolio average credit score	4.84	A score of 6 or lower	✓

Liquidity: 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.

	30.6.25 Actual	2025/26 Target	Complied
Total cash available within 3 months	£38.7m	£10m	✓

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates was:

	30.6.25 Actual	2024/25 Limit	Complied
Upper limit on one year revenue impact of a 1% rise in interest rates	£525,923	£1,324,700	✓
Upper limit on one year revenue impact of a 1% fall in interest rates	£525,923	£1,324,700	✓

5. Recommendation

To receive the report for information.