

MEETING: PENSIONS COMMITTEE

DATE: 24 NOVEMBER 2025

TITLE: TREASURY MANAGEMENT 2025-26
MID YEAR REVIEW

PURPOSE: CIPFA's Code of Practice recommends that a report on the Council's actual Treasury Management during the current financial year is produced.

RECOMMENDATION: RECEIVE THE REPORT FOR INFORMATION

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1. INTRODUCTION

It was decided at the Pensions Committee on 17 March 2025 to allow surplus money from the Pension Fund to be pooled and co-invested with the Council's overall cash flow for the 2025/26 financial year.

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 report provides the semi- annual update.

2. EXTERNAL CONTEXT

Economic Background: The first quarter was dominated by the fallout from the US trade tariffs and their impact on equity and bond markets. The second quarter, still rife with uncertainty, saw equity markets making gains and a divergence in US and UK government bond yields, which had been moving relatively closely together.

From late June, amid a UK backdrop of economic uncertainty, concerns around the government's fiscal position and speculation around the autumn Budget, yields on medium and longer term gilts pushed higher, including the 30-year which hit its highest level for almost 30 years.

UK headline annual consumer price inflation (CPI) increased over the period, rising from 2.6% in March to 3.8% in August, still well above the Bank of England's 2% target. Core inflation also rose, from 3.4% to 3.6% over the same period, albeit the August reading was down % from 3.8% the previous month. Services inflation also fell from July to August, to 4.7% from 5.0%.

The UK economy expanded by 0.7% in the first quarter of the calendar year and by 0.3% in the second quarter. In the final version of the Q2 2025 GDP report, annual growth was revised upwards to 1.4% y/y. However, monthly figures showed zero growth in July, in line with expectations, indicating a sluggish start to Q3.

Labour market data continued to soften throughout the period, with the unemployment rate rising and earnings growth easing, but probably not to an extent that would make the more hawkish MPC members comfortable with further rate cuts. In addition, the employment rate rose while the economic inactivity rate and number of vacancies fell.

The BoE's Monetary Policy Committee (MPC) cut Bank Rate from 4.5% to 4.25% in May and to 4.0% in August after an unprecedented second round of voting. The final 5-4 vote was for a 25bps cut, with the minority wanting no change. In September, seven MPC members voted to hold rates while two preferred a 25bps cut. The Committee's views still differ on whether the upside risks from inflation expectations and wage setting outweigh downside risks from weaker demand and growth.

The August BoE Monetary Policy Report highlighted that after peaking in Q3 2025, inflation is projected to fall back to target by mid-2027, helped by increasing spare capacity in the economy and the ongoing effects from past tighter policy rates. GDP is expected to remain weak in the near-term while over the medium term outlook will be influenced by domestic and global developments.

Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would be cut further as the BoE focused on weak GDP growth more than higher inflation. One more cut is currently expected during 2025/26, taking Bank Rate to 3.75%. The risks to the forecast are balanced in the near-term but weighted to the downside further out as weak consumer sentiment and business confidence and investment continue to constrain growth. There is also considerable uncertainty around the autumn Budget and the impact this will have on the outlook.

Against a backdrop of uncertain US trade policy and pressure from President Trump, the US Federal Reserve held interest rates steady for most of the period, before cutting the Fed Funds Rate to 4.00%-4.25% in September. Fed policymakers also published their new economic projections at the same time. These pointed to a 0.50% lower Fed Funds Rate by the end of 2025 and 0.25% lower in 2026, alongside GDP growth of 1.6% in 2025, inflation of 3%, and an unemployment rate of 4.5%.

The European Central Bank cut rates in June, reducing its main refinancing rate from 2.25% to 2.0%, before keeping it on hold through to the end of the period. New ECB projections predicted inflation averaging 2.1% in 2025, before falling below target in 2026, alongside improving GDP growth, for which the risks are deemed more balanced and the disinflationary process over.

Financial markets: After the sharp declines seen early in the period, sentiment in financial markets improved, but risky assets have generally remained volatile. Early in the period bond yields fell, but ongoing uncertainty, particularly in the UK, has seen medium and longer yields rise with bond investors requiring an increasingly higher return against the perceived elevated risk of UK plc. Since the sell-off in April, equity markets have gained back the previous declines, with investors continuing to remain bullish in the face of ongoing uncertainty.

Over the period, the 10-year UK benchmark gilt yield started at 4.65% and ended at 4.70%. However, these six months saw significant volatility with the 10-year yield hitting a low of 4.45% and a high of 4.82%. It was a broadly similar picture for the 20-year gilt

which started at 5.18% and ended at 5.39% with a low and high of 5.10% and 5.55% respectively. The Sterling Overnight Rate (SONIA) averaged 4.19% over the six months to 30th September.

Credit review: Arlingclose maintained its 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.

Early in the period, Fitch upgraded NatWest Group and related entities to AA- from A+ and placed Clydesdale Bank's long-term A- rating on Rating Watch Positive. While 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.

Then in the second quarter, Fitch upgraded Clydesdale Bank and also HSBC, downgraded Lancashire CC and Close Brothers while Moody's upgraded Transport for London, Allied Irish Banks, Bank of Ireland and Toronto-Dominion Bank.

After spiking in early April following the US trade tariff announcements, UK credit default swap prices have since generally trended downwards and ended the period at levels broadly in line with those in the first quarter of the calendar year and throughout most of 2024.

European banks' CDS prices has followed a fairly similar pattern to the UK, as have Singaporean and Australian lenders while Canadian bank CDS prices remain modestly elevated compared to earlier in 2025 and in 2024.

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.

3. TREASURY INVESTMENT ACTIVITY

The CIPFA Treasury Management Code defines treasury management investments as those which arise from the Council's cash flows or treasury risk management activity that ultimately represents balances which need to be invested until the cash is required for use in the course of business.

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the 6 months, the Council's investment balance ranged between £74.3 and £141.0 million due to timing differences between income and expenditure. The investment position during the period is shown in the following table:

Treasury Investment Position

	31.3.25	6 month	30.9.25	30.9.25
	Balance	Movement	Balance	Income
	£m	£m	£m	Returns
				%
Banks & building societies (unsecured)	6.0	(5.9)	0.1	3.4
Local authorities	25.0	5.0	30.0	4.2
Money Market Funds	65.0	(30.0)	35.0	4.1
Debt Management Office	45.0	(31.7)	13.1	4.0
Pooled Funds	11.9	0.3	12.2	5.8
Total investments	152.9	(62.3)	90.6	

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 asset classes and boost investment income.

The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in the table below.

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2025	4.67	A+	50%	22	4.85%
30.09.2025	4.62	A+	45%	30	4.36%
Similar Las	4.20	AA-	41%	32	4.03%
All LAs	4.54	A+	62%	11	4.20%

Bank Rate reduced from 4.50% to 4.25% in May 2025, followed by a further reduction to 4.00% in August 2025. Short term interest rates have largely followed these levels. The rates on DMADF deposits ranged between 3.95% and 4.45% and Money Market Rates between 3.68% and 4.54%.

£13m of the Council's investments has been invested in externally managed strategic pooled property, multi-asset, bond and equity funds where short-term security and

liquidity are lesser consideration, and the objectives instead are regular revenue income and long- term price stability. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued stability in meeting the Council's investment objective are regularly reviewed.

The performance of our pooled property, multi-asset, bond and equity funds at 30 September 2025 can be seen below:

STRATEGIC POOLED FUND PORTFOLIO						GWYNEDD		From:	22/02/2019	To:	30/09/2025
FUND NAME	ASSET CLASS	No of Units Held in Period	Current Value £	Capital Growth £	Dividends Earned £	Holding Period (yrs)	Capital Return	Income Return	Total Return	Volatility	
AEGON (KAMES) DIVERSIFIED MONTHLY INCOME FUND	MULTI ASSET	1,158,480	1,215,328	-34,672	425,979	6.6	-2.77%	34.08%	31.30%	10.2%	
CCLA - LAMIT PROPERTY FUND	PROPERTY	1,524,344	4,246,822	-753,178	1,291,322	6.6	-15.06%	25.83%	10.76%	5.9%	
NINETY ONE (INVESTEC) DIVERSIFIED INCOME FUND	MULTI ASSET	1,228,153	1,135,551	-114,449	333,007	6.4	-9.16%	26.64%	17.48%	3.6%	
PAYDEN ABSOLUTE RETURN BOND FUND	ABSOLUTE RETURN	233,541	2,001,355	1,355	240,874	2.1	0.07%	12.04%	12.11%	1.1%	
SCHRODER INCOME MAXIMISER FUND	EQUITY - UK	7,675,245	3,592,015	76,707	1,240,789	4.8	2.18%	35.30%	37.48%	9.4%	
GRAND TOTAL			12,191,070	-824,239	3,531,972	5.4	-6.33%	27.14%	20.80%	4.8%	
Unrealised capital loss since purchase:				-808,931	Annualised income return:			4.52%	Average Bank Rate:		2.34%

It is evident that the combined capital value of £12.19m is less than the initial investment of £13m. 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 period total returns will exceed cash interest rates. Investment in these funds will be maintained in the medium term.

4. COMPLIANCE

Compliance with specific investment limits is demonstrated in the table below.

Investment Limits

The Council failed to comply with two investment restrictions and this occurred because we had a high level of cash and therefore the investment with some counterparties was increased temporarily. We have opened additional accounts to ensure full compliance in the future.

	Counterparty Maximum during period	Counterparty 30.9.25 Actual	Counterparty 2025/26 Limit	Complied
The UK Government	£40.2m	£13.3m	Unlimited	✓
Local authorities & other government entities	£5m	£5m	£8m	✓
Secured investments	£0m	£0m	£8m	✓
Banks (unsecured)	£5m	£0.1m	£4m	X
Building societies (unsecured)	£0m	£0m	£4m	✓
Registered providers (unsecured)	£0m	£0m	£4m	✓
Money market funds	£10m	£8m	£8m	X
Strategic pooled funds	£5m	£5m	£8m	✓

Real Estate Investment Trusts	£0m	£0m	£8m	✓
Other investments	£0m	£0m	£4m	✓

5. TREASURY MANAGEMENT PRUDENTIAL INDICATORS

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

i. 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.

	30.9.25 Actual	2025/26 Target	Complied
Portfolio average credit score	4.62	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.

	30.9.25 Actual	2025/26 Target	Complied
Total cash available within 3 months	£78.4m	£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:

	30.9.25 Actual	2025/26 Limit	Complied
Upper limit on one year revenue impact of a 1% rise in interest rates	£694,020	£1,324,700	✓
Upper limit on one year revenue impact of a 1% fall in interest rates	£694,020	£1,324,700	✓

Treasury Management 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.

The Council's budgeted investment income for the year is £0.9m, however the actual expected investment income for the year 2025/26 is slightly higher at £1.0m.

6. INVESTMENT TRAINING

During the period, officers have attended investment training with Arlingclose and CIPFA relevant to their roles.

7. RECOMMENDATION

To receive the report for information.