

MEETING:	GOVERNANCE AND AUDIT COMMITTEE
DATE:	21 MAY 2026
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 treasury management semi-annual and annual outturn reports.

This quarterly report provides an additional update 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. External Context

2.1 Economic Background

Early in the first quarter was dominated by US trade tariffs and the negative impact on equity and bond markets. While this was reversed somewhat in the second quarter with equity markets making gains, it also saw a divergence in US and UK government bond yields. UK yields persisted at higher levels as investors demanded higher returns in the form of term premia due to the more uncertain UK fiscal and economic position.

The latter part of the period included the government's November autumn Budget. Despite much speculation and drip-feeding of potential policies in the weeks leading up to the event, what was ultimately announced was generally deemed more muted than had been anticipated, helping ease investors' fears of significantly higher government borrowing.

UK consumer price inflation (CPI) inflation was 3.2% in November 2025, down from 3.6% in the previous month and lower than the 3.5% expected, but still well above the Bank of England (BoE) target. Core CPI eased to 3.2% from 3.4%, against forecasts of it staying at 3.6%.

According to the Office for National Statistics (ONS), the UK economy expanded by 0.7% in the first quarter of the calendar year, by 0.3% in Q2 and by 0.1% in Q3. Of the subsequent monthly figures, the ONS estimated that GDP fell by 0.1% in October.

The labour market continued to ease over the period as unemployment rose, vacancies fell and inactivity remained flat. In the three months to October 2025, the unemployment rate rose to 5.1%, higher than the level previously expected by the BoE, while the employment rate slipped to 74.9%.

The Bank of England's Monetary Policy Committee (MPC) voted 5-4 to cut Bank Rate to 3.75% in December 2025, as was expected. Policymakers wanting a cut judged that disinflation was established while those preferring to hold Bank Rate at 4% argued that inflation risks remained sufficiently material to leave it untouched at this stage.

The November BoE Monetary Policy Report projected GDP would expand by a modest 0.2% in calendar Q4 2025. Estimates of inflation in the report were quickly out of date when CPI fell quicker than expected in November. Predictions of a modestly growing economy were echoed by the Office for Budget Responsibility in its Economic and Fiscal Outlook published with the Autumn Statement which revised down its estimate of annual GDP to around 1.5% between 2025 and 2030.

Arlingclose, the authority's treasury adviser, held a central view that Bank Rate would be cut further in 2025/26 with most BoE policymakers remaining more worried about weak GDP growth than higher inflation. In line with Arlingclose's central forecast, Bank Rate was reduced to 3.75% in December. Further cuts are expected in 2026, with the central forecast being that Bank Rate will be eased to around 3.25%.

The US Federal Reserve continued cutting rates, reducing Fed Funds Rate target range by 0.25% at its December meeting to 3.50%-3.75%. The meeting minutes noted that most policymakers judged that further rate cuts would be likely in 2026 if inflation continues to ease, however they were still divided in their assessment of the risks between inflation and unemployment.

The European Central Bank (ECB) held its key interest rates in December for a fourth consecutive meeting, maintaining the deposit rate at 2.0% and the main refinancing rate at 2.15%. The ECB maintained that future policy decisions will remain data-dependent, that inflation is close to its 2% target and that the euro area economy continues to expand despite a challenging global environment, including heightened geopolitical risks and trade tensions.

2.2 Financial Markets

After declining sharply early in the period, sentiment in financial markets has been mostly buoyant, but risky assets remained volatile. Bond yields initially declined early in the period, but increasing uncertainty around the UK's economic and fiscal outlook caused medium and longer yields to rise. Yields remained elevated until the third quarter when the potential negative impact of the UK Budget were deemed less than expected and yields eased modestly.

Equity markets gained the previous declines seen in the April sell-off and have continued to rise, even in the face of ongoing uncertainty around the existence of an AI-related 'bubble' and concentration in US and global stock markets.

Over the period, the 10-year UK benchmark gilt yield started at 4.65% and ended at 4.48%. However, these nine months saw significant volatility with the 10-year yield hitting a low of 4.39% and a high of 4.82%. It was a similar picture for the 20-year gilt which started at 5.18% and ended at 5.11% with a low and high of 5.05% and 5.55% respectively. The Sterling Overnight Rate (SONIA) averaged 4.10% over the nine months to 31st December.

2.3 Credit Review

Arlingclose maintained its recommended maximum unsecured duration limit on most of the banks on its counterparty list at 6 months. The other banks remain on 100 days.

Earlier 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. Fitch later upgraded Clydesdale Bank and HSBC, but downgraded Lancashire CC and Close Brothers.

In May, Moody's downgraded the United States sovereign long-term rating to Aa1 and affirmed OP Corporate's rating at Aa3. Moody's later upgraded Transport for London, Allied Irish Banks, Bank of Ireland, Toronto-Dominion Bank, DZ Bank, Nordea and HSBC and downgraded Close Brothers.

S&P upgraded Clydesdale Bank, Allied Irish Banks and Bank of Ireland, and assigned Warrington Council a BBB+ rating.

After spiking in April following the US trade tariff announcements, UK credit default swap (CDS) prices trended down before picking up modestly in October and November. They declined again in December and ended the year in line with levels seen in the first half of the year and most of 2024.

European banks' CDS prices have generally been flatter and lower compared to the UK, as have Singaporean and Australian lenders while some Canadian bank CDS prices have remained elevated since the beginning of the period in part due to ongoing trade tensions with the US.

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, and CDS 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 Management Summary

On 31st December 2025, the Council had net investments of £53.1m 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	31.12.25 Balance £m
Long- term borrowing	90.1	(16.3)	73.8
Short-term borrowing	4.0	(1.2)	2.8
PFI	1.0	0	1.0
Total borrowing	95.1	(17.5)	77.6
Short-term investments	(86.9)	(1.6)	(88.5)
Cash and cash equivalents	(66.0)	23.8	(42.2)
Total investments	(152.9)	22.2	(130.7)
Net borrowing/ (investment)	(57.8)	4.7	(53.1)

Borrowing Strategy and Activity: No new long-term borrowing was undertaken in 2025, with existing loans maturing without replacement and a historical bank loan of £16.2m was repaid early at favorable terms. 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 £74.3m and £159.8m due to timing differences between income and expenditure.

Treasury Investment Position

	31.3.25 Balance £m	Movement £m	31.12.25 Balance £m
Banks & building societies (unsecured)	6.0	(4.8)	1.2
Local Authorities	25.0	11.5	36.5
Money Market Funds	65.0	(24.0)	41.0
Debt Management Office	45.0	(6.0)	39.0
Pooled Funds	11.9	1.1	13.0
Total investments	152.9	(22.2)	130.7

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.

i. Liability Benchmarking

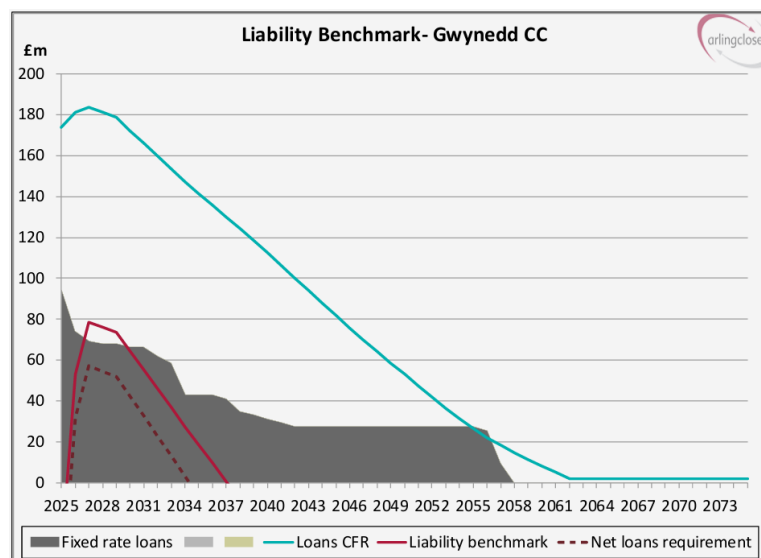
This indicator compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor 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	31.3.26 Estimate	31.3.27 Estimate	31.3.28 Estimate
Loans CFR	179.9	187.4	189.8	184.7
Less: Balance Sheet resources	(232.8)	(149.8)	(126.9)	(126.9)
Net loans requirements	(52.9)	37.6	62.9	57.8
Plus: Liquidity allowance	21.5	21.5	21.5	21.5
Liability benchmark	(31.4)	59.1	84.4	79.3
Existing borrowing	94.2	73.9	69.4	68.0

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, but maybe in the short term in the near future.

ii. 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:

	31.12.25 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	3.63%	25%	0%	✓
12 months and within 24 months	7.27%	25%	0%	✓
24 months and within 5 years	2.38%	50%	0%	✓
5 years and within 10 years	30.81%	75%	0%	✓
10 years and above	55.90%	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.

iii. 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:

	2024/25	2025/26	2026/27	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.

	31.12.25 Actual	2025/26 Target	Complied
Portfolio average credit score	4.3	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.

	31.12.25 Actual	2025/26 Target	Complied
Total cash available within 3 months	£117.7m	£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:

	31.12.25 Actual	2025/26 Limit	Complied
Upper limit on one year revenue impact of a 1% rise in interest rates	£1,105,920	£1,324,700	✓
Upper limit on one year revenue impact of a 1% fall in interest rates	£1,105,920	£1,324,700	✓

5. Recommendation

To receive the report for information.