

Treasury Management Mid-Year Report 2025/26

1. Introduction

- 1.1. This report has been prepared in compliance with the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires Council to approve, as a minimum, treasury management semi-annual and annual outturn reports.
- 1.2. This report includes the requirement in the 2021 Code of quarterly reporting of the treasury management prudential indicators.
- 1.3. The Council's treasury management strategy for 2025/26 was approved at a meeting of Full Council on 25 February 2025. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.

2. Local Context

- 2.1. On 31st March 2025, the Council had net investments of £33.346m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.25 Actual £m	31.3.26 Forecast £m
Total CFR	66.943	82.872
Wimbledon Finance Lease CFR	46.365	46.365
Borrowing CFR	20.578	36.507
External borrowing – TRDC	8.000	8.000
Internal borrowing	12.578	28.507

The treasury management position at 30th September and the change over the six months is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.25 Balance £m	Movement £m	30.9.25 Balance £m	30.9.25 Rate %
Long-term borrowing - PWLB	8.000	0.000	8.000	2.41
Total borrowing	8.000	0.000	8.000	2.41
Short-term investments	19.048	9.653	28.701	4.522
Pooled Fund Investments	5.001	0.010	5.011	-
Cash and cash equivalents	9.297	(1.080)	8.217	3.77
Total investments	33.346	8.583	41.929	-
Net investments	25.346		33.929	

3. Borrowing Strategy and Activity

- 3.1. As outlined in the treasury strategy, the Council's chief objective when borrowing has been to strike an appropriate risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.
- 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 Council. 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 Council has no new plans to borrow to invest primarily for financial return.

3.5. Loans Portfolio:

3.5.1. At 30th September the Council held 1 £8m loan, which was unchanged from 31st March 2025, as part of its strategy for funding previous years' capital programmes. Outstanding loans on 30th September are summarised in Table 3A below.

Table 3A: Borrowing Position

	31.3.25 Balance £m	Net Movement £m	30.9.25 Balance £m	30.9.25 Weighted Average Rate %	30.9.25 Weighted Average Maturity (years)
Public Works Loan Board	8.000	0.000	8.000	2.41	42.99
Total borrowing	8.000	0.000	8.000	2.41	42.99

3.5.2. The Council's borrowing interest costs are fixed and as there has been no borrowing activity are not affected by movements in market rates.

3.6. Other Debt Activity

3.6.1. Debt other than borrowing stood at £46.438m on 30th September 2025, taking total debt to £54.438m. The lease liability of £46.438m relates entirely to the Wimbledon Investment.

4. Treasury Investment Activity

4.1. The CIPFA Treasury Management Code defines treasury management investments as those investments which arise from the Council'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 Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the half year, the Council's investment balances ranged between £32.850 and £53.942 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.25 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)	9.297	(1.144)	8.153	4.04	1
Debt Management Office (HM Treasury)	5.048	8.653	13.701	4.11	20
Local authorities and other govt entities	14.000	4.000	18.000	5.35	182
Royal London Short-Term Fixed Income Fund	5.001	0.011	5.012	4.57	-
Total investments	33.346	11.520	44.866	4.53	-

- 4.3. Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 4.4. As demonstrated by the liability benchmark in this report, the Council expects to be a long-term investor and treasury investments therefore include both short-term low risk instruments to manage day-to-day cash flows and longer-term instruments where limited additional risk is accepted in return for higher investment income to support local public services.
- 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 3.91% and 4.45% and money market rates between 3.9% and 4.5%.
- 4.6. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2025	5.01	A+	33%	137	4.94
30.09.2025	4.30	AA-	22%	85	4.39
Similar LAs	4.53	A+	64%	53	4.27
All LAs	4.53	A+	62%	1	4.20

*Weighted average maturity

5. Compliance

5.1. The Director of Finance reports that all treasury management activities undertaken during the half year complied fully with the principles in the Treasury Management Code and the Council's approved Treasury Management Strategy.

5.1.1. Compliance with specific investment limits is demonstrated in table 7 below.

Table 7: Investment Limits

	2025/26 Maximum £m	30.9.25 Actual £m	2025/26 Limit £m	Complied?
Any single organisation, except the UK Government	9.902	8.346	10.000	Yes
Unsecured investments with banks and building societies	9.902	8.346	10.000	Yes
Money Market Funds	5.012	5.012	5.000	Yes*

* The balance of £5.012m includes unrealised gains of £0.014m. The actual amount invested is £4.998m

5.1.2. Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 8 below.

Table 8: Debt and the Authorised Limit and Operational Boundary

	H1 2025/26 Maximum £m	30.9.25 Actual £m	2025/26 Operational Boundary £m	2025/26 Authorised Limit £m	Complied?
Borrowing	8.000	8.000	20.000	25.000	Yes

5.1.3. 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

6. Treasury Management Prudential Indicators

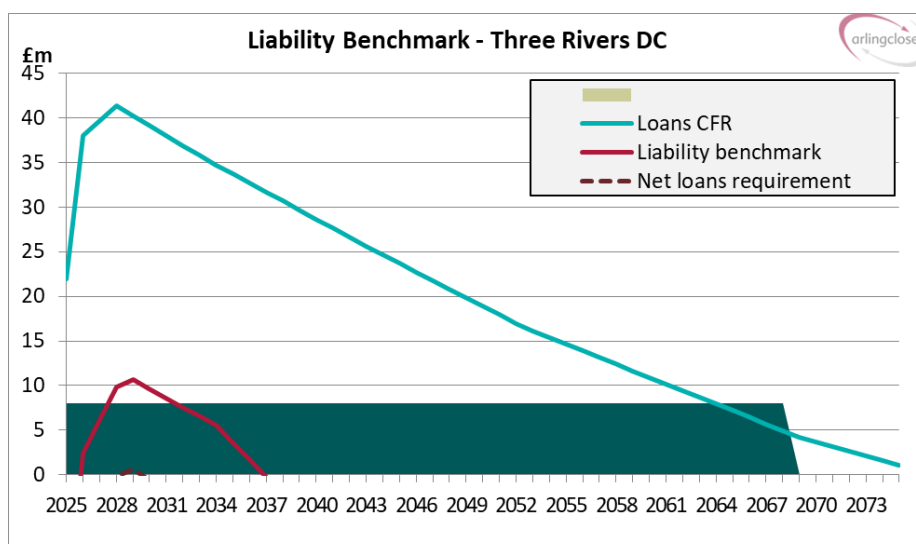
6.1. As required by the 2021 CIPFA Treasury Management Code, the Council monitors and measures the following treasury management prudential indicators.

6.2. **TMI1 - Liability Benchmark:**

This indicator compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £0.1m required to manage day-to-day cash flow.

	31.3.25 Actual £m	31.3.26 Forecast £m	31.3.27 Forecast £m	31.3.28 Forecast £m
Loans CFR	21.900	38.000	39.7000	41.400
Less: Balance sheet resources	(47.600)	(45.600)	(43.600)	(14.600)
Net loans requirement	(25.600)	(7.600)	(3.800)	(0.200)
Plus: Liquidity allowance	10.000	10.000	10.000	10.000
Liability benchmark	(15.600)	2.400	6.200	9.800
Existing borrowing	8.000	8.000	8.000	8.000

Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing of £2.700m a year, minimum revenue provision on new capital expenditure based on a 50 year asset life and income, 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 Council's existing borrowing.



Whilst borrowing may be above the liability benchmark, strategies involving borrowing which is significantly above the liability benchmark carry higher risk.

6.3. TMI2 - Maturity Structure of Borrowing

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	Upper Limit	Lower Limit	30.9.25 Actual	Complied?
10 years and above	0%	100%	100%	Yes

6.4. TMI3 Long-term Treasury Management Investments

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management limits are:

	2025/26	2026/27	2027/28
Limit on principal invested beyond year end	£10m	£10m	£10m
Actual principal invested beyond year end	0	0	0
Complied?	Y	Y	Y