

2026/27 Treasury Management Report – Quarter 1 (as at 30th June 2026)

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1. External market conditions

- 1.1. Economic background: The main feature of 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 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.
- 1.2. Coming close on the heels of the last energy price shock in 2022 following Russia's invasion of UK, central bank policymakers and financial markets reacted quickly to reflect the new reality for monetary policy. In the UK, the headline consumer price inflation (CPI) rate 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 occurring from the war maintained the CPI rate well above target at 2.8%.
- 1.3. Having been expected to cut Bank Rate from 3.75%, the Bank of England's Monetary Policy Committee (MPC) instead held Bank Rate steady throughout the quarter. Despite 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 of committee members appear to believe the UK economy and labour market were 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.
- 1.4. Against expectations, UK headline 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 CPI 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.
- 1.5. 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. Purchasing managers' index (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.

- 1.6. 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 continued 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.
- 1.7. Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate remain at 3.75%, and that the Bank of England 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.
- 1.8. 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 lead to higher rather than lower rates.
- 1.9. The European Central Bank (ECB) hiked rates in June, the first rise since September 2023. The ECB noted heightened uncertainty in the near-term from the effects of the war, including higher inflation and potentially weaker growth. The June hike to 2.40% represented an insurance move to maintain inflation around the 2% target.
- 1.10. **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 US/Israel war with Iran increased. However, bond and equity markets remained volatile. Early in the period bond yields rose sharply due to tighter monetary policy expectations, but yields steadily declined as it became apparent central banks, including the Bank of England, were not going to immediately hike policy rates. Equity markets sold off sharply in March but gained back some of the previous declines, particularly in US markets, where AI-related sentiment remained strong.
- 1.11. 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.
- 1.12. Over the quarter, the 10-year UK benchmark gilt yield started at 4.86% and ended at 4.77% having hit 5.20% in late April. The 20-year gilt yield was slightly more stable, starting at 5.45% and finished at 5.42%, after peaking at 5.79% in May. The Sterling Overnight Rate (SONIA) averaged 3.73% over the quarter to 30th June.
- 1.13. **Credit review:** Arlingclose maintained its advised recommended maximum unsecured duration limit on the majority of the banks on its counterparty list at 6 months. Other banks remain on 100 days
- 1.14. 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.

- 1.15. Moody's also made changes to the ratings of European banks following the passing of EU legislation introducing full depositor preference across the bloc which places deposits ahead of senior unsecured debt in the creditor hierarchy. This resulted in upgrades to the ratings to several counterparties on Arlingclose's recommended list.
- 1.16. Credit default swap (CDS) prices on UK banks spiked through late March/early April following escalation in the Iran war but eased back over the rest of the quarter to end at broadly pre-conflict levels.
- 1.17. European banks' CDS prices followed a similar pattern, albeit some German banks were 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 while Australian and Singaporean lenders were broadly unchanged.
- 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

	31.3.26 £m	Movement £m	30.6.26 £m
General Fund CFR	226.8	9.1	235.9
Less: *Other debt liabilities	(1.8)	0.0	(1.8)
Borrowing CFR	225.0	9.1	234.1
Less: External borrowing	(197.6)	10.8	(186.8)
Net External borrowing	27.5	19.9	47.3
Less: Usable reserves	(42.5)	0.0	(42.5)
Less: Working capital	(2.7)	(21.8)	(24.5)
(Net Investments)	(17.7)	(2.0)	(19.7)

* 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 £47.3m, 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 £19.7m. Balances over the period ranged from between £13.0m and £42.2m due to timing differences between income and expenditure and borrowing activity.
- 2.4. The treasury management position at 30th June 2026 and the change during the year is shown in Table 2 below.

Table 2: Borrowing and Investment Summary

	31.3.26 Balance £m	31.3.26 Rate %	Movement	30.6.26 Balance £m	30.6.26 Rate %
Long-term borrowing	138.9	3.51	(6.7)	132.2	3.47
Short-term borrowing	58.7	4.39	(4.0)	54.7	3.97
Total borrowing	197.6	3.77	(10.7)	186.8	3.61
Long-term investments	0.0	N/A	0.0	0.0	N/A
Short-term investments	(3.0)	4.02	(6.0)	(9.0)	3.76
Pooled Funds	(4.0)	5.39	0.0	(4.0)	4.83
Cash and cash equivalents	(10.7)	Included in ST above	4.0	(6.7)	Included in ST above
Total investments	(17.7)	4.33	(2.0)	(19.7)	3.98
Net Borrowing	179.9		(12.8)	167.1	

- 2.5. The authorities net borrowing position has slightly decreased over the quarter. This is due to temporary increases in cash balances as significant amounts of Council funding are front-loaded into the earlier periods of the financial year.

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. Gilt yields have varied during the period but overall have decreased slightly. Oil prices have reduced and inflationary figures in the UK have not risen by as much as markets initially expected. Concerns about the tepid UK economy have also lessened expectations of future rate rises which has lowered gilt yields.
- 3.3. The PWLB certainty rate for 5-year maturity loans was 5.16% at the beginning of the period and 5.07% at the end. The lowest available 5-year maturity certainty rate was 5.04% and the highest was 5.49%. In contrast rates for 20-year maturity loans ranged from 6.02% to 6.50% during the period, and 50-year maturity loans from 5.89% to 6.35%. After coming down from a characteristic spike seen around financial year end, the cost of short term borrowing from other local authorities has remained a little above Base Rate, at between 4.0% and 4.5%, throughout the period.
- 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.
- 3.5. 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.

- 3.6. 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 June 2026 on £54.7m was 3.97%, this compares with 4.39% on £58.7m loans 3 months ago.
- 3.7. At 30th June 2026 the Authority held £186.8m of loans, a decrease of £10.7m from 31st March 2026, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 30th June are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.26 Balance	31.3.26 Weighted Average Rate	31.3.26 Weighted Average Maturity (years)	Balance Movement	30.6.26 Balance	30.6.26 Weighted Average Rate	30.6.26 Weighted Average Maturity (years)
	£m	%			£m	%	
Public Works Loan Board	158.7	3.7	15.2	(11.5)	147.1	3.6	16.1
Banks (LOBO)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Welsh Gov Interest Free	5.9	0.0	2.4	(0.2)	5.7	0.0	2.4
Local authorities /Other	33.0	4.7	0.1	1.0	34.0	4.1	0.6
Total borrowing	197.6	3.77	12.3	(10.8)	186.8	3.61	12.8

- 3.8. The Authority's chief objective when borrowing has always 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 flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.
- 3.9. The weighted average maturity of loans continues to reduce as shorter term funding has represented better value for a significant period. This will continue to be monitored to ensure that the Council is not overly exposed to volatility in interest rates by needing to refinance large amounts of loans at any one time.
- 3.10. **Long-dated Loans:** No long-term loans taken during the period.
- 3.11. **Forward Starting Loans:** No loans taken during the period.
- 3.12. 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 £13.0m and £42.2m due to timing differences between income and expenditure. The investment position at the end of the quarter was:

Table 6: Treasury Investment Position

	31.3.26 Balance	Net Movement	30.6.26 Balance	30.6.26 Income Return	30.6.26 Weighted Average Maturity Days
	£m	£m	£m	%	
Banks & building societies (unsecured)	(2.0)	0.0	(2.0)	Average 3.76%	Up to 180 days
Government (incl. local authorities)	(3.0)	(6.0)	(9.0)		
Money Market Funds (MMFs)	(8.7)	4.0	(4.7)		
Multi asset income, Pooled funds	(4.0)	0.0	(4.0)	4.83%	N/A
Total investments	(17.7)	(2.0)	(19.7)	3.98%	

- 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 funds will be maintained to diversify risk into different asset classes and boost investment income.
- 4.5. The rates on DMADF deposits ranged between 3.7% and 3.79% and money market rates between 3.6% and 3.8%.
- 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	<u>Bail-in Exposure</u>	Weighted Average Maturity (days)	Rate of Return
					%
MCC 31 Mar 2026	A+	4.51	78%	20	4.33
MCC 30 Jun 2026	AA-	4.15	42%	14	3.98
Similar LAs	AA-	4.32	46%	79	3.90
All LAs	A+	4.59	66%	11	3.95

- 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 an important diversification for the Authority and generated £65k (6.22%) income return, together with a £150.6k (3.48%) unrealised capital gain during the first month.
- 4.9. Accumulated unrealised capital losses over the lifetime of the investment stand at £27.5k. 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. Most major asset classes delivered positive returns over quarter 1 of 2026/27, although markets remained volatile and sensitive to geopolitical developments, energy prices and changing expectations for interest rates. The quarter generally represented a recovery from the weakness seen towards the end of 2025/26, when markets were unsettled by the escalation of conflict between the US, Israel and Iran. As tensions in the Middle East began to ease and oil prices fell back, investor sentiment improved and most asset prices recovered.
- 4.11. Equity markets generally performed strongly over the quarter, supported by improving risk appetite, resilient corporate earnings and continued enthusiasm for technology and AI-related investment. Emerging markets performed most strongly, with UK equities also delivering positive returns, although lagging overseas markets. This partly reflected the more defensive composition of the UK market and its exposure to falling commodity prices (such as oil).
- 4.12. Bond markets produced more modest but generally positive returns. Government bond markets were affected by competing influences. Higher energy prices and geopolitical uncertainty initially raised concerns about inflation, while later falls in oil prices and softer economic data helped support expectations that global central banks may still ultimately be able to reduce interest rates over time. UK gilts came under pressure (prices falling, yields increasing) with expectations of Bank Rate increases, plus domestic political uncertainty rising, but yields declined during June following the apparent 'conclusion' of the war, reduction in energy prices and decline in interest rate expectations, finishing the quarter at similar levels to the start.
- 4.13. UK commercial property capital returns were broadly flat to modestly negative over the quarter, with performance continuing to be driven primarily by income rather than capital growth. Although the commercial property market has stabilised compared with the more difficult conditions seen in recent years, economic uncertainty, elevated financing costs and movements in gilt yields continued to weigh on investor sentiment. Rental income therefore remained the main contributor to total return, while capital values remained subdued.
- 4.14. 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.
- 4.15. **Statutory override:** The statutory override on accounting for gains and losses in pooled investment funds has been extended up until the 1st April 2029 for investments already in place before 1st April 2024. The override does not apply to any new investments taken out on

or after 1st April 2024. The Authority maintains a treasury management risk reserve which currently holds £590,000 to mitigate the impact of such risks materialising.

- 4.16. **Minimum Revenue Provision (MRP):** Legislation has been passed giving the Authority the option, but not the obligation, to reduce the MRP charge for the financial year 2026/27. Nil MRP, or MRP lower than what would be considered the normal minimum charge, is allowable for this year only. Any MRP not made in 2026/27 must be made over a maximum of 10 future years. In view of these revenue savings leading to additional invest costs / lost investment income and higher MRP costs in subsequent years the Authority has decided not to use this provision.

5. Environmental, Social and Governance

- 5.1. During the first quarter of the year the investment portfolio has been assessed against two 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
Aberdeen Standard	✓	✓
Aegon	✓	✓
CCLA Investment Management	✓	✓
Federated (Prime Rate) Liquidity Fund	✓	✓
Goldman Sachs	✓	✓
HSBC Global Asset Management	✓	✓
LEGAL AND GENERAL MMF	✓	✓
Morgan Stanley	✓	✓
Ninety-One	✓	✓
Royal London Asset Management	✓	✓
State Street Investment Management	✓	✓

- 5.2. An updated list of signatories to the two charters is provided by the Authority's treasury advisors each quarter and will continue to be monitored. Any counterparties not signed up to all three charters will be removed from the Authorities investment portfolio.
- 5.3. At 30th June 2026 the Authorities ESG specific Money Market Fund returned 3.78% compared to an average rate of 3.88% for all Money Market Funds.
- 5.4. In response to the ethical investment motion agreed by Council on 18 September 2025, the Council reviewed its own treasury investment portfolio and engaged with its treasury advisers and investment managers. The review identified no direct holdings in individual defence contractors, arms manufacturers or military companies. The Council also sought an update from the Greater Gwent (Torfaen) Pension Fund, recognising the Fund Committee's separate fiduciary responsibilities, and noted the revised Wales Pension Partnership Responsible Investment Policy and exclusions framework implemented from 1 April 2026. Ongoing monitoring and engagement on responsible investment matters will continue.

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 £29.53m of such non-financial asset investments at the 31st March 2026 (£28.19m as at 31st March 2025) made up of:

	Budgeted (surplus) / deficit 2026/27 £000's	Carrying Value 31.03.26 £000's	Budgeted Return 2026/27 %	Net return 2025/26 %
Oak Grove Solar Farm	(347)	5,938	5.84	8.47
Newport Leisure Park & service loan	(332)	16,418	2.02	1.7
Castlegate Business Park	217	7,177	-3.02	-4.22
Total	(452)	29,533	1.56	1.61

- 6.5. These investments continue to represent an important income diversification for the Council and contributes towards the overall funding of services.
- 6.6. At this early stage of the financial year, there is insufficient information to produce a reliable forecast of the 2026/27 performance of the Authority's non-treasury investments. Performance will continue to be monitored against the approved budgets and expected returns for Oak Grove Solar Farm, Newport Leisure Park and Castlegate Business Park.
- 6.7. A further update, including the latest forecast position where available, will be provided through the period 1 financial monitoring report. The period 1 financial monitoring report is due to progress through the committee cycle in late September and October 2026.
- 6.8. 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 30.06.25 £000's	Budget £000's	Over / (under) Budget £000's
Interest Payable			
PWLB	5,364	5,607	(243)
Market loans	0	0	0
Short term loans	2,127	2,128	0
Other Activities (Internal Arrangements)	158	118	39
Total Interest payable on borrowing	7,649	7,735	(86)
Interest Receivable			
Invested cash short term	(596)	(804)	208
Pooled Funds	(184)	Included above	(184)
Finance lease income	(48)	Included above	(48)
Total income from Investments	(827)	(804)	(23)
Total	6,097	6,931	(109)

8. Compliance with treasury limits and indicators

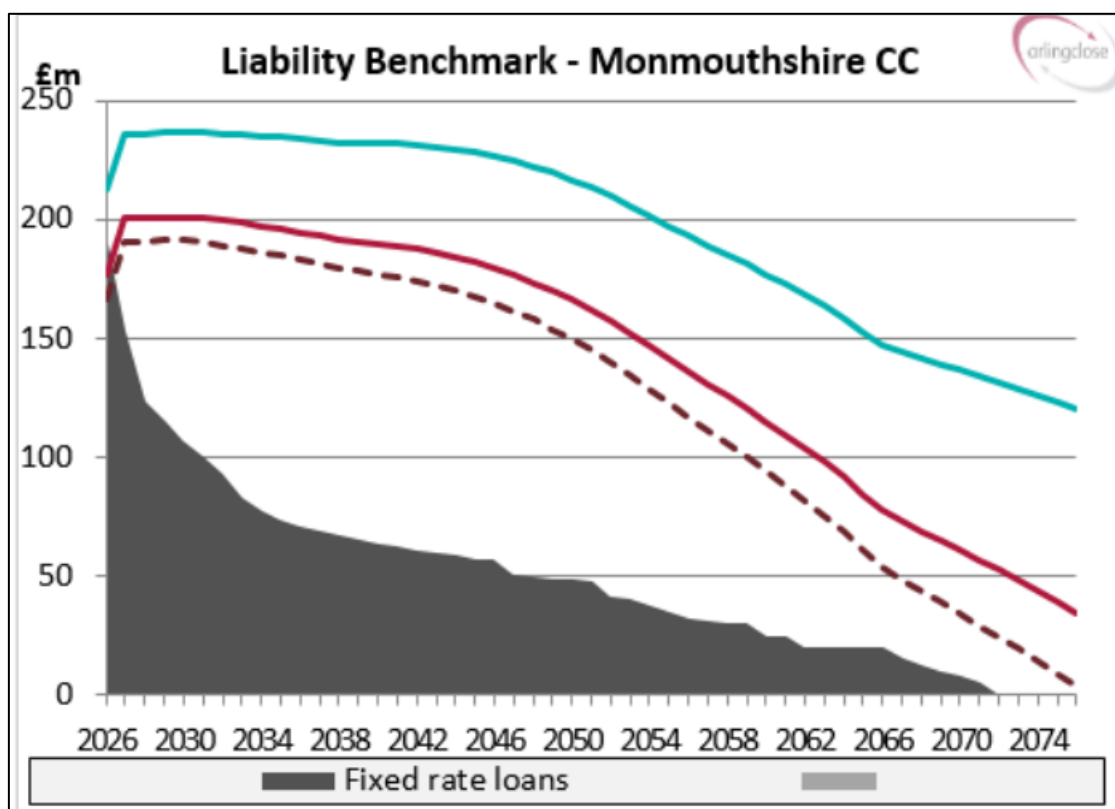
- 8.1. The Section 151 officer reports that all treasury management activities undertaken during the quarter complied fully with the CIPFA code and the limits and indicators as set out in the Authority's approved Treasury Management Strategy.
- 8.2. **Liability Benchmark:** This indicator compares the 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

	31.3.26 Actual	31.3.27 Forecast	31.3.27 Forecast	31.3.28 Forecast	31.3.29 Forecast
Loans CFR	226.8	235.9	236.4	236.6	236.6

Less: Balance sheet resources	(39.2)	(45.5)	(45.5)	(45.5)	(45.5)
Net loans requirement	187.6	190.4	190.9	191.1	191.1
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0
Liability benchmark	197.6	200.4	200.9	201.1	202.1
Current loan profile	(197.6)	(186.8)	(122.6)	(114.3)	(105.6)
Borrowing requirement	0.0	13.6	78.3	86.8	95.5

- 8.3. This indicates that if capital plans remains accurate the Council will have a borrowing requirement over the medium term of £95.5m. 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

	2026/27 Maximum during the year £m	30.6.26 Actual £m	2026/27 Operational Boundary £m	2026/27 Authorised Limit £m	Complied? Yes/No
Borrowing	197.3	186.8	255.5	270.9	Yes
PFI, Finance Leases & Other LT liabs	1.8	1.8	17.8	18.8	Yes
Total debt	199.03	188.6	273.3	289.7	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	30.6.26 Actual	Lower Limit	Upper Limit	Complied?	31.3.26 Actual (For comparison)
Under 12 months	29%	0%	50%	Yes	30%
12 months and within 24 months	6%	0%	30%	Yes	8%
24 months and within 5 years	12%	0%	30%	Yes	12%
5 years and within 10 years	15%	0%	30%	Yes	15%
10 years and within 20 years	8%	0%	30%	Yes	7%
20 years and within 30 years	13%	0%	30%	Yes	12%
30 years and within 40 years	6%	0%	30%	Yes	6%
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	2026/27 Limit	Complied? Yes/No
The UK Government	£16.0m	Unlimited	Yes
Local Authorities per counterparty	£0m	£4m	Yes
Secured Investments	£0m	£4m	Yes
Banks per counterparty, rating A- or above	£3m (£4m total for the Councils operational bank)	£3m (£4m total for the Councils operational bank)	Yes
Building societies (unsecured)	£0m	£2m	Yes
Registered providers (e.g. Housing)	£0m	£2m	Yes

Associations (unsecured)			
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
Covered or Supranational bonds	£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

	30.6.26 Actual	2026/27 Target	Complied?
Portfolio average credit	AA-/4.15	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

Price risk indicator	2025/26	2026/27	2027/28	No fixed date
Limit on principal invested beyond year end	£5m	£4m	£2m	£10m
Complied?	Yes			

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

	01/04/26	30/06/26
Bank Rate	3.75%	3.75%
1-year PWLB certainty rate, maturity loans	4.93%	4.77%
5-year PWLB certainty rate, maturity loans	5.16%	5.07%
10-year PWLB certainty rate, maturity loans	5.62%	5.55%
20-year PWLB certainty rate, maturity loans	6.14%	6.09%
50-year PWLB certainty rate, maturity loans	6.00%	5.98%

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at new market rates.

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 <i>Operational Boundary</i> to accommodate expected cash movements. Affordability and prudence are matters which must be taken into account when setting this limit. (see also <i>Operational Boundary</i>, 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 <i>Also see RPI</i>	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