MEETING:	**PENSIONS COMMITTEE**
DATE:	**23 NOVEMBER 2026**
TITLE:	**TREASURY MANAGEMENT 2026-27 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, 16 March 2026 to allow surplus money from the Pension Fund to be pooled and co-invested with the Council's overall cash flow for the 2026/27 financial year.

This report also includes the requirement in the 2021 Code, of quarterly reporting of the treasury management prudential indicators. The non-treasury prudential indicators are incorporated in the Council's normal quarterly reports. This report provides the half-year update.

2. EXTERNAL CONTEXT

Economic Background: The key story remained the conflict in the Middle East and its impact on global energy prices and inflation, while on the UK politics side, Andy Burham became the new Prime Minister. Although energy prices had shown signs of moderating towards the end of (calendar) Q2, the continuing conflict pushed oil and gas up sharply once again in Q3. Around mid-September, Brent oil and UK gas prices were over 30% and 70% higher respectively compared to the period preceding the Bank of England's (BoE) July Monetary Policy Report (MPR).

Given the inflationary impact of the previous energy shock from the Russia/Ukraine war, central bank policymakers remained alert to higher energy prices feeding into wider price and wage-setting behaviour ('second-round effects'). In the UK, higher fuel and energy prices were evident in headline inflation, but there was limited evidence of material second-round effects. At the same time, underlying wage pressures continued to moderate, and the labour market remained relatively loose.

The BoE's Monetary Policy Committee (MPC) maintained Bank Rate at 3.75% throughout the period. In April the MPC voted by 8-1 to leave rates unchanged, with one member wanting a 0.25% increase. The voting subsequently became more hawkish, moving to 7-2 in June and 6-3 in both July and September, with all dissenters preferring to increase Bank Rate to 4.00%. The change in voting patterns reflected increasing policymaker concern over the persistence of the energy shock and the risk that higher headline inflation could become embedded in domestic prices and wages.

At the September MPC meeting, the Committee judged the inflation risks were further to the upside compared to its July MPR. Energy prices had risen again and borrowing costs were materially higher than before the US/Iran conflict. Despite expecting inflation would rise further in the near-term, most members believed that a soft labour market, spare capacity and restrictive monetary conditions would reduce inflation over time. Moreover, the data showed there was still little evidence of material second-round effects, although the MPC emphasised that the risk of these effects would increase the longer elevated and volatile energy prices persisted.

UK headline consumer price inflation (CPI) initially declined, suggesting the initial energy shock was not spreading into a wider range of goods and services. However, later in the period inflation picked up again, with CPI rising from 2.6% in June to 3.1% in August due largely to higher transport costs. Core CPI was 2.6% in July and August, suggesting the divergence between that and headline inflation was due to energy rather than a broad increase in underlying inflation.

UK economic activity was somewhat stronger than initially anticipated over the period. GDP expanded by 0.6% in the first quarter of the calendar year and 0.5% in the second quarter, slightly stronger than the initial estimate of 0.4%. Monthly activity was more volatile, with a contraction of -0.1% in April, followed by gains of 0%, 0.3% and 0.4% in May, June and July respectively.

Labour market data continued to show softening employment conditions. The unemployment rate fell to 4.9% in April and remained at that level to July, against expectations it would tick up. Job vacancies also continued to decline, to 702,000 in the three months to July. Earnings growth moderated, with regular earnings at 3.5% in the three months to July and total earnings at 3.9%, suggesting weaker labour demand was continuing to restrain domestic wage pressures.

Arlingclose, the Council's treasury adviser, expects Bank Rate will stay at 3.75%. However, higher energy prices due to the ongoing conflict(s) and uncertainty around the government's upcoming Budget have increased the near-term upside risks. Moreover, stronger inflation projections, which accompanied the September MPC decision, shifted market expectations for Bank Rate higher. In addition, despite little evidence of second-round effects to date, the changing tone of the MPC minutes suggests it may not need something seismic to tip the Committee to increase Bank Rate.

The US Federal Reserve held the Fed Funds target range at 3.50%-3.75% through to July. However, inflation pressures rose during the summer, pushing headline CPI to 3.4% in August, with higher petrol prices accounting for much of the increase. This led the Fed to raise its target range to 3.75%-4.00% in September. The move reflected increased concern over inflation at a time when US economic activity and labour-market conditions were relatively resilient.

Following a 0.25% increase in June, the European Central Bank raised its three key policy rates by a further 0.25% in September, taking the deposit facility rate to 2.50%. Inflation increased from 2.9% in July to 3.2% in August, and an initial estimate suggested a further rise to 3.8% in September, with energy prices the principal driver. The ECB emphasised the uncertainty around the duration of the energy shock and the risk prolonged higher inflation could feed into wider price-setting.

Financial markets: After the sharp deterioration early in the period, financial market sentiment improved somewhat as there were ongoing hopes that the US/Iran war would be resolved. However, towards the end of the period, signs of any potential resolution appeared premature and oil prices rose alongside inflation and bond yields while equity market volatility increased as investors weighed conflict-related as well as AI-related concerns.

Bond yields in both the US and UK increased markedly over the period, with the gap between gilts and US Treasuries tightening towards the end of the period. While term premia are still embedded in gilt yields given the relatively uncertain fiscal outlook, a more hawkish Fed alongside persistent US inflation and fiscal concerns have pushed the yields on US Treasuries to their highest levels in years.

Some relatively market-friendly announcements were made by Andy Burham in his speech at the Labour Party conference, but it will be the Budget at the end of October that will hopefully provide some clarity on what the UK's fiscal position might look like going forward.

Over the period, the 10-year UK benchmark gilt yield started at 4.86% and ended at a high of 5.43%. The 20-year gilt yield starting at 5.45% and finished at 5.93%, another high for the period. The Sterling Overnight Rate (SONIA) averaged 3.73% over the period to 30th September.

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 period, Fitch upgraded numerous banks due to a rating methodology change, as well as 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.

Later in the period, Moody's changed the outlook on HSBC to Positive from Stable, while also affirming its long-term deposit rating. This follows a similar action from S&P on HSBC's outlook a few months prior to this.

After spiking in April following escalation in the Iran war, credit default swap prices on UK banks declined during most of the period but started to pick up again in September. They ended the period well below levels that may give cause for concern but remain under constant monitoring.

European banks' CDS prices followed a similar pattern to the UK, while Canadian bank CDS prices rose early in the period and then remained at similar levels, while Australian and Singaporean banks tended to trend downwards.
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 continue to be monitored for signs of ongoing credit stress.

As ever, the institutions and durations on the Council'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 £21.0 and £115.8 million due to timing differences between income and expenditure. The investment position during the period is shown in the following table:

Treasury Investment Position

	31.3.26 Balance £m	6 month Movement £m	30.9.26 Balance £m	30.9.26 Income Returns %
Banks & building societies (unsecured)	1.2	0.6	1.8	3.15
Local authorities	8.0	(8.0)	0.0	0.00
Money Market Funds	47.5	(23.1)	24.4	3.93
Debt Management Office	27.1	(27.1)	0.0	0.00
Pooled Funds	12.2	0.2	12.4	5.75
Total investments	**96.0**	**(57.4)**	**38.6**	

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	Rate of Return

				Maturity (days)	%
31.03.2026	4.50	A+	58%	46	4.49
30.09.2026	**4.99**	**A+**	**100%**	**2**	**4.51**
Similar Las	**4.57**	**A+**	**58%**	**53**	**4.13**
All LAs	**4.58**	**A+**	**67%**	**10**	**4.11**

Bank Rate remained at 3.75% during the period. The rates on DMADF deposits ranged between 3.70% and 3.75% and Money Market Rates between 3.71% and 3.97%.

£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 September 2026 can be seen below:

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	1,327,536	77,536	490,620	7.5	6.20%	39.25%	45.45%	9.5%
CCLA - LAMIT PROPERTY FUND	PROPERTY	1,524,344	4,174,416	-825,585	1,478,090	7.5	-16.51%	29.56%	13.05%	5.9%
NINETY ONE (INVESTEC) DIVERSIFIED INCOME FUND	MULTI ASSET	1,228,153	1,135,053	-114,947	383,750	7.3	-9.20%	30.70%	21.50%	3.3%
PAYDEN ABSOLUTE RETURN BOND FUND	ABSOLUTE RETURN	233,541	1,958,803	-41,197	344,497	3.0	-2.06%	17.22%	15.16%	1.1%
SCHRODER INCOME MAXIMISER FUND	EQUITY - UK	7,675,245	3,920,400	405,092	1,499,952	5.6	11.52%	42.67%	54.19%	8.6%
GRAND TOTAL			12,516,208	-499,100	4,196,908	6.3	-3.83%	32.25%	28.41%	4.4%
			Unrealised capital loss since purchase:	-483,792			Annualised income return:	4.52%		
							Average Bank Rate:	*2.52%*		

It is evident that the combined capital value of the funds 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 30.9.26 Actual	Counterparty 2026/27 Limit	Complied

The UK Government	£52.9m	£0m	Unlimited	✓
Local authorities & other government entities	£5m	£0m	£10m	✓
Secured investments- government support	£0m	£0m	£10m	✓
Secured investments- other collateral	£0m	£0m	£10m	✓
Banks (unsecured)	£5m	£1.8m	£5m	✓
Building societies (unsecured)	£0m	£0m	£5m	✓
Registered providers (unsecured)	£0m	£0m	£5m	✓
Money market funds	£10m	£10m	£10m	✓
Strategic pooled funds	£5m	£5m	£10m	✓
Real Estate Investment Trusts	£0m	£0m	£10m	✓
Other investments	£0m	£0m	£5m	✓

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:

	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.

	30.9.26 Actual	2026/27 Target	Complied
Portfolio average credit score	4.99	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.

	30.9.26 Actual	2026/27 Target	Complied
Total cash available within 3 months	£26.2m	£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:

	30.9.26 Actual	2026/27 Limit	Complied
Upper limit on one year revenue impact of a 1% rise in interest rates	£215,026	£1,105,508	✓
Upper limit on one year revenue impact of a 1% fall in interest rates	£215,026	£1,105,508	✓

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 £992,000, however the actual expected investment income for the year 2026/27 is slightly higher at approximately £1.1m.

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.