

Bath & North East Somerset Council		
MEETING	Cabinet	
MEETING DATE:	13 th November 2025	EXECUTIVE FORWARD PLAN REFERENCE:
		E3641
TITLE:	Treasury Management Performance Report to 30 th September 2025	
WARD:	All	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Performance Against Prudential Indicators		
Appendix 2 – The Council’s Investment Position at 30 th September 2025		
Appendix 3 – Average monthly rate of return for the first six months of 2025/26		
Appendix 4 – The Council’s External Borrowing Position at 30 th September 2025		
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Appendix 7 – Summary Guide to Credit Ratings		
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1 THE ISSUE

- 1.1 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy’s Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code), which requires the Council to approve a Treasury Management Strategy before the start of each financial year, review performance during the year, and approve an annual report within six months after the end of each financial year.
- 1.2 This report gives details of performance against the Council’s Treasury Management Strategy for the first six months of 2025/26.

2 RECOMMENDATION

The Cabinet is asked to note;

- 2.1 The Treasury Management Report to 30th September 2025, prepared in accordance with the CIPFA Treasury Code of Practice; and
- 2.2 The Treasury Management Indicators to 30th September 2025.

3 THE REPORT

Summary

- 3.1 The Council's Treasury Management Indicators for 2025/26 were agreed by Council in February 2025 and performance against the key indicators is shown in **Appendix 1**. All indicators are within target levels.
- 3.2 The estimated average rate of return on operational investments for the period 1st April 2025 – 30th September 2025 is 4.19%, which is 0.04% above the 7 Day SONIA benchmark rate of 4.15%. For the same period, it is estimated that strategic investments earned 4.22% which is 0.03% below the budgeted return of 4.25%.
- 3.3 The Council's revenue budget for interest & capital financing costs for 2025/26 is currently forecast to be £0.837m under budget. This is due to a combination of lower rates achieved on new borrowing when compared to budgeted rates, higher rates earned on investments than budgeted and a lower Minimum Revenue Provision (MRP) charge, reflecting the rephasing of capital projects reported in the 2024/25 capital outturn report. The breakdown of the 2025/26 revenue budget for interest and capital financing, and the forecast year-end position, is included in **Appendix 6**.

Economic Overview

- 3.4 The Council's Treasury Management Advisor's economic and market review for 2025/26 is included in **Appendix 5**. The main headlines are as follows:
- Interest Rates were cut by 0.25% to 4.00% on 7th of August and have been decreasing at 0.25% each quarter for the last year. While the market has priced in another 0.25% before April 2026, there is now increased uncertainty as to exactly when this might occur.
 - UK Inflation has increased from 2.6% in March to 3.8% in August.
 - The UK Economy expanded by 0.3% in the second quarter of 2025, down from 0.7% in the first quarter of 2025.
 - Gilt yields continued to be volatile with the 10-year UK benchmark gilt ranging from 4.45% to 4.82% in the quarter ending it at 4.70%.
 - The 7-day average SONIA (Sterling Overnight rate) for the first half of 2025/26 is 4.15%. This is the benchmark rate used by the council for operational investments.

Borrowing

- 3.5 The Council's external borrowing as at 30th September 2025 totalled £278.01m and is detailed in **Appendix 4**. This includes £10m in new short-term loans taken out in April 2025, to cover the annual pension contribution prepayment, and allow us to maintain our liquidity indicator above £15m, as well as £40m of borrowing to replace maturing loans. The summary of the movement in borrowing during the quarter and for the full financial year is shown in the following table:

Borrowing Portfolio Movements	Financial Year 2025/26 £m
Balance as at 1st April 2025	275.713
New Loans Taken	50.000
Maturity Loan Repayments	(45.000)
PWLB Annuity Loan principal repayments	(2.703)
Balance as at 30th September 2025	278.010

- 3.6 The Council's Capital Financing Requirement (CFR) is forecasted to be £441.8m on 31st March 2026 based on the Capital Programme agreed in February 2025, including both fully and provisionally approved schemes. The Actual CFR on 31st March 2025 was £373m. This represents the Council's underlying need to borrow to finance capital expenditure and demonstrates that the borrowing taken to date relates to funding historical capital spend.
- 3.7 The difference between the CFR and the current borrowing of £278m represents re-investment of the internal balances including reserves, reducing the in-year borrowing costs in excess of the potential investment returns.
- 3.8 The Liability Benchmark in **Appendix 1** illustrates the current borrowing and current and projected CFR and liability benchmark. The benchmark is lower than the CFR as it recognises the Council's ability to internally borrow to fund capital and therefore shows the optimum level of borrowing for the council that minimises risks and costs of borrowing. This gap is a useful guide to the optimal amount and duration of borrowing to minimise interest and credit risk. This is currently £43.59m and circa 28 years.
- 3.9 Following Local Government Reorganisation in 1996, Avon County Council's residual debt is administered by Bristol City Council. All successor Unitary Authorities make an annual contribution to principal and interest repayment, for which there is a provision in the Council's revenue budget. The amount of residual debt outstanding as of 31st March 2025 apportioned to Bath & North East Somerset Council is £9.277m. Since this borrowing is managed by an external body and treated in the Council's Statement of Accounts as a deferred liability, it is not included in the borrowing figures referred to in paragraph 3.5.

Investments

- 3.10 As demonstrated by the liability benchmark in **Appendix 1**, the Council expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day to day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different asset classes and maintain stable investment income over the medium to long term.
- 3.11 At 30th September 2025, the Council had £51.8m in investments, with £41.8m in short term liquid investments and £10m in externally managed strategic funds. The balance of deposits is set out in the charts in **Appendix 2**, along with the equivalent for the previous quarter and year for comparison.

3.12 **Appendix 3** details the investment performance, showing the average rate of interest earned over this period, which are made up as follows:

Investment Type	Average Investment Return
Money Market Funds (MMF)	4.26%
Call Accounts	3.54%
Fixed Deposits	4.23%
Operational Investments Total	4.19%
CCLA Local Authorities Property Fund	3.87%
FP Foresight UK Infrastructure Income Fund	4.96%
VT Gravis Clean Energy Income Fund	4.00%
Strategic Investments Total (Est.)	4.22%

3.13 At 30th September 2025, the Council has earned 4.19% from Operational investments, which is 0.04% above the 7-day SONIA benchmark Rate of 4.15% and 0.19% above the budgeted rate of 4.00%. Strategic funds earned an estimated return of 4.22% which is 0.03% below the budgeted rate of 4.25%.

3.14 The Council hold £10m invested in externally managed strategic pooled funds, where the objectives are regular revenue income and long-term price stability. These investments were made with the knowledge that there is a risk that capital value could move both up and down on a frequent basis and are intended to be held over a long period of time.

This investment includes £5m in Environmental Social and Governance (ESG) focused funds, and £5m in a property fund, as listed below.

- £5m CCLA Local Authorities Property Fund.
- £3m FP Foresight UK Infrastructure Income Fund.
- £2m VT Gravis Clean Energy Income Fund.

In the current economic environment of high inflation and interest rates, the value of equity, bonds and property have fallen significantly. However, in the last six months we have seen a small increase in the value of our strategic investments of £176k to £7.729m, up from £7.553m on 31 March 2025. This is shown in the table below:

	CCLA Local Authorities Property Fund	FP Foresight UK Infrastructure Income Fund	VT Gravis Clean Energy Income Fund	Total
Historic Cost	5,000,000	3,000,000	2,000,000	10,000,000
Fair Value as at:				
30/09/2025	4,269,278	2,162,156	1,297,843	7,729,276
30/06/2025	4,260,249	2,246,128	1,336,119	7,842,497
31/03/2025	4,253,634	2,072,300	1,227,138	7,553,072
31/03/2024	4,177,465	2,173,120	1,346,161	7,696,746

This change in valuation does not currently have an impact on the revenue account or usable reserves due to a statutory override, and gains/losses will instead go to an unusable reserve. With the extension of the statutory override until 31st March 2029 for investments existing before 1st April 2024, these will only be charged to revenue if/when the Council's holding in the pooled funds are sold, or in 2029/30. The Council has in place a Capital Financing Reserve which can be used to mitigate any future revenue impacts should the statutory override be removed.

Budget Implications

- 3.15 The breakdown of the 2025/26 revenue budget and the forecast year end position for interest and capital financing, based on the period April to September 2025, is included in **Appendix 6**. An overall underspend of £837k is reported towards the Council's net revenue outturn. This is due to lower borrowing rates achieved on year to date borrowing when compared to budgeted rates, higher interest rates than budgeted earned on investments and a lower than budgeted MRP charge.

4 STATUTORY CONSIDERATIONS

- 4.1 This report is for information only.

5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

- 5.1 The financial implications are contained within the body of the report.

6 RISK MANAGEMENT

- 6.1 The Council's lending & borrowing list is regularly reviewed during the financial year and credit ratings are monitored throughout the year. All lending/borrowing transactions are within approved limits and with approved institutions. Investment and borrowing advice is provided by our Treasury Management consultants, Arlingclose.
- 6.2 The CIPFA Treasury Management in the Public Services: Code of Practice requires the Council to nominate a committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies. The Audit Committee carries out this scrutiny.
- 6.3 In addition, the Council maintain a risk register for Treasury Management activities, which is regularly reviewed and updated where applicable during the year. An extract from the risk register, detailing how the top 5 risks are managed, is included as **Appendix 8**.

7 EQUALITIES

- 7.1 As this report contains performance information for noting only, an Equality Impact Assessment is not considered necessary.

8 CLIMATE CHANGE

- 8.1 The Council will continue to avoid any direct treasury management investments in fossil fuel related companies and will engage with its advisors to explore and assess the potential for any future investment opportunities in funds with a Renewable Energy & Sustainability focus, as and when these products continue to be developed by the market in response to the Climate & Nature Emergency agenda.

8.2 An ESG section has been included the Treasury Management Strategy document for 2025/26, with the treasury team monitoring investment options permitted under the new guidelines.

8.3 The Council holds £5m in longer term investments, split across two ESG focussed Strategic Funds, as detailed under 3.14.

9 OTHER OPTIONS CONSIDERED

9.1 None

10 CONSULTATION

10.1 Consultation has been carried out with the Cabinet Member for Resources, Director of Financial Services, Assurance & Pensions (s151 Officer) and Monitoring Officer.

Contact person	Claire Read - 01225 477109; Jamie Whittard - 01225 477213 Claire_Read@BATHNES.GOV.UK : Jamie_Whittard@BATHNES.GOV.UK
Background papers	2025/26 Treasury Management & Investment Strategy
Please contact the report author if you need to access this report in an alternative format	

APPENDIX 1

Performance against Treasury Management Indicators agreed in Treasury Management Strategy Statement

1. Treasury Borrowing limits

These limits include current commitments and proposals in the budget report for capital expenditure, plus additional headroom over & above the operational limit for unusual cash movements.

The Authorised limits for external debt include current commitments and proposals in the budget report for capital expenditure, plus additional headroom over and above the operational limit for unusual cash movements.

The Operational boundary for external debt is based on the same estimates as the authorised limit but without the additional headroom for unusual cash movements. This level also factors in the proposed approach to use internal cash-flow and future capital receipts as the preferred financing method for the capital programme.

	2025/26 Prudential Indicator	Actual as at 30 th September 2025
Operational boundary – borrowing.	£414m	£278.01m
Operational boundary – other long-term liabilities	£9m	£0m
Operational boundary – TOTAL	£423m	£278.01m
Authorised limit – borrowing.	£442m	£278.01m
Authorised limit – other long-term liabilities.	£9m	£0m
Authorised limit – TOTAL	£451m	£278.01m

2. Security: Average Credit Rating*

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. A summary guide to credit ratings is set out at **Appendix 7**.

	2025/26 Prudential Indicator	Actual as at 30 th September 2025
	Rating	Rating
Minimum Portfolio Average Credit Rating	A-	AA

* The calculation excludes the strategic investment in the CCLA Local Authority Property Fund and ESG focussed Investment Funds, which are unrated.

3. Liquidity

The Authority 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.

Liquidity risk indicator	2025/26 Prudential Indicator	Minimum During year	Date of minimum
Minimum total Cash Available within 3 months	£15m	£18.8m	30-Apr-25

4. Interest rate exposures

This indicator is set to control the Council's exposure to interest rate risk. The upper limit represents the maximum one-year revenue impact of a 1% rise or fall in interest rates.

	2025/26 Prudential Indicator	Actual as at 30 th September 2025
Upper limit on one-year revenue impact of a 1% rise in interest rates	+/- £0.80m	-£0.06m
Upper limit on one-year revenue impact of a 1% fall in interest rates	+/- £0.80m	£0.06m

The impact of this limit is that the Council should never be holding a maturity adjusted net debt / investment position on variable rates of more than £80m.

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates, which includes amounts which are maturing each year in PWLB annuity loans.

5. Maturity Structure of borrowing

This indicator is set to control the Council's exposure to refinancing risk.

	Upper Limit	Lower Limit	Actual as at 30 th September 2025
	%	%	%
Under 12 months	30	Nil	17.98
12 months and within 24 months	30	Nil	0.00
24 months and within 5 years	50	Nil	7.19
5 years and within 10 years	75	Nil	12.70
10 years and within 25 years	100	25	37.24
Over 25 years	100		24.89

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date that the lender can demand repayment. For LOBO's, this is shown at the date of maturity as the council would only consider repaying these loans if the lenders exercised their option to alter the interest rate.

6. Upper limit for total principal sums invested for over 364 days

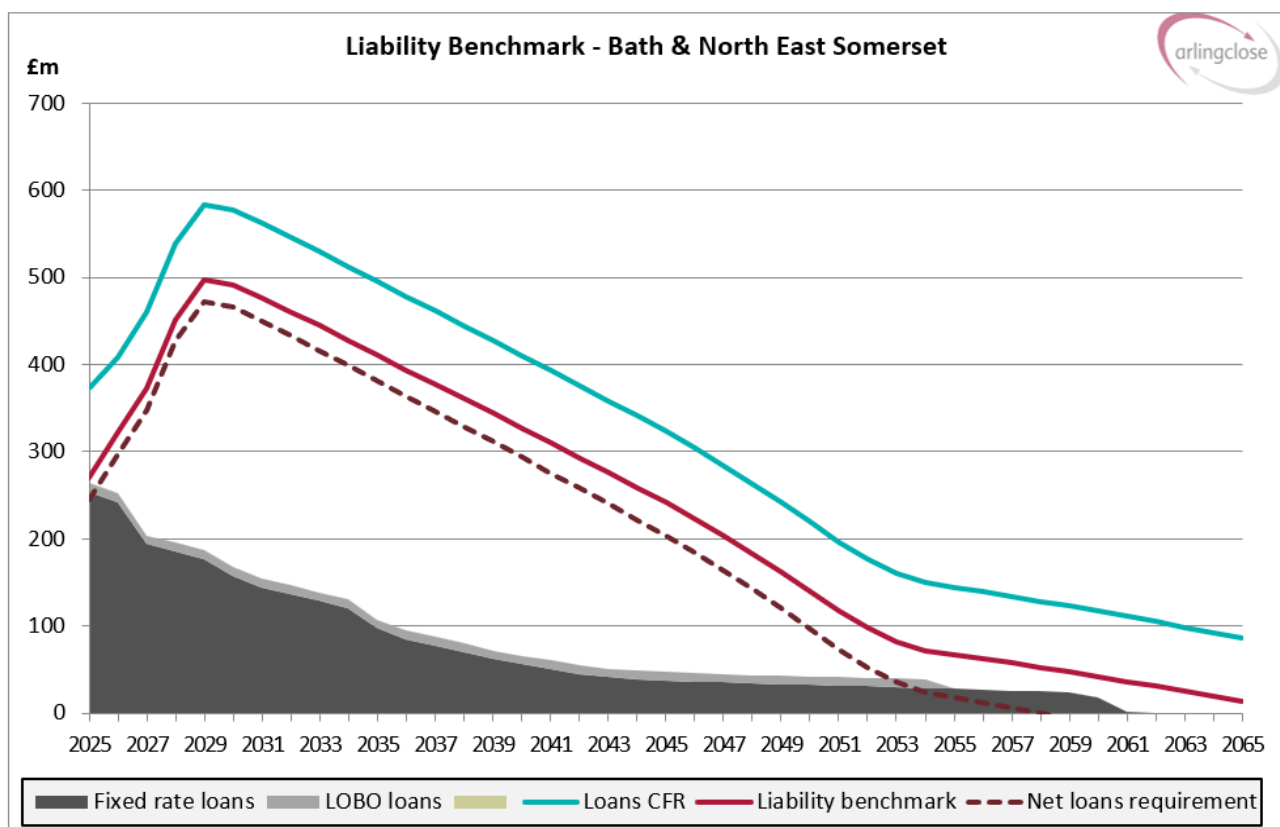
The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2025/26 Prudential Indicator	Actual as at 30 th September 2025
Limit on principal invested beyond 31 st March 2025	£50m	£10m*
Limit on principal invested beyond 31 st March 2026	£20m	£10m*
Limit on principal invested beyond 31 st March 2027	£10m	£10m*

*The Council includes the CCLA LA Property Fund & two long term ESG focussed Investment Funds against this indicator as they are both held as Long-Term Strategic Investments.

7. Liability Benchmark

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. The liability benchmark itself 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.



The difference between the actual borrowing (the grey slopes) and the liability benchmark (the solid red line) shows that the council is under borrowed by around £43.59m in 2025/26. When it comes to new borrowing this funding gap can be used as a guide to the optimal amount and length of borrowing required to minimise interest rate and credit risk.

APPENDIX 2

The Council's Investment position at 30th September 2025

The term of investments is as follows:

Term Remaining	Balance at 30 th September 2025	Comparator	
		Balance at 30 th June 2025	Balance at 31 st March 2025
	£m	£m	£m
Notice (instant access funds)	31.80	30.40	22.60
Up to 1 month	0.00	0.00	0.00
1 month to 3 months	10.00	0.00	0.00
3 months to 6 months	0.00	0.00	0.00
6 months to 12 months	0.00	0.00	0.00
Strategic Funds	10.00	10.00	10.00
Total	51.80	40.40	32.60

The investment figure is made up as follows:

	Balance at 30 th September 2025	Comparator	
		Balance at 30 th June 2025	Balance at 31 st March 2025
	£m	£m	£m
B&NES Council	48.59	36.93	29.77
Schools	3.21	3.47	2.83
Total	51.80	40.40	32.60

The Council had a total average net positive balance of £55.5m during the period April 2025 to September 2025.

Chart 1: Council Investment Balances

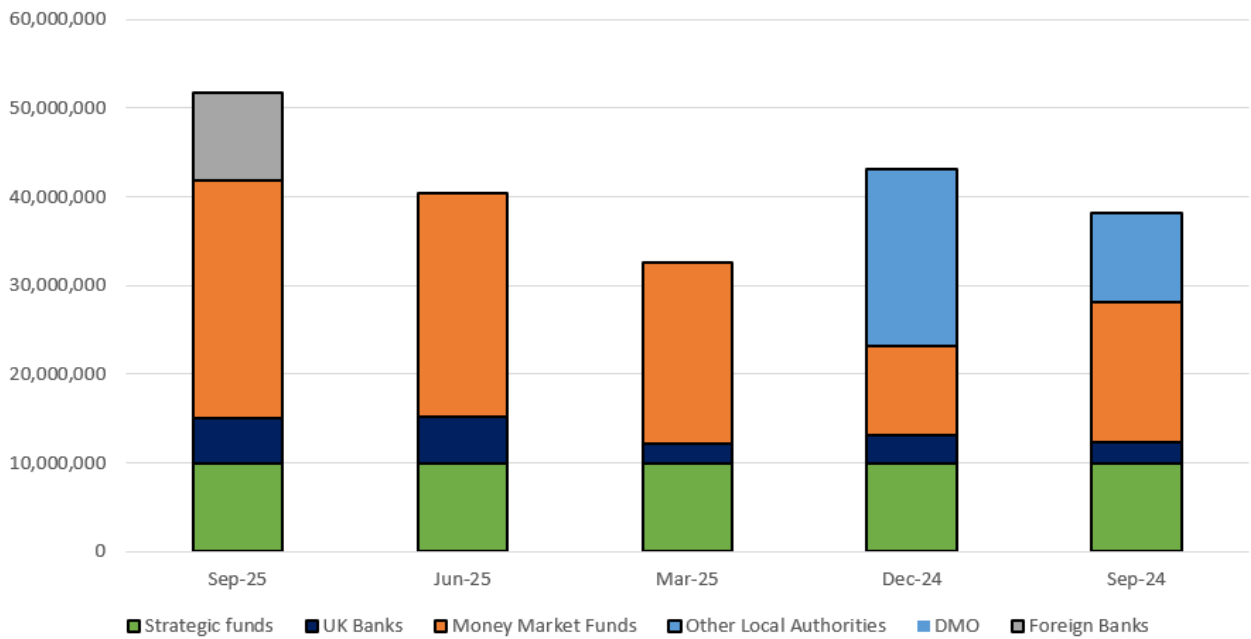


Chart 1a: Council Investments as at 30th September 2025 £51.8m

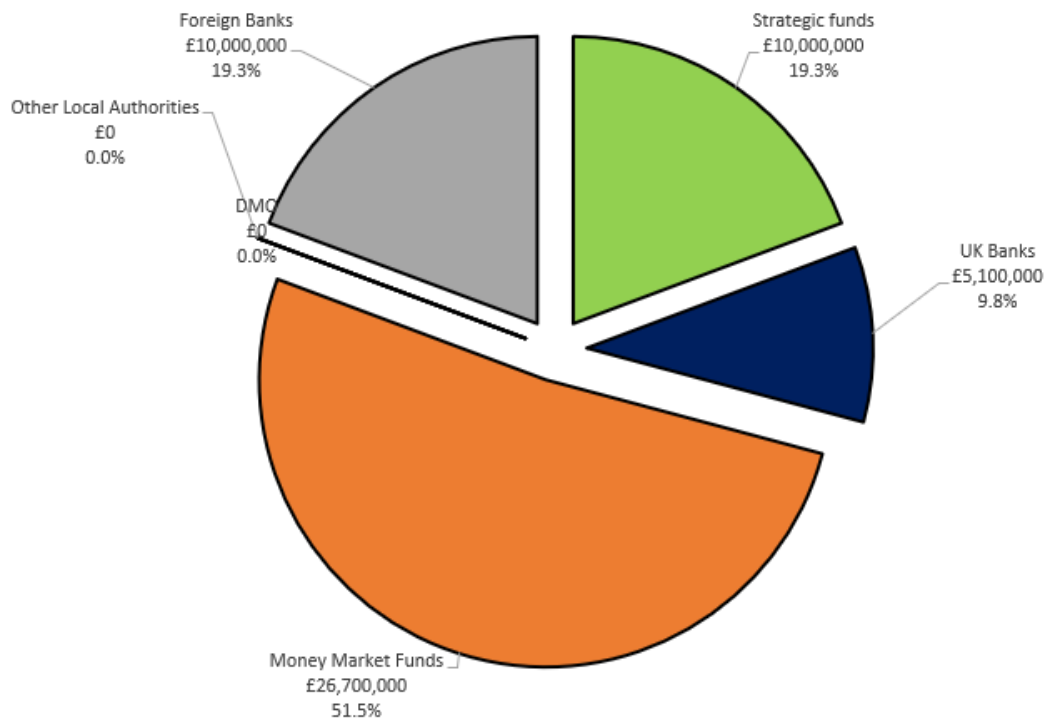


Chart 2: Council Investments Per Lowest Equivalent Long Term Credit Rating

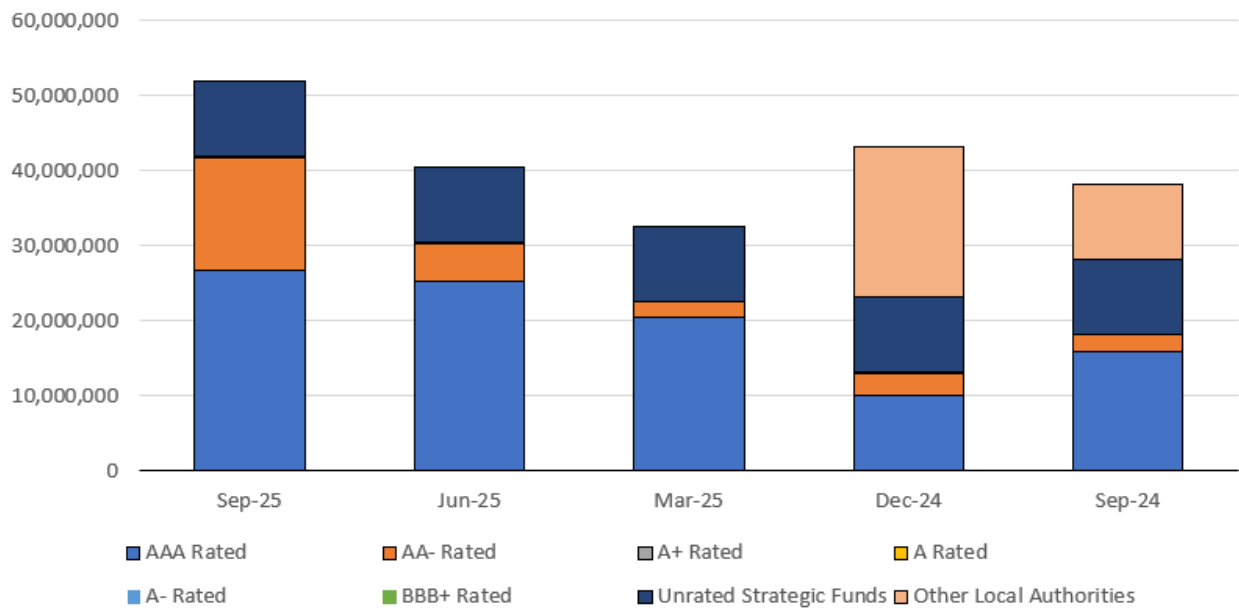
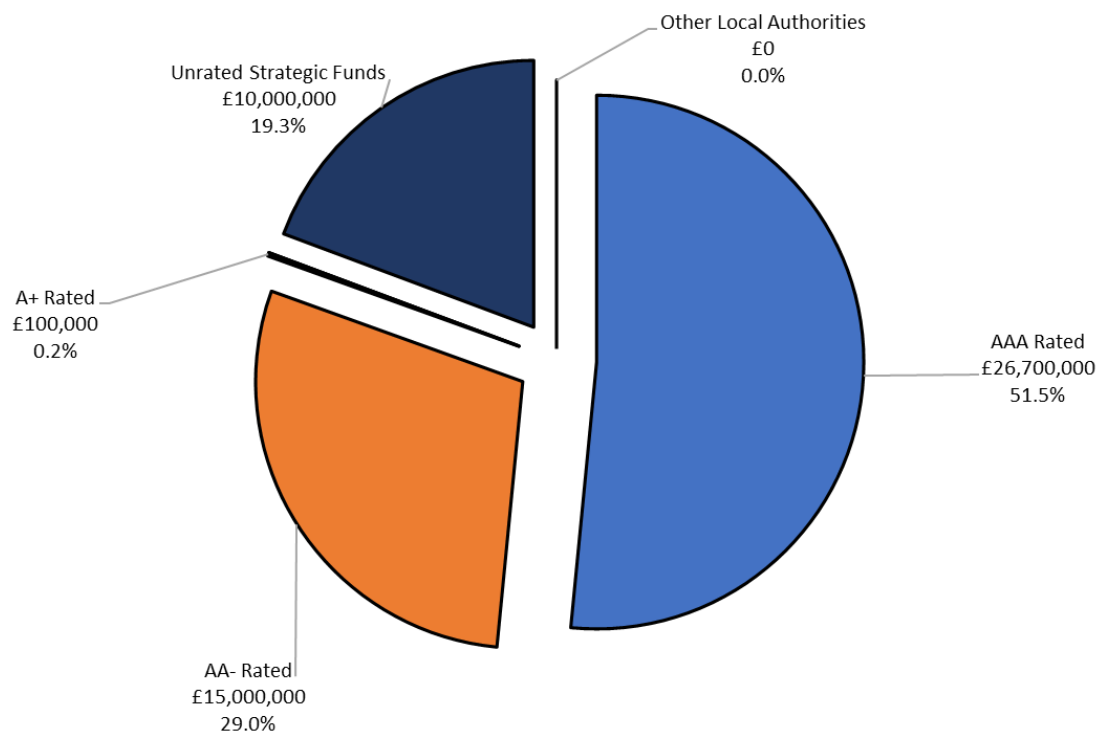


Chart 2a: Council Investments Per Lowest Equivalent Long Term Credit Rating as at 30th September 2025 £51.8m



APPENDIX 3

Operational investment return

	Average rate of interest earned	Benchmark = Average 7 Day SONIA rate	Performance against Benchmark
April 2025	4.33%	4.41%	-0.08%
May 2025	4.32%	4.18%	0.14%
June 2025	4.22%	4.19%	0.03%
July 2025	4.18%	4.21%	-0.03%
August 2025	4.08%	3.95%	0.13%
September 2025	4.02%	3.94%	0.08%
Average	4.19%	4.15%	0.04%

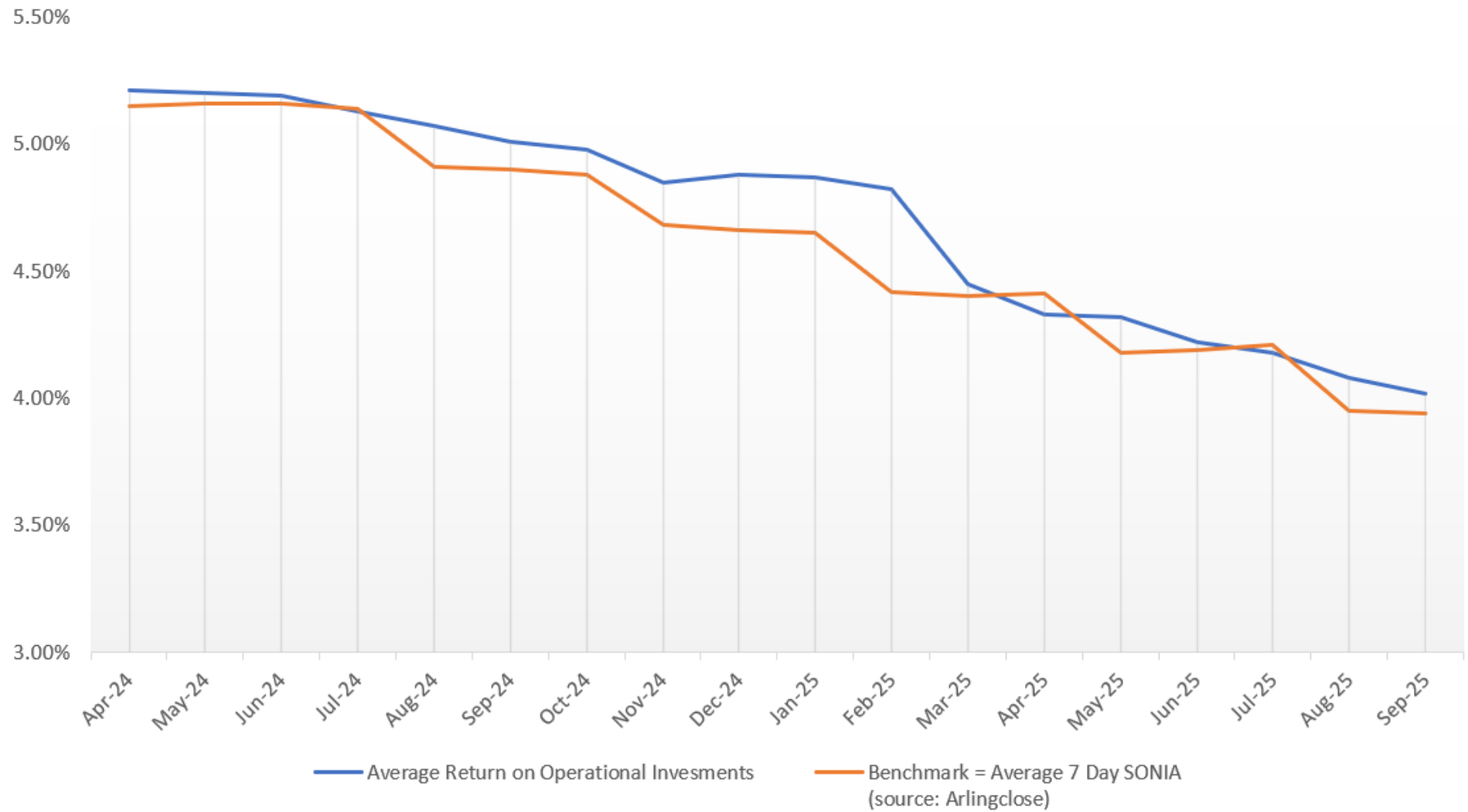
For comparison, the average rate of return on investments in 2024/25 was as follows:

	Average rate of interest earned	Benchmark = Average 7 Day SONIA rate	Performance against Benchmark
April 2024	5.21%	5.15%	0.06%
May 2024	5.20%	5.16%	0.04%
June 2024	5.19%	5.16%	0.03%
July 2024	5.13%	5.14%	-0.01%
August 2024	5.07%	4.91%	0.16%
September 2024	5.01%	4.90%	0.11%
October 2024	4.98%	4.88%	0.10%
November 2024	4.85%	4.68%	0.17%
December 2024	4.88%	4.66%	0.22%
January 2025	4.87%	4.65%	0.22%
February 2025	4.82%	4.42%	0.40%
March 2025	4.45%	4.40%	0.05%
Average	4.97%	4.84%	0.13%

Strategic investment return

Estimated average return for strategic investments was 4.22% against a budgeted return of 4.25%. In 2024/25 the average return was 4.25%

Average Return on Operational Investments 2024/25 & 2025/26 compared to Benchmark



APPENDIX 4

Council's External Borrowing at 30th September 2025

Lender	Amount outstanding @ 30 th June 2025 £	Change in Quarter £	Amount outstanding @ 30 th September 2025 £	Start date	End date	Interest rate
Long term						
PWLB489142	10,000,000	-	10,000,000	15/10/2004	15/10/2034	4.75%
PWLB497233	5,000,000	-	5,000,000	12/05/2010	15/08/2035	4.55%
PWLB497234	5,000,000	-	5,000,000	12/05/2010	15/02/2060	4.53%
PWLB498834	5,000,000	-	5,000,000	05/08/2011	15/02/2031	4.86%
PWLB498835	10,000,000	-	10,000,000	05/08/2011	15/08/2029	4.80%
PWLB498836	15,000,000	-	15,000,000	05/08/2011	15/02/2061	4.96%
PWLB503684	5,300,000	-	5,300,000	29/01/2015	08/04/2034	2.62%
PWLB503685	5,000,000	-	5,000,000	29/01/2015	08/10/2064	2.92%
PWLB505122	14,105,914	-	14,105,914	20/06/2016	20/06/2041	2.36%
PWLB508126	7,767,122	-	7,767,122	06/12/2018	20/06/2043	2.38%
PWLB508202	9,246,861	-	9,246,861	12/12/2018	20/06/2068	2.59%
PWLB508224	3,868,978	-	3,868,978	13/12/2018	20/06/2043	2.25%
PWLB505744	7,011,719	(205,378)	6,806,341	24/02/2017	15/08/2039	2.28%
PWLB505966	7,387,372	(179,414)	7,207,958	04/04/2017	15/02/2042	2.26%
PWLB506052	6,277,170	(152,583)	6,124,587	08/05/2017	15/02/2042	2.25%
PWLB506255	6,397,257	-	6,397,257	10/08/2017	10/04/2067	2.64%
PWLB506729	7,585,986	-	7,585,986	13/12/2017	10/10/2042	2.35%
PWLB506995	7,625,752	-	7,625,752	06/03/2018	10/10/2042	2.52%
PWLB506996	8,178,315	-	8,178,315	06/03/2018	10/10/2047	2.62%
PWLB507749	7,947,620	(171,569)	7,776,051	10/09/2018	20/07/2043	2.42%
PWLB508485	18,678,776	(119,326)	18,559,450	11/02/2019	20/07/2068	2.52%
PWLB509840	8,089,023	(181,106)	7,907,916	04/09/2019	20/07/2044	1.40%
PWLB677322	4,646,572	-	4,646,572	22/11/2023	22/11/2038	4.88%
PWLB687799	4,630,494	-	4,630,494	29/12/2023	29/12/2038	4.28%
PWLB700594	9,522,146	(247,093)	9,275,053	09/02/2024	09/02/2039	4.54%

Lender	Amount outstanding @ 30 th June 2025 £	Change in Quarter £	Amount outstanding @ 30 th September 2025 £	Start date	End date	Interest rate
PWLB815779	10,000,000	-	10,000,000	10/04/2025	09/04/2030	4.45%
PWLB816767	10,000,000	-	10,000,000	14/04/2025	13/04/2035	4.50%
KBC Bank N.V *	5,000,000	-	5,000,000	08/10/2004	08/10/2054	4.50%
KBC Bank N.V *	5,000,000	-	5,000,000	08/10/2004	08/10/2054	4.50%
Medium term		-	5,000,000			
Tunbridge Wells B.C.	5,000,000	-	10,000,000	14/11/2024	14/11/2025	4.85%
PWLB781146	10,000,000	-	5,000,000	09/12/2024	09/12/2025	5.09%
North Yorkshire Council	5,000,000	-	5,000,000	26/03/2025	25/03/2026	4.75%
Halton Borough Council	-	-	5,000,000	21/03/2025	20/06/2025	6.00%
West of England Combined Authority	5,000,000	-	5,000,000	25/04/2025	27/10/2025	4.50%
South Oxfordshire District Council	5,000,000	-	10,000,000	25/04/2025	24/04/2026	4.50%
West of England Combined Authority	5,000,000	-	5,000,000	29/04/2025	28/04/2026	4.50%
West Midlands Combined Authority	10,000,000	-	10,000,000	30/04/2025	29/04/2026	4.45%
Portsmouth City Council	5,000,000	-	5,000,000	07/05/2025	06/05/2026	4.50%
Total Borrowing	279,267,077	(1,256,469)	278,010,608			

*All LOBO's (Lender Option / Borrower Option) have reached the end of their fixed interest period and have reverted to the variable rate of 4.50%. The lender has the option to change the interest rate at 6 monthly intervals. Should the lender use the option to change the rate, then at this point the borrower has the option to repay the loan without penalty.

The "Change in Quarter" movement on some of the PWLB loans reflects that these loans have an annuity repayment profile, so repayments of principal are made on a 6 monthly basis throughout the life of the loans.

APPENDIX 5: Arlingclose Economic & Market Review

Economic background: The first quarter was dominated by the fallout from the US trade tariffs and their impact on equity and bond markets. The second quarter, still rife with uncertainty, saw equity markets making gains and a divergence in US and UK government bond yields, which had been moving relatively closely together.

From late June, amid a UK backdrop of economic uncertainty, concerns around the government's fiscal position and speculation around the autumn Budget, yields on medium and longer term gilts pushed higher, including the 30-year which hit its highest level for almost 30 years.

UK headline annual consumer price inflation (CPI) increased over the period, rising from 2.6% in March to 3.8% in August, still well above the Bank of England's 2% target. Core inflation also rose, from 3.4% to 3.6% over the same period, albeit the August reading was down % from 3.8% the previous month. Services inflation also fell from July to August, to 4.7% from 5.0%.

The UK economy expanded by 0.7% in the first quarter of the calendar year and by 0.3% in the second quarter. In the final version of the Q2 2025 GDP report, annual growth was revised upwards to 1.4% y/y. However, monthly figures showed zero growth in July, in line with expectations, indicating a sluggish start to Q3.

Labour market data continued to soften throughout the period, with the unemployment rate rising and earnings growth easing, but probably not to an extent that would make the more hawkish MPC members comfortable with further rate cuts. In addition, the employment rate rose while the economic inactivity rate and number of vacancies fell.

The BoE's Monetary Policy Committee (MPC) cut Bank Rate from 4.5% to 4.25% in May and to 4.0% in August after an unprecedented second round of voting. The final 5-4 vote was for a 25bps cut, with the minority wanting no change. In September, seven MPC members voted to hold rates while two preferred a 25bps cut. The Committee's views still differ on whether the upside risks from inflation expectations and wage setting outweigh downside risks from weaker demand and growth.

The August BoE Monetary Policy Report highlighted that after peaking in Q3 2025, inflation is projected to fall back to target by mid-2027, helped by increasing spare capacity in the economy and the ongoing effects from past tighter policy rates. GDP is expected to remain weak in the near-term while over the medium term outlook will be influenced by domestic and global developments.

Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would be cut further as the BoE focused on weak GDP growth more than higher inflation. One more cut is currently expected during 2025/26, taking Bank Rate to 3.75%. The risks to the forecast are balanced in the near-term but weighted to the downside further out as weak consumer sentiment and business confidence and investment continue to constrain growth. There is also considerable uncertainty around the autumn Budget and the impact this will have on the outlook.

Against a backdrop of uncertain US trade policy and pressure from President Trump, the US Federal Reserve held interest rates steady for most of the period, before cutting the Fed Funds Rate to 4.00%-4.25% in September. Fed policymakers also published their new economic projections at the same time. These pointed to a 0.50% lower Fed Funds Rate by the end of 2025 and 0.25% lower in 2026, alongside GDP growth of 1.6% in 2025, inflation of 3%, and an unemployment rate of 4.5%.

The European Central Bank cut rates in June, reducing its main refinancing rate from 2.25% to 2.0%, before keeping it on hold through to the end of the period. New ECB projections predicted inflation averaging 2.1% in 2025, before falling below target in 2026, alongside improving GDP growth, for which the risks are deemed more balanced and the disinflationary process over.

Financial markets: After the sharp declines seen early in the period, sentiment in financial markets improved, but risky assets have generally remained volatile. Early in the period bond yields fell, but ongoing uncertainty, particularly in the UK, has seen medium and longer yields rise with bond investors requiring an increasingly higher return against the perceived elevated risk of UK plc. Since the sell-off in April, equity markets have gained back the previous declines, with investors continuing to remain bullish in the face of ongoing uncertainty.

Over the period, the 10-year UK benchmark gilt yield started at 4.65% and ended at 4.70%. However, these six months saw significant volatility with the 10-year yield hitting a low of 4.45% and a high of 4.82%. It was a broadly similar picture for the 20-year gilt which started at 5.18% and ended at 5.39% with a low and high of 5.10% and 5.55% respectively. The Sterling Overnight Rate (SONIA) averaged 4.19% over the six months to 30th September.

Credit review: Arlingclose maintained its recommended maximum unsecured duration limit on the majority of the banks on its counterparty list at 6 months. The other banks remain on 100 days.

Early in the period, Fitch upgraded NatWest Group and related entities to AA- from A+ and placed Clydesdale Bank's long-term A- rating on Rating Watch Positive. While Moody's downgraded the long term rating on the United States sovereign to Aa1 in May and also affirmed OP Corporate's rating at Aa3.

Then in the second quarter, Fitch upgraded Clydesdale Bank and also HSBC, downgraded Lancashire CC and Close Brothers while Moody's upgraded Transport for London, Allied Irish Banks, Bank of Ireland and Toronto-Dominion Bank.

After spiking in early April following the US trade tariff announcements, UK credit default swap prices have since generally trended downwards and ended the period at levels broadly in line with those in the first quarter of the calendar year and throughout most of 2024.

European banks' CDS prices has followed a fairly similar pattern to the UK, as have Singaporean and Australian lenders while Canadian bank CDS prices remain modestly elevated compared to earlier in 2025 and in 2024.

Overall, at the end of the period CDS prices for all banks on Arlingclose's counterparty list remained within limits deemed satisfactory for maintaining credit advice at current durations.

Financial market volatility is expected to remain a feature, at least in the near term and, credit default swap levels will 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.

APPENDIX 6

Interest & Capital Financing Costs – Budget Monitoring 2025/26

April 2025 to March 2026	YEAR END POSITION			ADV/FAV
	Budgeted Spend or (Income) £'000	Published Forecast (Income) £'000	Forecast Over or (Under) spend £'000	
Interest & Capital Financing				
- Debt Costs	11,932	11,532	(400)	FAV
- Internal Repayment of Loan Charges	(17,372)	(17,372)	0	-
- Ex Avon Debt Costs	860	860	0	-
- Minimum Revenue Provision (MRP)	11,417	11,230	(187)	FAV
- Interest on Balances	(1,361)	(1,611)	(250)	FAV
Total	5,476	4,639	(837)	FAV

APPENDIX 7

Summary Guide to Credit Ratings

Rating	Details
AAA	Highest credit quality – lowest expectation of default, which is unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality - expectation of very low default risk, which is not likely to be significantly vulnerable to foreseeable events.
A	High credit quality - expectations of low default risk which may be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality - expectations of default risk are currently low but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative - indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative - indicates that material default risk is present, but a limited margin of safety remains. Capacity for continued payment is vulnerable to deterioration in the business and economic environment.
CCC	Substantial credit risk - default is a real possibility.
CC	Very high levels of credit risk - default of some kind appears probable.
C	Exceptionally high levels of credit risk - default is imminent or inevitable.
RD	Restricted default - indicates an issuer that has experienced payment default on a bond, loan, or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation, or other formal winding-up procedure, and which has not otherwise ceased operating.
D	Default - indicates an issuer that has entered into bankruptcy filings, administration, receivership, liquidation, or other formal winding-up procedure, or which has otherwise ceased business.

APPENDIX 8

Extract from Treasury Management Risk Register – Top 5 Risks

			Current Risk Score											Trend					
	Risk Nr	Description	Likelihood					Impact					This Period	Periods Ago			Management Action		
			1	2	3	4	5	1	2	3	4	5		1	2	3			
			L	M	H	L	M	H	L	M	H	L		M	H				
1	R06	Inflation Risk The risk that prevailing levels of inflation cause an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.			3							4			12	12	12	Liaise with Chief Finance Officer to ensure Inflation both current and projected forms part of the medium term financial planning framework.	
2	R09	Legal & Regulatory Risk - Changes Risk that regulatory changes are not planned for and adversely impact the Council's budget and or ability to borrow			3						3				9	9	12	12	Read, respond and calculate the impact of Local Government accounting, investment and capital financing / borrowing consultations have on treasury management. Plan for the implementation of new regulations, conditions and accounting treatment
3	R04	Interest Rate Risk The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately			3						3				9	9	9	9	Monitor interest rates on a monthly basis and compare with budget to determine impact on Council finances and report through monthly Treasury Dashboard. Report implication of interest rate changes to Cabinet as part of quarterly Treasury Management Performance Report. Explore alternative potential investment products following new freedoms - including corporate bonds, gilts, Certificate of Deposits etc. Discussion with our treasury advisors on any new borrowing in terms of duration and timing given the current volatility in the gilt market and PWLB interest rates.
4	R07	Refinancing Risk The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.			3						3				9	9	9	6	When deciding on the duration of new borrowing consider existing debt maturity profile before submitting an approval to Chief Finance Officer on the new borrowing. Consult with treasury Advisor Arlingclose with regards to risks in the lending market and consider their guidance when making refinancing decisions Complete Annual PWLB certainty rate return and any other returns that provide a discounted lending rate. Maintain a relationship with at least 2 brokers in order to ensure that the council avoids the risk of accepting terms which are not in line with prevailing market conditions.
5	R08	Legal & Regulatory Risk - Acting Outside Powers The risk that the organisation itself, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.		2								4			8	8	8	8	Obtain independent review of the council's strategy and polices to ensure compliance with the CIPFA Code of Practice on Treasury Management Local Authorities (Capital Finance and Accounting) (England) Regulations, Local Government Act and any other regulation or guidance as specified by the Secretary of State.. Stay on top of Government and CIPFA consultations on Treasury and Capital Financing regulations.