

MEETING:	GOVERNANCE AND AUDIT COMMITTEE
DATE:	29 SEPTEMBER 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
AUTHOR:	DELYTH JONES-THOMAS, INVESTMENT MANAGER

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 30 June 2026 and includes the requirement in the 2021 Code of quarterly reporting of the treasury management prudential indicators.

The Council's Treasury Management Strategy for 2026/27 was approved at Full Council on 5 March 2026. 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

The main story for the quarter was the continuation of the Middle East conflict, started on 28th February with strikes by Israel and the US on Iran. The conflict led to the closure of the Hormuz Strait, a waterway through which around 20% of the world's oil and liquified natural gas (LNG) flows, resulting in sharp rises in energy and other commodity prices. Towards the end of the quarter, the US and Iran came to an agreement to negotiate a peace settlement, which prompted a reduction in energy commodity prices, albeit remaining higher than pre-war.

Coming close on the heels of the last energy price shock in 2022 following Russia's invasion of Ukraine, central bank policymakers and financial markets reacted quickly to reflect the new reality for monetary policy. In the UK, the CPI inflation rates was widely expected to fall back to 2% in April, with changes to government energy policy announced in the Budget reducing energy bills and

therefore headline inflation rates. Instead, the sharp rise in petrol prices arising from the war maintained the CPI rate well above target at 2.8%.

Having been primed to cut Bank Rate from 3.75%, the Bank of England's Monetary Policy Committee (MPC) instead held Bank Rate steady throughout Q1 2026/27. While sending hawkish signals with each monetary policy decision, and the voting split changing from a 9-0 hold in March to a 7-2 hold in June, the majority appear to believe that the UK economy and labour market are soft enough to absorb the price shock without producing the persistent inflationary conditions seen in 2022, which led to Bank Rate rising to 5.25%. This appears to be backed up by business surveys towards the end of the quarter suggesting that business pricing pressures, while elevated, are abating.

Against expectations, UK headline consumer price inflation (CPI) decreased over the quarter, from an annual rate of 3.3% in March to 2.8% in May, but still well above the Bank of England's 2% target. The core measure of inflation also decreased, from 3.1% to 2.6% over the same period. Upside pressure in inflation generally reflected fuel prices, but many other categories experienced disinflation, providing some evidence that higher energy prices were not immediately feeding into a wider subset of products.

Inflation will rise from July, however, as the retail energy price cap is increased by 13%. Expectations range from inflation rising to 3.5% to 4.0% and the MPC's resolve to maintain Bank Rate at 3.75% will likely be tested at this point.

Data released during the period showed the UK economy expanded by 0.6% in the first quarter of the calendar year, following three previous quarters of weaker growth. However, monthly GDP data showed a contraction of 0.1% in April as weaker confidence affected spending and investment decisions. PMI data indicated that softer growth was also likely in May and June, with the services PMI denoting a small contraction in activity from both months.

Labour market data showed a continued softening in employment conditions, as weaker private sector earnings growth was reported for the period February to April 2026. The unemployment rate for April was 4.9%, PAYE employment was down over the year and the number of vacancies continue to fall. The looser labour market is supporting the MPC's decision not to tighten monetary policy, with the likelihood of wage growth rising in line with inflation appearing remote.

Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate remain at 3.75%, and that the BoE would focus on the spare capacity in the economy, notably the labour market, rather than the upside risk of persistent inflation. The balance of risks over the near term, however, is deemed to be to the upside as signs of second round inflationary effects will prompt policymakers to raise interest rates. Over the medium term, the balance of risk for Bank Rate shifts to the downside, with tighter monetary policy, higher prices and weaker growth presenting downside risks for inflation.

The US Federal Reserve also held interest rates steady the period, maintaining the Fed Funds Rate at 3.50%-3.75%. The decision in June was the sixth consecutive month where no changes were made to the main interest rate. US CPI jumped to 4.2% in May on the back of higher gasoline prices, raising the possibility that policy under new Fed Chair Kevin Warsh may lean to higher rather than lower rates.

The European Central Bank hiked rates in June, the first rise since September 2023. ECB noted heightened uncertainty in the near-term from the effects of the war, including higher inflation and potentially weaker growth. The June move to 2.40% represented an insurance move in order to maintain inflation around the 2% target.

2.2 Financial markets

After the sharp deterioration early in the quarter, sentiment in financial markets showed signs of improvement during the period as hopes for an end to the war increased. However, bond and equity markets remained volatile. Early in the period bond yields rose sharply due to tighter monetary policy expectations, but yields have steadily declined as it became apparent central banks, including the Bank of England, were not going to immediately hike rates. Equity markets sold off sharply in March but have seen gained back some of the previous declines, particularly in US markets, where AI-related sentiment remains strong.

Political uncertainty in the UK due to poor local election results for the Labour party placed upward pressure on medium and longer-term gilt yields. The eventual resignation of Keir Starmer and likely accension of Andy Burnham reduced some uncertainty and prompted a decline in yields.

Over the quarter, the 10-year UK benchmark gilt yield started at 4.86% and ended at 4.75% having hit 5.20% in late April. The 20-year gilt yield was more stable, starting at 5.45% and finished at 5.40%. The Sterling Overnight Rate (SONIA) averaged 3.73% over the quarter to 30th June.

2.3 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 numerous banks due to a rating methodology change, which placed greater emphasis on resolution regimes, loss-absorbing debt buffers and depositor protection. It also changed the reference obligations used for Issuer Default Ratings and introduced more differentiated notching between deposits, senior preferred, senior unsecured and senior non-preferred debt ratings.

Credit default swap prices on UK banks spiked in April following escalation in the Iran war, but eased back throughout the rest of the quarter.

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 Q1 2026.

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 Management Summary

On 30th June 2026, the Council had net investments of £11.4m 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.

	31.3.26 Balance £m	Movement £m	30.6.26 Balance £m
Long- term borrowing	69.4	0.0	69.4
Short-term borrowing	4.5	0.0	4.5
PFI	6.3	0.0	6.3
Total borrowing	80.2	0.0	80.2
Short-term investments	(47.3)	(3.6)	(50.9)
Cash and cash equivalents	(48.7)	8.0	(40.7)
Total investments	(96.0)	4.4	(91.6)
Net borrowing/ (investment)	(15.8)	4.4	(11.4)

4. Borrowing Activity

No new borrowing was undertaken in the first quarter of 2026/27. This strategy enabled the Council to reduce net borrowing costs (despite foregoing investment income) and reduce overall treasury risk.

	31.3.26 Balance £m	Movement £m	30.06.26 Balance £m
PWLB	73.1	0.0	73.1
Other	0.8	0.0	0.8
Total borrowing	73.9	0.0	73.9

The Council's main objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with a secondary objective of flexibility to renegotiate loans should the Council's long-term plans change. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer- term stability of the debt portfolio and, where practicable, to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

5. 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 period, the Council's investment balances ranged between £61.2m and £128.8m due to timing differences between income and expenditure.

Treasury Investment Position

	31.3.26 Balance £m	Movement £m	30.06.26 Balance £m
Banks & building societies (unsecured)	1.2	1.5	2.7
Local Authorities	8.0	(3.0)	5.0
Money Market Funds	47.5	(9.5)	38.0
Debt Management Office	27.1	6.5	33.6
Pooled Funds	12.2	0.1	12.3
Total investments	96.0	(4.4)	91.6

6. Treasury Management Prudential Indicators

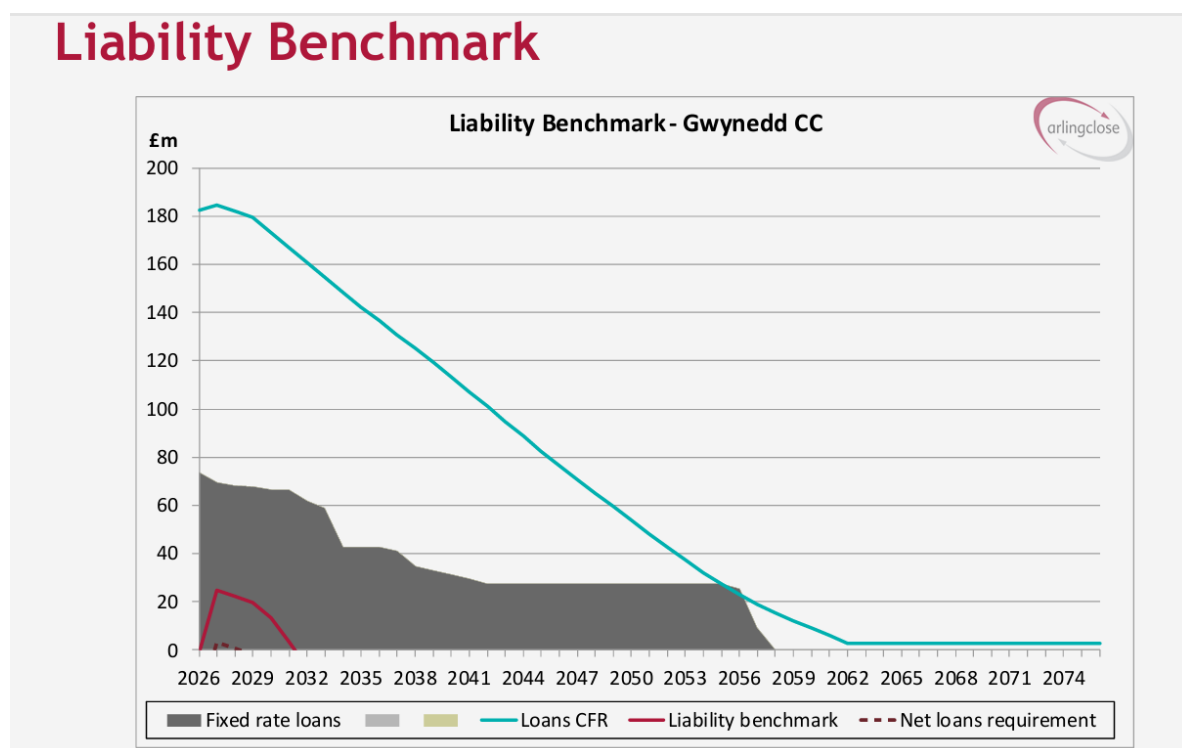
As required by the 2021 CIPFA Treasury Management Code, the Council monitors and measures the following treasury management prudential indicators.

- 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.

	31.3.26 Actual £m	31.3.27 Estimate £m	31.3.28 Estimate £m	31.3.29 Estimate £m
Loans CFR	182.3	184.7	182.1	179.6
Less: Balance Sheet resources	(204.4)	(181.5)	(181.5)	(181.5)
Net loans requirements	(22.1)	3.2	0.6	(1.9)
Plus: Liquidity allowance	21.5	21.5	21.5	21.5
Liability benchmark	(0.6)	24.7	22.1	19.6
Existing borrowing	73.9	69.4	68.1	68.0

The table shows that the Council expects to remain borrowed above its liability benchmark. 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:

	30.6.26 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	9%	25%	0%	✓
12 months and within 24 months	2%	25%	0%	✓
24 months and within 5 years	3%	50%	0%	✓
5 years and within 10 years	45%	75%	0%	✓
10 years and above	41%	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:

	2026/27	2027/28	2028/29	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.

	30.06.26 Actual	2026/27 Target	Complied
Portfolio average credit score	4.26	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.

	30.6.26 Actual	2026/27 Target	Complied
Total cash available within 3 months	£79.2m	£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:

	30.6.26 Actual	2026/27 Limit	Complied
Upper limit on one year revenue impact of a 1% rise in interest rates	£738,800	£1,105,508	✓
Upper limit on one year revenue impact of a 1% fall in interest rates	£738,800	£1,105,508	✓

7. Recommendation

To receive the report for information.