2025/26 Treasury Management Report – Quarter 2 (as at 30th September 2025)

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1. External market conditions

1.1. 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.

1.2. 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.

1.3. 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 0.2% from 3.8% the previous month. Services inflation also fell from July to August, to 4.7% from 5.0%.

1.4. 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.

1.5. 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.

1.6. 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.

1.7. 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.

1.8. 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.

1.9. 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%.

1.10. 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.

1.11. **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.

1.12. 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.

1.13. **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

1.14. 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.

1.15. 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.

1.16. 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.

1.17. 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.

1.18. 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.

1.19. 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.

2. Movement in Treasury balances

2.1. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available to offset the CFR or for investment.

Table 1: Balance Sheet Summary

	31.3.25 £m	Movement £m	30.06.25 £m	Movement £m	30.09.25 £m
General Fund CFR	209.6	6.4	216.0	0.0	216.0
Less: *Other debt liabilities	(1.9)	0	(1.9)	0.0	(1.9)
Borrowing CFR	**207.7**	**6.4**	**214.1**	**0.0**	**214.1**
Less: External borrowing	(202.3)	(5.9)	(208.2)	29.0	(179.2)
Net External borrowing	**5.4**	**0.5**	**5.9**	**29.0**	**34.9**
Less: Usable reserves	(25.3)	0.0	(25.3)	(9.9)	(35.2)
Less: Working capital	3.9	(21.5)	(17.6)	6.2	(11.4)
(Net Investments)	**(16.0)**	**(21.0)**	**(37.0)**	**(25.4)**	**(11.7)**

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

2.2. The Authority pursued its strategy of keeping borrowing and investments below their underlying levels for the quarter, known as internal borrowing. Table 1 above highlights that at the end of the quarter the Authority was internally borrowed by £34.9m, meaning that reserves and working capital were being used in lieu of external borrowing.

2.3. At the end of the quarter the Authority had net investments of 11.7m. Balances over the period ranged from between £11.7m and £46.2m due to timing differences between income and expenditure and borrowing activity.

2.4. The treasury management position at 30th September 2025 and the change during the year is shown in Table 2 below.

Table 2: Borrowing and Investment Summary

	30.6.25 Balance £m	30.6.25 Rate %	Movement	30.9.25 Balance £m	30.9.25 Rate %
Long-term borrowing	130.0	3.40	(6.0)	124.0	3.34
Short-term borrowing	78.2	4.79	(23.0)	55.2	4.57
Total borrowing	**208.2**	**3.93**	**(29.0)**	**179.2**	**3.72**
Long-term investments	0.0	N/A	0.0	0.0	N/A

Short-term investments	(11.0)	4.26	8.0	(3.0)	4.18
Pooled Funds	(4.0)	5.54	0.0	(4.0)	5.32
Cash and cash equivalents	(22.0)	Included in ST above	17.4	(4.7)	Included in ST above
Total investments	**(37.0)**	**4.40**	**25.4**	**(11.7)**	**4.57**
Net Borrowing	**171.2**		**(3.7)**	**167.5**	

2.5. The authorities net borrowing position has decreased over the quarter primarily due to short-term borrowing maturing, following a peak at the start of the year. This is generally in line with the receipt of higher amounts of income in the first half of the financial year prior to the levels of expenditure increasing as the year progresses.

3. Borrowing activity during the year

3.1. The Authority'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, known as internal borrowing.

3.2. After substantial rises in interest rates since 2021 central banks have now begun to reduce their policy rates, albeit slowly. Gilt yields however have increased over the period amid concerns about inflation, the UK government's fiscal position and general economic uncertainty.

3.3. The PWLB certainty rate for 10-year maturity loans was 5.38% at the beginning of the period and 5.53% at the end. The lowest available 10-year maturity certainty rate was 5.17% and the highest was 5.62%. Rates for 20-year maturity loans ranged from 5.71% to 6.30% during the period, and 50-year maturity loans from 5.46% to 6.14%. The cost of short-term borrowing from other local authorities has been similar to Base Rate during the period at 4.0% to 4.5%.

3.4. CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes. The Authority has no new plans to borrow to invest primarily for financial return.

3.5. The Authority's short-term borrowing cost has reduced slightly over the period in line with Base Rate and short-dated market rates. The average rate on the Authority's short-term loans at 30th September 2025 on £55.2m was 4.57%, this compares with 4.79% on £78.2m loans 3 months ago.

3.6. At 30th September 2025 the Authority held £179.2m of loans, an decrease of £29.0m from 30th June 2025, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans are summarised in Table 3 below.

Table 3: Borrowing Position

	30.6.25 Balance £m	30.6.25 Weighted Average Rate %	30.6.25 Weighted Average Maturity (years)	Balance Movement	30.9.25 Balance £m	30.9.25 Weighted Average Rate %	30.9.25 Weighted Average Maturity (years)

Public Works Loan Board	147.7	3.7	16.6	(1.0)	146.7	3.7	16.4
Banks (LOBO)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Welsh Gov Interest Free	6.5	0.0	2.6	(0.0)	6.5	0.0	2.3
Local authorities /Other	54.0	5.1	0.4	(28.0)	26.0	4.9	0.5
Total borrowing	**208.2**	**3.9**	**11.9**	**(29.0)**	**179.2**	**3.7**	**13.6**

3.7. The Authority's chief objective when borrowing remains 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 flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

3.8. No new PWLB loans were taken during the period.

3.9. **Forward Starting Loans:** No loans taken during the period.

3.10. CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

3.11. The Authority currently holds commercial investments that were purchased prior to the change in the CIPFA Prudential Code. The Authority is not planning to purchase any investment assets primarily for yield within the next three years and so is able to access PWLB borrowing if considered cost effective.

4. Investment activity during the quarter

4.1. The CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (revised in 2021) defines treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

4.2. The Authority holds significant invested funds during the year, representing income received in advance of expenditure plus balances and reserves held. During the quarter, the Authority's investment balances ranged from between £11.7m and £48.0m due to timing differences between income and expenditure. The investment position at the end of the quarter was:

Table 6: Treasury Investment Position

	30.6.25 Balance £m	Net Movement £m	30.9.25 Balance £m	30.9.25 Income Return %	30.9.25 Weighted Average Maturity Days
Banks & building societies (unsecured)	(2.0)	0.0	(2.0)	Average 4.18%	Up to 180 days
Government (incl. local authorities	(11.0)	8.0	(3.0)		
Money Market Funds (MMFs)	(20.0)	17.4	(2.7)		
Multi asset income, Pooled funds	(4.0)	0.0	(4.0)	5.32%	N/A
Total investments	**(37.0)**	**25.4**	**(11.7)**	**4.57%**	

4.3. Both the CIPFA Code and government guidance require the Authority 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 Authority'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.

4.4. The Authority 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 fund investments are maintained to diversify risk into different asset classes and mitigate the inflationary impact of holding cash balances.

4.5. 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 4.20% and money market rates between 3.93% and 4.33%.

4.6. The combination of risk and return metrics are shown in the extracts from the Arlingclose quarterly investment benchmarking in the table below.

Table 7: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
MCC 31.06.2025	AA-	4.5	66%	9	4.40
MCC 30.09.2025	AA-	4.44	61%	8	4.57
Similar LAs	AA-	4.20	41%	32	4.12
All LAs	A+	4.54	62%	11	4.20

4.7. **Externally Managed Pooled Funds:** £4m of the Authority's investments are invested in externally managed strategic pooled multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and longer-term price stability.

4.8. These funds provide and important diversification for the Authority and generated £117k (5.32%) income return, together with a £160k (3.89%) unrealised capital gain during the first half of the year.

4.9. Accumulated unrealised capital loses over the lifetime of the investment stand at £227k. The Authority maintains an adequate treasury risk reserve to mitigate against the risk that capital losses on pooled funds become realised and consequently result in a charge against the Council Fund.

4.10. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's medium to long-term investment objectives are regularly reviewed. 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 the longer term that total returns will exceed cash interest rates.

4.11. **Statutory override:** The statutory override in England has been extended until the 1st April 2029 for any investments already in place before 1st April 2024. Welsh Government is expected to adopt the same policy imminently. The Authority maintains a treasury management risk reserve which currently holds £590,000 to mitigate the impact of such risks materialising.

4.12. **Market update:**

4.13. Most asset classes achieved positive performance over the first half of the 2025/26 financial year, although conditions remained volatile and heavily influenced by political and macroeconomic developments.

4.14. The most notable market shock came early in the period when US President Trump announced his 'Liberation Day' tariffs on 2 April, triggering sharp falls in global equity and bond markets. Sentiment improved once the US administration softened its stance and markets recovered relatively swiftly, although uncertainty lingered.

4.15. Global trade tensions easing, resilient profits, optimism on artificial intelligence, interest rate cuts, rising gold prices, and other factors contributed to equity markets generally performing strongly across the half year despite economic uncertainties. The likes of the S&P 500 in the US and FTSE 100 in the UK hit all-time highs during the period.

4.16. Fixed income (bond) markets remained volatile as investors weighed political risks alongside concerns over fiscal sustainability. While not matching the strength of equities, corporate bonds generally achieved positive returns. However major longer-dated government bonds saw a rise in yields over the period (meaning prices fell), particularly in the UK where concerns over fiscal issues and sticky inflation saw 30-year gilt yields reaching highs not seen since the late 1990s.

4.17. The gradual improvement in UK commercial property continued. Capital values recorded marginal gains, while total returns were driven largely by rental income.

4.18. Overall, while volatility was elevated throughout, most mainstream asset classes provided positive returns to investors over the first half of the 2025/26 financial year, with equities leading the way and fixed income and property also making a positive contribution.

5. Environmental, Social and Governance

5.1. Throughout the year the investment portfolio has been assessed against 3 charters that organisations can voluntarily sign up for to ensure that all are meeting minimum level of ESG responsibility. These are shown in the table below:

Table 8: ESG Charter Signatories

	UN Principles for Responsible Investment	Uk Stewardship Code 2020	Net-Zero Asset Managers Initiative (No longer applicable)**
Aberdeen Asset Liquidity	✓	✓	(NLA)
Aegon	✓	✓	(NLA)
CCLA Investment Management	✓	✓	(NLA)
Federated (Prime Rate) Liquidity Fund	✓	✓	(NLA)
HSBC Global Asset Management	✓	✓	(NLA)
LEGAL AND GENERAL MMF	✓	✓	(NLA)
Ninety-One	✓	✓	(NLA)
STATE STREET	✓	✓	(NLA)
Morgan Stanley	✓	✓	(NLA)
Goldman Sachs	✓	✓	(NLA)

5.2. **The Net Zero Asset Managers (NZAM) initiative has recently suspended its activity and removed its list of signatories while conducting a review, citing “recent developments in the U.S. and different regulatory and client expectations in investors’ respective jurisdictions”. The re-issued “Commitment Statement” no longer includes explicit binding requirements such as setting interim 2030 targets or requiring alignment of the entire AUM with net-zero by 2050; instead it permits signatories to “pursue their own approaches”.

5.3. This change has reduced the transparency previously relied upon by investors when assessing the environmental credentials of fund managers. As a result, and in line with the Council’s commitment to ensuring that all Environmental, Social and Governance assessments are based on verifiable and publicly accessible information, the NZAM initiative will no longer be used as a formal criterion when considering potential investments. The Council will continue to monitor developments within the NZAM framework.

5.4. An updated list of signatories to the remaining two charters is provided by the Authority’s treasury advisors each quarter and will continue to be monitored. Any counterparties not signed up to both charters will not be considered for investment by the Authority.

5.5. At 30th September 2025 the Authorities ESG specific Money Market Fund returned 3.96% compared to an average rate of 4.04% for all Money Market Funds.

6. Non-Treasury Investments

6.1. The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return.

6.2. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and/or for commercial purposes (made primarily for financial return).

6.3. Investment Guidance issued by DLUHC and Welsh Government also broadens the definition of investments to include all such assets held partially or wholly for financial return.

6.4. The Authority held a net book value of £28.19m of such non-financial asset investments at the 31st March 2025 (£31.1m as at 31st March 2024) made up of:

	Forecast (surplus) / deficit 2025/26 £000's	Carrying Value 31.03.25 £000's	Forecast Return 2025/26 %	Net return 2024/25 %
Oak Grove Solar Farm	(465)	5,785	8.04	5.25
Newport Leisure Park & service loan	(275)	15,616	1.76	1.41
Castlegate Business Park	207	6,784	-3.05	-7.56*
Total	**(533)**	**28,185**	**1.89**	**1.06**

*includes one-off provision for bad debt of £248k & £169k relating to service charges and business rates respectively. Net return excluding this write-off would be -1.42% (overall portfolio 1.52%)

6.5. These investments continue to represent an important income diversification for the Council and contributes towards the overall funding of services.

6.6. A more detailed report on the performance of these investments is reported periodically to the Performance & Overview scrutiny committee.

6.7. The Authority also holds a portfolio of legacy non-financial asset investments that have been held for over a decade and are retained for income generation, capital gain or to support wider economic development or broader policy objectives. Income generation for these agricultural, retail and industrial assets are a secondary consideration and as such return against original investment would be considered negligible.

7. Treasury performance

7.1. The Authority 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, as shown in table 9 below.

Table 9: Budget performance

	Forecast 30.09.25 £000's	Budget £000's	Over / (under) Budget £000's
Interest Payable			
PWLB	5,639	4,931	708
Market loans	0	0	0
Short term loans	2,258	2,538	(280)
Other Activities (Internal Arrangements)	155	155	0
Total Interest payable on borrowing	**8,052**	**7,624**	**428**
Interest Receivable			
Invested cash short term	(936)	(788)	(148)
Pooled Funds	(195)	Included above	(195)
Finance lease income	(55)	Included above	(55)
Total income from Investments	**(1,186)**	**(788)**	**(398)**
Total	**6,866**	**6,836**	**30**

8. Compliance with treasury limits and indicators

8.1. The Section 151 officer reports that all treasury management activities undertaken during the quarter complied fully with the CIPFA code and the limits and indicators as set out in the Authority's approved Treasury Management Strategy.

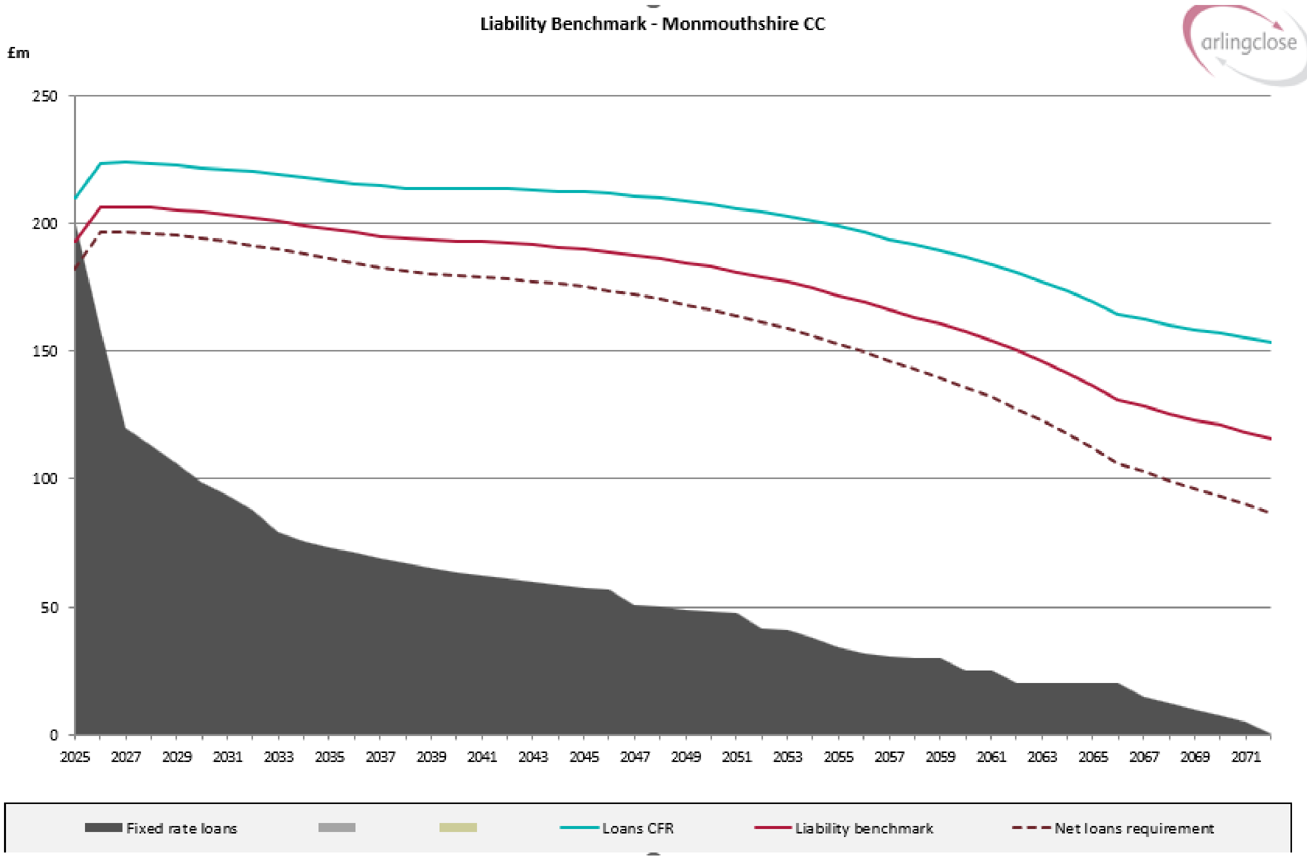
8.2. **Liability Benchmark:** This indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term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

Table 10: Liability Benchmark

	31.3.25 Actual	31.3.26 Forecast	31.3.27 Forecast	31.3.28 Forecast	31.3.29 Forecast
Loans CFR	207.7	235.2	223.8	223.2	222.6
Less: Balance sheet resources	(5.4)	(38.2)	(38.2)	(38.2)	(38.2)
Net loans requirement	202.3	197.0	185.6	185.0	184.4
Plus: Liquidity allowance	0.0	10.0	10.0	10.0	10.0
Liability benchmark	**202.3**	**207.0**	**195.6**	**195**	**194.4**
Current loan profile	(202.3)	(158.2)	(120.1)	(113.1)	(106.2)
Borrowing requirement	**0.0**	**48.8**	**75.5**	**81.9**	**88.2**

8.3. This indicates that if capital plans remains accurate the Council will have a borrowing requirement over the medium term of £88.2m. This projection forms the basis for future borrowing strategy and will be a consideration should any value loan opportunities present themselves in the market.

8.4. Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing is in line with the medium-term financial plan, minimum revenue provision on new capital expenditure is based on the annuity method, and expenditure and reserves all increasing by inflation of 2.5% p.a. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing.



8.5. The gap between the dotted red line and the grey shaded area of the chart represents the forecast difference between the estimated borrowing requirement and the Council's current loans profile. If capital expenditure plans remain accurate, the gap represents a borrowing requirement which will need be met by new and replacement loans over time.

8.6. **Borrowing limits:** Compliance with the authorised limit and operational boundary for external debt is demonstrated in the table below.

Table 11: Borrowing Limits

	2025/26 Maximum during the year £m	30.9.25 Actual £m	2025/26 Operational Boundary £m	2025/26 Authorised Limit £m	Complied? Yes/No
Borrowing	204.9	179.2	248.2	263.6	Yes

PFI, Finance Leases & Other LT liabs	2.0	1.8	17.8	18.8	Yes
Total debt	**206.9**	**181.0**	**266.0**	**282.4**	**Yes**

8.7. **Note**: Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

8.8. **Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

Table 12: Maturity Structure of borrowing

Maturity	30.9.25 Actual	Lower Limit	Upper Limit	Complied?	31.3.25 Actual (For comparison)
Under 12 months	31%	0%	50%	Yes	31%
12 months and within 24 months	3%	0%	30%	Yes	10%
24 months and within 5 years	12%	0%	30%	Yes	10%
5 years and within 10 years	14%	0%	30%	Yes	12%
10 years and within 20 years	9%	0%	30%	Yes	9%
20 years and within 30 years	13%	0%	30%	Yes	11%
30 years and within 40 years	8%	0%	30%	Yes	7%
40 years and within 50 years	11%	0%	30%	Yes	10%
50 years and above	0%	0%	30%	Yes	0%

Table 13: Investment Limits

	Maximum in quarter	2025/26 Limit	Complied? Yes/No
The UK Government	£20.5m	Unlimited	Yes
Local Authorities per counterparty	£0m	£4m	Yes
Secured Investments	£0m	£4m	Yes
Banks per counterparty, rating A- or above	£2m (£3m total for the Councils operational bank)	£2m (£3m total for the Councils operational bank)	Yes
Building societies (unsecured)	£0m	£2m	Yes
Registered providers (e.g. Housing Associations (unsecured)	£0m	£2m	Yes
Money Market Funds	£4m	£4m	Yes
Any group of pooled funds under the same management	£2m	£5m	Yes

Real estate investment trusts	£0m	£5m	Yes
Other Investments	£0m	£2m	Yes

8.9. **Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating and credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Table 14: Credit Risk

	30.9.24 Actual	2025/26 Target	Complied?
Portfolio average credit	AA-/4.44	A-/5.0	Yes

8.10. **Principal Sums Invested for Periods Longer than a year:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Table 15: Principal invested for period longer than a year

	During 2025/26
Actual principal invested for 365 days & beyond year end	£0m
Limit	£5m
Complied?	Yes

8.11. For context, the changes in interest rates during the quarter were:

	01/04/25	30/09/25
Bank Rate	4.50%	4.00%
1-year PWLB certainty rate, maturity loans	4.82%	4.58%
5-year PWLB certainty rate, maturity loans	4.94%	4.95%
10-year PWLB certainty rate, maturity loans	5.38%	5.53%
20-year PWLB certainty rate, maturity loans	5.88%	6.14%
50-year PWLB certainty rate, maturity loans	5.63%	5.98%

Background paper: Glossary of Treasury Terms

Authorised Limit	**The affordable borrowing limit determined in compliance with the Local Government Act 2003 (English and Welsh authorities) and the Local Government in Scotland Act 2003. This Prudential Indicator is a statutory limit for total external debt. It is set by the Authority and needs to be consistent with the Authority's plans for capital expenditure financing and funding. The Authorised Limit provides headroom over and above the *Operational Boundary* to accommodate expected cash movements. Affordability and prudence are matters which must be taken into account when setting this limit.** **(see also *Operational Boundary*, below)**
Balances and Reserves	Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.
Bail-in	Refers to the process which the banking regulatory authorities will use to restructure a financial institution which is failing or likely to fail. Unsecured creditors of and investors in that financial institution will participate in its restructure who will, as a consequence, incur a non-recoverable loss (commonly referred to as a 'haircut') on their obligation/investment. Local authority investments with banks and building societies such as term deposits, certificates of deposit, call accounts and non-collateralised bonds are unsecured investments and are therefore vulnerable to bail-in.
Bank Rate	The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.
Bond	A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.
Capital Expenditure	Expenditure on the acquisition, creation or enhancement of capital assets
Capital Financing Requirement (CFR)	The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.
Capital growth	Increase in the value of the asset (in the context of a collective investment scheme, it will be the increase in the unit price of the fund)
Capital receipts	Money obtained on the sale of a capital asset.
CIPFA	Chartered Institute of Public Finance and Accountancy
Constant Net Asset Value (CNAV)	Also referred to as Stable Net Asset Value. A term used in relation to the valuation of 1 share in a fund. This means that at all times the value of 1 share is £1/€1/US$1 (depending on the currency of the fund). The Constant NAV is maintained since dividend income (or interest) is either added to the shareholders' account by creating shares equal to the value of interest earned or paid to the shareholder's bank account, depending on which option is selected by the shareholder.

Collective Investment Schemes	Funds in which several investors collectively hold units or shares. The assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'Pooled Funds'). Unit Trusts and Open-Ended Investment Companies are types of collective investment schemes / pooled funds.
Corporate Bonds	Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
Corporate Bond Funds	Collective Investment Schemes investing predominantly in bonds issued by companies and supranational organisations.
CPI ***Also see RPI***	Consumer Price Index. (This measure is used as the Bank of England's inflation target.)
Credit Default Swap (CDS)	A Credit Default Swap is similar to an insurance policy against a credit default. Both the buyer and seller of a CDS are exposed to credit risk. Naked CDS, i.e. one which is not linked to an underlying security, can lead to speculative trading.
Credit Rating	Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.
Cost of carry	When a loan is borrowed in advance of requirement, this is the difference between the interest rate and (other associated costs) on the loan and the income earned from investing the cash in the interim.
Credit default swaps	Financial instrument for swapping the risk of debt default; the buyer effectively pays a premium against the risk of default.
Diversification / diversified exposure	The spreading of investments among different types of assets or between markets in order to reduce risk.
Derivatives	Financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded on a regulated exchange or traded 'over the counter'.
ECB	European Central Bank
Federal Reserve	The US central bank. (Often referred to as "the Fed")
Floating Rate Notes	A bond issued by a company where the interest rate paid on the bond changes at set intervals (generally every 3 months). The rate of interest is linked to LIBOR and may therefore increase or decrease at each rate setting
GDP	Gross domestic product – also termed as "growth" in the economy. The value of the national aggregate production of goods and services in the economy.
General Fund	This includes most of the day-to-day spending and income. (All spending and income related to the management and maintenance of the housing stock is kept separately in the HRA).

Gilts (UK Govt)	Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged': being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.
Housing Revenue Account (HRA)	A ring-fenced account of all housing income and expenditure, required by statute
IFRS	International Financial Reporting Standards
Income Distribution	The payment made to investors from the income generated by a fund; such a payment can also be referred to as a 'dividend'
Investments - **Secured** - **unsecured**	Secured investments which have underlying collateral in the form of assets which can be called upon in the event of default Unsecured investments do not have underlying collateral. Such investments made by local authorities with banks and building societies are at risk of bail-in should the regulator determine that the bank is failing or likely to fail.
Liability Benchmark	Term in CIPFA's Risk Management Toolkit which refers to the minimum amount of borrowing required to keep investments at a minimum liquidity level (which may be zero).
LOBOs	LOBO stands for 'Lender's Option Borrower's Option'. The underlying loan facility is typically long term and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at predetermined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the 'option' to either accept the new imposed fixed rate or repay the loan facility.
LVNAV (Low Volatility Net Asset Value)	From 2019 Money Market Funds will have to operate under a variable Net Value Structure with minimal volatility (fluctuations around £1 limited to between 99.8p to 100.2p)
Maturity	The date when an investment or borrowing is repaid.
Maturity profile	A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. The amount or percent maturing could be shown on a year-by-year or quarter-by-quarter or month-by-month basis.
MiFID II	MiFID II replaced the Markets in Financial Instruments Directive (MiFID I) from 3 January 2018. It is a legislative framework instituted by the European Union to regulate financial markets in the bloc and improve protections for investors.
Money Market Funds (MMF)	Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.
Minimum Revenue Provision	An annual provision that the Authority is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets
Non-Specified Investments	Term used in the Communities and Local Government Guidance and Welsh Assembly Guidance for Local Authority Investments. It includes any investment for periods greater than one year or those with bodies that do not have a high credit rating, use of which must be justified.

Net Asset Value (NAV)	A fund's net asset value is calculated by taking the current value of the fund's assets and subtracting its liabilities.
Operational Boundary	This is the limit set by the Authority as its most likely, i.e. prudent, estimate level of external debt, but not the worst case scenario. This limit links directly to the Authority's plans for capital expenditure, the estimates of the Capital Financing Requirement (CFR) and the estimate of cashflow requirements for the year.
Permitted Investments	Term used by Scottish Authorities as those the Authority has formally approved for use.
Pooled funds	See Collective Investment Schemes (above)
Premiums and Discounts	In the context of local authority borrowing, (a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and (b) the discount is the gain arising when a loan is redeemed prior to its maturity date. If on a £1 million loan, it is calculated* that a £100,000 premium is payable on premature redemption, then the amount paid by the borrower to redeem the loan is £1,100,000 plus accrued interest. If on a £1 million loan, it is calculated that a £100,000 discount receivable on premature redemption, then the amount paid by the borrower to redeem the loan is £900,000 plus accrued interest. PWLB premium/discount rates are calculated according to the length of time to maturity, current market rates (plus a margin), and the existing loan rate which then produces a premium/discount dependent on whether the discount rate is lower/higher than the coupon rate. *The calculation of the total amount payable to redeem a loan borrowed from the Public Works Loans Board (PWLB) is the present value of the remaining payments of principal and interest due in respect of the loan being repaid prematurely, calculated on normal actuarial principles. More details are contained in the PWLB's lending arrangements circular.
Private Finance Initiative (PFI)	Private Finance Initiative (PFI) provides a way of funding major capital investments, without immediate recourse to the public purse. Private consortia, usually involving large construction firms, are contracted to design, build, and in some cases manage new projects. Contracts can typically last for 30 years, during which time the asset is leased by a public authority.
Prudential Code	Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.
Prudential Indicators	Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators between authorities.
PWLB	Public Works Loans Board. It is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

Quantitative Easing	In relation to the UK, it is the process used by the Bank of England to directly increase the quantity of money in the economy. It "does not involve printing more banknotes. Instead, the Bank buys assets from private sector institutions – that could be insurance companies, pension funds, banks or non-financial firms – and credits the seller's bank account. So the seller has more money in their bank account, while their bank holds a corresponding claim against the Bank of England (known as reserves). The end result is more money out in the wider economy". Source: Bank of England
Registered Provider of Social Housing	Formerly known as Housing Association
Revenue Expenditure	Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges
RPI	Retail Prices Index. A monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. Pensions and index-linked gilts are uprated using the CPI index.
SORP	Statement of Recommended Practice for Accounting (Code of Practice on Local Authority Accounting in the United Kingdom).
Specified Investments	Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than 1 year. UK government, local authorities and bodies that have a high credit rating.
Supported Borrowing	Borrowing for which the costs are supported by the government or third party.
Supranational Bonds	Instruments issued by supranational organisations created by governments through international treaties (often called multilateral development banks). The bonds carry an AAA rating in their own right. Examples of supranational organisations are those issued by the European Investment Bank, the International Bank for Reconstruction and Development.
Treasury Management Code	CIPFA's Code of Practice for Treasury Management in the Public Services.
Temporary Borrowing	Borrowing to cover peaks and troughs of cash flow, not to fund spending.
Term Deposits	Deposits of cash with terms attached relating to maturity and rate of return (interest)
Unsupported Borrowing	Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.
Usable Reserves	Resources available to finance future revenue and capital expenditure
Variable Net Asset Value (VNAV)	A term used in relation to the valuation of 1 share in a fund. This means that the net asset value (NAV) of these funds is calculated daily based on market prices.
Working Capital	Timing differences between income/expenditure and receipts/payments

Yield	The measure of the return on an investment instrument