

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 6 AUGUST 2025

Title of Report	TREASURY MANAGEMENT UPDATE REPORT - QUARTER 1	
Presented by	Anna Crouch Head of Finance	
Background Papers	Audit and Governance Committee – <u>Treasury Management Strategy 2025/26</u> 5 February 2025 <u>Treasury Management Update Report - Quarter 3 2024/25</u> 20 November 2024 <u>Treasury Management Update Report – Quarter 2</u>	Public Report: Yes
Financial Implications	There are no financial implications as a direct result of this report.	
	Signed off by the Section 151 Officer: Yes	
Legal Implications	There are no legal implications as a direct result of this report.	
	Signed off by the Monitoring Officer: Yes	
Staffing and Corporate Implications	There are no staffing or corporate implications as a direct result of this report.	
	Signed off by the Head of Paid Service: Yes	
Purpose of Report	To inform the Committee of the Council's Treasury Management Activity for the period April to June 2025.	
Recommendations	THAT THE COMMITTEE NOTES THE TREASURY MANAGEMENT 2025-26 QUARTER 1 ACTIVITY REPORT (APPENDIX 1).	

1. BACKGROUND

- 1.1. Treasury Management activity is underpinned by the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code), which requires local authorities to produce Prudential Indicators and a Treasury Management Strategy Statement annually on the likely financing and investment activity. The Treasury Management Strategy was approved by Council on 20 February 2025.
- 1.2. As a minimum, the Code requires that the Council approves reports on the performance of the Treasury Management function at least twice per year (mid-year and at year end). The Council goes beyond this requirement by issuing quarterly reports to the Audit and Governance Committee which provide additional updates and includes the new requirement in the 2021 Code, mandatory from 1 April 2023, of quarterly reporting of the treasury management prudential indicators.
- 1.3. Appendix A is the quarter one report for the financial year 2025/26 designed to inform the Committee of the Council's treasury activity and enable scrutiny of activity and performance.

2. SUMMARY

- 2.1 In compliance with the requirements of the CIPFA Code, Appendix A provides the Committee with a summary report of the Treasury Management activity for the period April 2025 to June 2025. A prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

Policies and other considerations, as appropriate	
Council Priorities:	The Treasury Strategies and Prudential Indicators help the Council achieve all its priorities: <ul style="list-style-type: none">- Planning and Regeneration- Communities and Housing- Clean, Green and Zero Carbon- A Well-Run Council.
Policy Considerations:	Not applicable.
Safeguarding:	Not applicable.
Equalities/Diversity:	Not applicable.
Customer Impact:	Not applicable.
Economic and Social Impact:	Not applicable.
Environment, Climate Change and Zero Carbon	The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing. Where practical, when making investment decisions ESG will be considered and counterparties with integrated ESG policies and commitments to carbon reduction.
Consultation/Community/Tenant Engagement:	Not applicable.
Risks:	Borrowing and investment both carry an element of risk. This risk is mitigated through the adoption of the Treasury and Investment Strategies, compliance with the CIPFA Code of Treasury Management and the retention of Treasury Management advisors (Arlingclose) to proffer expert advice.
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Treasury Management Activity Quarter 1 Report 2025/26

1. Introduction

- 1.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve treasury management semi-annual and annual reports.
- 1.2 The Council goes beyond this requirement by issuing quarterly reports to the Audit and Governance Committee which provide additional updates and includes the new requirement in the 2021 Code, mandatory from 1 April 2023, of quarterly reporting of the treasury management prudential indicators.
- 1.3 This report is for the first quarter (April to June) of the financial year 2025/26.
- 1.4 The Council's treasury management strategy for 2025/26 was approved at the Council meeting on 20 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. External Context (provided by Arlingclose)

- 2.1 Economic background: The quarter started to significant financial market volatility as United States (US) President Donald Trump announced a wide range of 'reciprocal' trade tariffs in early April, causing equity markets to decline sharply which was subsequently followed by bond markets as investors were increasingly concerned about US fiscal policy. As the UK was included in these increased tariffs, equity and bond markets here were similarly affected by the uncertainty and investor concerns.
- 2.2 President Trump subsequently implemented a 90-day pause on most of the tariffs previously announced, which has been generally positive for both equity and bond markets since, but heightened uncertainty and volatility remained a feature over the period.
- 2.3 UK headline consumer price inflation (CPI) increased over the quarter, rising from an annual rate of 2.6% in March to 3.4% in May, well above the Bank of England's 2% target. The core measure of inflation also increased, from 3.4% to 3.5% over the same period. May's inflation figures were generally lower than in the previous month, however, when CPI was 3.5% and core CPI 3.8%. Services inflation was 4.7% in May, a decline from 5.4% in the previous month.
- 2.4 Data released during the period showed the UK economy expanded by 0.7% in the first quarter of the calendar year, following three previous quarters of weaker growth. However, monthly Gross Domestic Product (GDP) data showed a contraction of 0.3% in April, suggesting growth in the second quarter of the calendar year is unlikely to be as strong as the first.
- 2.5 Labour market data appeared to show a softening in employment conditions as weaker earnings growth was reported for the period February to April 2025, in what would be welcome news to Bank of England (BoE) policymakers. Regular earnings (excluding bonuses) was 5.2% three month/year to year while total earnings was 5.3%. Both the employment and unemployment rates increased, while the economic inactivity rate and number of vacancies

fell.

- 2.6 Having started the financial year at 4.5%, the Bank of England's (BoE) Monetary Policy Committee (MPC) cut the Bank Rate to 4.25% in May. The 5-4 vote was split with the majority wanting a 25bps cut, two members voting to hold rates at 4.5% and two voting for a 50bps reduction. At the June 2025 MPC meeting, the committee voted by a majority of 6-3 to keep rates on hold. The three dissenters wanted an immediate reduction to 4%. This dovish tilt (an accommodative stance towards inflation which is more likely to keep interest rates low) by the Committee is expected to continue and financial market expectations are that the next cut will be in August, in line with the publication of the next quarterly Monetary Policy Report (MPR).
- 2.7 The May version of the MPR highlighted the BoE's view that disinflation in domestic inflation and wage pressures were generally continuing and that a small margin of excess supply had opened in the UK economy, which would help inflation to fall to the Bank's 2% over the medium term. While near-term GDP growth was predicted to be higher than previously forecast in the second quarter of calendar 2025, growth in the same period the following year was trimmed back, partly due to ongoing global trade developments.
- 2.8 Arlingclose, the Council's treasury adviser, maintained its central view that the Bank Rate would continue to fall, and that the BoE would focus more on weak GDP growth rather than stickier and above-target inflation. Two more cuts to Bank Rate are expected during 2025, taking the main policy rate to 3.75%, however, the balance of risks is deemed to be to the downside as weak consumer sentiment and business confidence and investment impact economic growth.
- 2.9 Despite the uncertainty around US trade policy and repeated calls for action from the US President, the US Federal Reserve held interest rates steady for the period, maintaining the Fed Funds Rate at 4.25%-4.50%. The decision in June was the fourth consecutive month where no changes were made to the main interest rate and came despite forecasts from Fed policymakers that compared to a few months ago they now expected lower growth, higher unemployment and higher inflation.
- 2.10 The European Central Bank (ECB) cut rates in June, reducing its main refinancing rate from 2.25% to 2.0%, and representing the eighth cut in just over a year. ECB noted heightened uncertainty in the near-term from trade and that stronger economic growth in the first quarter of the calendar may weaken. Inflation in the region rose to 2.0% in June, up from an eight-month low of 1.9% in the previous month but in line with the ECB's target. Inflation is expected to stay broadly around the 2% target over the next year or so.
- 2.11 **Financial markets:** After the sharp declines seen early in the quarter, sentiment in financial markets showed signs of improvement during the period, but bond and equity markets remained volatile. Early in the period bond yields fell, but then uncertainty from the impact of US trade policy caused bonds to sell-off but from the middle of May onwards, yields have steadily declined, but volatility continues. Equity markets sold off sharply in April but have since gained back most of the previous declines, with investors seemingly remaining bullish in the face of ongoing uncertainty.
- 2.12 Over the quarter, the 10-year UK benchmark gilt yield started at 4.65% and ended at 4.49% having hit 4.82% early in April and falling to 4.45% by the end of the same month. While the 20-year gilt started at 5.18%, fell to 5.02% a few days later before jumping to 5.31% within a week, and then ending the period at 5.16%. The Sterling Overnight Rate (SONIA) averaged 4.31% over the quarter to 30th June.

- 2.13 **Credit review:** Arlingclose maintained its advised recommended maximum unsecured duration limit on the majority of the banks on its counterparty list at six months. The other banks remain on 100 days.
- 2.14 During the quarter, Fitch upgraded NatWest Group and related entities to AA- from A+ due to the generally stronger business profile. Fitch also placed Clydesdale Bank's long-term A- rating on Rating Watch Positive.
- 2.15 Moody's downgraded the long term rating on the US sovereign to Aa1 in May and also affirmed OP Corporate's rating at Aa3.
- 2.16 Credit default swap (CDS) prices on UK banks spiked in early April following the US trade tariff announcements. They have since generally trended downwards and ended the quarter at levels broadly in line with those in the first quarter of the calendar year and throughout most of 2024.
- 2.17 European banks' CDS prices followed a fairly similar pattern, albeit some German banks are modestly higher compared to the previous quarter. Trade tensions between Canada and the US caused Canadian bank CDS prices to rise over the quarter and remain elevated compared to earlier in 2025 and in 2024, while Singaporean and Australian lenders CDS rose initially in April but have since trended downwards, albeit are modestly higher than in previous recent periods.
- 2.18 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.
- 2.19 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 Council's counterparty list recommended by Arlingclose remain under constant review.

3. **Local Context**

- 3.1 On 30 June 2025, the Council had net borrowing of £13.51m 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 usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.25 Estimated £m	31.3.26 Estimated £m
General Fund CFR	34.83	33.67
HRA CFR	54.72	55.31
Total CFR	89.55	88.98
External borrowing	55.08	59.51
Internal borrowing	34.47	29.47
Total Borrowing	89.55	88.98

* Revised Estimate following publication of 2022/23 Statement of Accounts

- 3.2 The treasury management position at 30 June 2025 and the change over the three months is as shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.25 Balance £m	Movement £m	30.06.25 Balance £m	30.06.25 Rate %
Long-term borrowing	53.84	0.00	53.84	3.52%
Short-term borrowing	1.30	-0.63	0.67	2.24%
Total borrowing	55.13	-0.63	54.51	3.49%
Long-term investments	0.00	0.00	0.00	0.00%
Short-term investments	25.00	-8.50	16.50	5.11%
Cash and cash equivalents	5.00	19.50	24.50	3.26%
Total investments	30.00	11.00	41.00	4.00%
Net borrowing	25.13	-11.63	13.51	

4. Borrowing

- 4.1 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 Council.
- 4.2 Public Works Loan Board (PWLB) loans are no longer available to local authorities planning to buy investment assets primarily for yield and the Council intends to avoid this activity to retain its access to PWLB loans.
- 4.3 The Council currently holds £8.9m in commercial investments that were purchased prior to the change in the CIPFA Prudential Code. These commercial investments are primarily for local regeneration and growth with a secondary objective of financial return. Before undertaking further additional borrowing the Council will review the options for exiting these investments.
- 4.4 As shown in table 1, the Council has internally borrowed £29.47m. This internal borrowing foregoes a potential interest income rate of 4.66%. Current one-year external borrowing rates with the PWLB (Certainty Rate) are 4.50% as at 30 June. An additional rate for Housing Revenue Account (HRA) specific borrowing has been implemented from June 2023 which is 0.4% lower than standard PWLB rates.
- 4.5 Whilst the current average interest rate is higher than the PWLB certainty rate, this is due mainly to two short-term investments at an average rate of 5.7%. Once these mature in August the average rate is likely to fall significantly. It is, therefore, appropriate to remain internally borrowed at this point.

5 Borrowing Strategy and Activity

- 5.1 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.

- 5.2 The PWLB certainty rate for 10-year maturity loans was 5.46% at the beginning of the period and 5.32% at the end. The lowest available 10-year maturity rate was 5.21% and the highest was 5.61%. Rates for 20-year maturity loans ranged from 5.72% to 6.18% during the period, and 50-year maturity loans ranged from 5.45% to 5.95%.
- 5.3 The cost of short-term borrowing from other local authorities was around 4.5% in late March 2025. With further Bank of England base rate cuts anticipated to the end of 2025, rates have started to decrease slightly, although some higher rates are available for longer-term agreements.
- 5.4 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 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.
- 5.5 On 30 June 2025, the Council held £55.1m of loans, the same as the previous reported position. There have been no principal repayments. A breakdown of outstanding loans is shown below in table 3.

Table 3: Borrowing Position

	31.3.25 Balance £m	Net Movement £m	30.06.25 Balance £m	30.06.25 Weighted Average Rate %	30.06.25 Weighted Average Maturity (years)
Public Works Loan Board	51.1	0.0	51.1	3.43%	13.91
Banks (fixed-term)	3.9	0.0	3.9	0.35%	2.10
Local authorities (long-term)	0.1	0.0	0.1	3.14%	0.01
Local authorities (short-term)	0.0	0.0	0.0	0.0%	0.00
Total borrowing	55.1	0.0	55.1	3.49%	16.01

- 5.6 There remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields + 0.80%. The Council will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.

6. Treasury Investment Activity

- 6.1 CIPFA revised Treasury Management (TM) Code defines treasury management investments as those which arise from the Council's cash flows or treasury risk management activity that ultimately represents balances which need to be invested until the cash is required for use in the course of business.
- 6.2 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment

balances have ranged between £28.96m and £47.63m 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	30.06.25 Balance £m	30.06.25 Income Return %	30.06.25 Weighted Average Maturity days
Banks & building societies (unsecured)	0.0	0.0	0.0	0.0%	0.0
Government (incl. local authorities)	10.0	6.5	16.5	5.11%	57.7
Money Market Funds	19.5	5.0	24.5	4.26%	0.5
Total investments	29.5	11.5	41.0	4.66%	58.25

- 6.3 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.
- 6.4 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.
- 6.5 The Bank Rate reduced from 4.75% to 4.50% in February 2025 and again to 4.25% in May 2025 with short term interest rates largely being around these levels. The rates on Debt Management Account Deposit Facility (DMADF) deposits ranged between 4.46% and 4.20% and money market rates between [4.59% and 4.19%] during the quarter. Arlingclose, our advisors, are predicting two further reductions of 25 base points in Bank of England rates within the calendar year 2025.
- 6.6 The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below. It should be noted that during the first quarter of 2025/26 financial year, the Council's Investment rate of return was higher than its peers within the benchmarking group of 122 Local Authorities and 47 Non-Metropolitan District Authorities. This is to be welcomed.

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

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
30/06/2025	4.72	A+	60%	8	4.58%

Similar LAs	4.51	A+	62%	11	4.36%
All LAs	4.56	A+	62%	12	4.36%

- 6.7 The Council has budgeted £444,082 in interest income from investments after deductions in 2025/26. The actual income received by 30 June 2025 was £474,583. The forecasted income to 31 March 2026 was £1.73m.
- 6.8 Interest rates can and have been extremely volatile over the financial year and are likely to be similarly volatile in the upcoming months. Therefore, for the purpose of budget setting these forecasts are reduced by 20% to ensure that there is not an overreliance placed on interest return for creating a balanced budget.
- 6.9 The updated forecast of £1.73m will be split between the General Fund (GF) and HRA. This split will be 92.33% to the GF and 7.67% to HRA. The percentage split is worked using the investment balances for both funds throughout the year as a percentage of the overall investment fund. This is subject to change.
- 6.10 Interest forecasts are notoriously difficult to predict and are subject to change particularly in an unstable interest rate environment and constantly changing economic environment.

7. Non-Treasury Investments

- 7.1 The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. 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).
- 7.2 Investment Guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) and Welsh Government also broadens the definition of investments to include all such assets held partially or wholly for financial return.
- 7.3 The Council held £8.9m of investments made for commercial purposes. This consisted entirely of directly owned property and land. A full list of the Council's non-treasury investments is available in the Investment Strategy 2025-26 document. These investments are forecast to generate £410,000 in investment income in 2025/26 for the Council after taking account of direct costs.
- 7.4 The main purpose of these investments is regeneration of the local area rather than investment income. All commercial investments are located within the district.

8. Treasury Performance

- 8.1 The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship with benchmark interest rates.
- 8.2 As discussed in section 6.8, investment interest income during the reporting period was £474,583 after deductions. The Council's Investment interest return percentage on 30 June 2025 was 4.58%. For comparison purposes the Daily Sterling Overnight Index Average (SONIA) which is used for benchmarking purposes was 4.58%. For similar local authorities the most recent benchmarking data, which is from 30 June 2025 showed an investment return of 4.36%. This is

shown in Appendix 1.

- 8.3 Since the beginning of the reporting period the Council, as per forecast, has paid £38,000 in interest on borrowing. The weighted average interest rate on borrowing is 3.49%. For comparison purposes the current PWLB Maturity Loan rate for new 10-year loans is 5.52%. The Council's average rate therefore represents a good rate of borrowing in the current environment.
- 8.4 During the 2025/26 financial year, the Council is forecasting pay back of £1.29m in principal on its PWLB loans. The £1.29m is for the annuity loans whereby regular payments are made throughout the lifetime of the loan. There is no intention to borrow to replace these loans as the Council currently has the resources to absorb this.
- 8.5 The Council is forecast to undertake new borrowing of £1.9m for the HRA in the 2025/26 financial year, however, none has so far been undertaken. There has therefore been an equal increase in the internal borrowing.
- 8.6 On 10 April 2024, amended legislation and revised statutory guidance were published on Minimum Revenue Provision (MRP). Most of the changes take effect from the 2025/26 financial year, although there is a requirement that for capital loans given on or after 7 May 2024 sufficient MRP must be charged so that the outstanding CFR in respect of the loan is no higher than the principal outstanding, less the Expected Credit Loss (ECL) charge for that loan. No capital loans have been given since May 2024.
- 8.7 The regulations also require that local authorities cannot exclude any amount of their CFR from their MRP calculation unless by an exception set out in law. Capital receipts cannot be used to directly replace, in whole or part, the prudent charge to revenue for MRP (there are specific exceptions for capital loans and leased assets).

9. Compliance

- 9.1 The Director of Resources (S151 Officer) reports that all treasury management activities undertaken during the quarter complied fully with the CIPFA Code of Practice.
- 9.2 Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 6 below.

Table 6: Debt and the Authorised Limit and Operational Boundary

	2025/26 Maximum Debt Q1	30.06.25 Actual £m	2025/26 Operational Boundary £m	2025/26 Authorised Limit £m	Complied?
Borrowing	55.1	55.1	90.8	100.8	YES

- 9.3 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. However, there were no days in the reporting period in which the operational boundary was breached.

Table 7: Investment Limits

	Q1	30.06.25	2025/26	Complied?
The UK Government	11.5	14.5	Unlimited	YES
Local authorities & other government entities	10	10	60	YES
Secured investments	0	0	60	YES
Banks (unsecured)	2.2	0	60	YES
Building societies (unsecured)	0	0	5	YES
Registered providers (unsecured)	0	0	12.5	YES
Money market funds	25	24.5	60	YES
Strategic pooled funds	0	0	25	YES
Real estate investment trusts	0	0	12.5	YES
Other investments	0	0	2.5	YES
Total	48.7	49.0		

10. **Treasury Management Prudential Indicators**

- 10.1 The Council measures and manages its exposures to treasury management risks using the following indicators.
- 10.2 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating 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 8: Security

	31.3.25 Actual	30.06.25 Actual	2025/26 Target	Complied?
Portfolio average credit rating	A+	A+	A-	YES

- 10.3 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing. Due to recent changes in Treasury Officers, a very prudent approach has been taken to cashflow forecasts as set out in table 9 below.

Table 9: Liquidity

		30.06.25 Actual £m	2025/26 Target £m	Complied?
Total cash available within 3 months	90	31.0	2.5	YES

- 10.4 **Interest Rate Exposures:** This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests is shown in table 10 below.

Table 10: Interest Rate Exposures

Interest rate risk indicator	30.06.25 Actual	2025/26 Limit	Complied?
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	306,195	600,000	YES
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	-306,195	-600,000	YES

- 10.5 The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at new rates. Due to all of our investments maturing in year and the majority of the Council's borrowing maturing in later years this means that it would benefit from an increase in Interest rates (as investments can be replaced with higher rates but not borrowing) but are negatively impacted by a decrease in interest rates for the same reason.
- 10.6 This is demonstrated in the above figures which show a positive return from an increase and a negative return from a decrease in interest rates. Both impacts are within reasonable limits for the revenue budget. The Council also takes further precautions by reducing its interest forecast by a risk adjusted amount of 20% as discussed in paragraph 6.9.
- 10.7 For context, the changes in interest rates during the quarter were as set out table 11 below:

Table 11: Interest Rate Changes

Context - Interest Rate changes	31/3/2025	30/06/2025
Bank Rate	4.75%	4.25%
1-year PWLB certainty rate, maturity loans	5.02%	4.50%
5-year PWLB certainty rate, maturity loans	5.17%	4.76%
10-year PWLB certainty rate, maturity loans	5.62%	5.32%
20-year PWLB certainty rate, maturity loans	6.11%	5.89%

50-year PWLB certainty rate, maturity loans	5.87%	5.69%
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- 10.8 **Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. [This indicator covers the risk of replacement loans being unavailable, not interest rate risk.] The upper and lower limits on the maturity structure of all borrowing were as set out in table 12 below:

Table 12: Maturity Structure of Debt

	31.03.26 Actual £m	31.03.26 Forecast %	Lower Limit	Upper Limit	Complied ?
Under 12 months	1.3	1.16%	0%	70%	YES
12 months and within 24 months	0.6	2.32%	0%	30%	YES
24 months and within 5 years	1.8	4.44%	0%	30%	YES
5 years and within 10 years	0.6	3.31%	0%	30%	YES
10 years and within 20 years	43.8	78.57%	0%	90%	YES
20 years and above	5.7	10.21%	0%	30%	YES
Totals	53.8	100%			

- 10.9 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.
- 10.10 **Principal Sums Invested for Periods Longer than a year:** 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 limits on the long-term principal sum invested to final maturities beyond the period end were as set out in table 13 below:

Table 13: Long Term Investments

	2025/26	2026/27	2027/28	No Fixed Date
Actual principal invested beyond year end	£0	£0	£0	£0
Limit on principal invested beyond year end	£60m	£10m	£10m	£10m
Complied?	YES	YES	YES	YES

- 10.11 **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 £10m required to manage day-to-day cash flow.

Table 14: Liability Benchmark

	*31.3.25 Forecast	31.3.26 Forecast	31.3.27 Forecast	31.3.28 Forecast
Loans CFR	89.5	88.8	94.2	100.1
Less: Balance sheet resources	-65.2	-66.3	-71.5	-77.4
Net loans requirement	24.3	22.5	22.7	22.7
Plus: Liquidity allowance	10	10	10	10
Liability benchmark	34.3	32.5	32.7	32.7
Existing external borrowing	-55.1	-53.8	-52.5	-51.9

*The 31.3.25 position is an estimate due to statement of accounts not yet being published

- 10.12 The Liability Benchmark shows the underlying need to borrow (Loans CFR) in the blue line at the top of the graph, the grey shaded area as existing loans and the strong red line as the requirement for external borrowing. The long-term liability benchmark assumes no capital expenditure funded by borrowing after the 2029/30 financial year. Reserves and working capital are assumed to increase by inflation of 2.5% per annum. This is shown in the chart below together with the maturity profile of the Council's existing borrowing. The graph shows that borrowing is expected to remain above the liability benchmark in the long-term. This means that the Council is very unlikely to need to borrow and will expect to see investment balances remaining in the long term. If appropriate the Council may be able to consider early repayment of some loans.



