

## Bath & North East Somerset Council

MEETING	<b>Cabinet</b>			
MEETING DATE:	<b>12<sup>th</sup> February 2026</b>	EXECUTIVE FORWARD PLAN REFERENCE: <b>E3642</b>		
TITLE:	<b>Treasury Management Performance Report to 31<sup>st</sup> December 2025 (Quarter 3)</b>			
WARD:	All			
<b>AN OPEN PUBLIC ITEM</b>				
<p><b>List of attachments to this report:</b></p> <p><b>Appendix 1</b> – Performance Against Prudential Indicators  <b>Appendix 2</b> – The Council’s Investment Position at 31<sup>st</sup> December 2025  <b>Appendix 3</b> – Average monthly rate of return for April – December 2025  <b>Appendix 4</b> – The Council’s External Borrowing Position at 31<sup>st</sup> December 2025  <b>Appendix 5</b> – Arlingclose’s Economic &amp; Market Review Q3 of 2025/26  <b>Appendix 6</b> – Interest &amp; Capital Financing Budget Monitoring 2025/26  <b>Appendix 7</b> – Summary Guide to Credit Ratings  <b>Appendix 8</b> – Extract from Treasury Management Risk Register</p>				

### 1 THE ISSUE

- 1.1 Treasury risk management at the Council 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 period April – December 2025.

### 2 RECOMMENDATION

The Cabinet is asked to note;

- 2.1 The Treasury Management Report to 31<sup>st</sup> December 2025, prepared in accordance with the CIPFA Treasury Code of Practice; and
- 2.2 The Treasury Management Indicators to 31<sup>st</sup> December 2025.

### 3 THE REPORT

#### Summary

3.1 The Council's Treasury Management Indicators for 2025/26 were agreed by Council on 25<sup>th</sup> February 2025 and performance against the key indicators as at 31<sup>st</sup> December 2025 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 1<sup>st</sup> April 2025 – 31<sup>st</sup> December 2025 is 4.10%, which is 0.05% above the 7 Day Sterling Overnight Index Average (SONIA) benchmark rate of 4.05%. For the same period, it is estimated that strategic investments earned 4.12% which is 0.13% 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 £1.537m 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 3.75% on 18<sup>th</sup> December 2025 by the Bank of England Monetary Policy committee in a close vote. The Market continues to expect a further 0.25% cut before April 2026, though with less certainty than before.
- UK Inflation has increased from 2.6% in March 2025 to 3.2% in November 2025.
- The UK Economy expanded by 0.1% in the third quarter of 2025 down from 0.3% in the second quarter of 2025 and 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 4.38% to 4.75% in the quarter ending at 4.47%.
- The 7-day average SONIA for the first half of 2025/26 is 4.05%. This is the benchmark rate used by the Council for operational investments.

#### Borrowing

3.5 The Council's external borrowing as at 31<sup>st</sup> December 2025 totalled £285.250m and is detailed in **Appendix 4**. This includes borrowing of £80.000m taken out year to date which breaks down as £15.000m in new loans taken out to cover the annual pension contribution prepayment and allow us to maintain our liquidity indicator above £15.000m, as well as £65.000m of borrowing to replace maturing

loans. The summary of the movement in borrowing during the year is shown in the following table:

Borrowing Portfolio Movements	Financial Year 2025/26 £m
<b>Balance as at 1<sup>st</sup> April 2025</b>	<b>275.713</b>
New Loans Taken	80.000
Maturity Loan Repayments	(65.000)
PWLB Annuity Loan principal repayments	(5.463)
<b>Balance as at 31<sup>st</sup> December 2025</b>	<b>285.250</b>

3.6 The Council's Capital Financing Requirement (CFR) is forecasted to be £441.800m on 31<sup>st</sup> March 2026 based on the Capital Programme agreed in February 2025, including both fully and provisionally approved schemes. The Actual CFR as at 31<sup>st</sup> March 2025 was £372.627m. 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 £285.250m 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 £38.350m and circa 26 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 31<sup>st</sup> 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 As at 31<sup>st</sup> December 2025, the Council had £48.200m in investments, with £38.200m in short term liquid investments and £10.000m 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)	4.17%
Call Accounts	3.45%
Fixed Deposits	4.19%
<b>Operational Investments Total</b>	<b>4.10%</b>
CCLA Local Authorities Property Fund	3.85%
FP Foresight UK Infrastructure Income Fund	4.85%
VT Gravis Clean Energy Income Fund	3.43%
<b>Strategic Investments Total (Est.)</b>	<b>4.12%</b>

3.13 As at 31<sup>st</sup> December 2025, the Council has earned 4.10% from Operational investments, which is 0.05% above the 7-day SONIA benchmark Rate of 4.05% and 0.10% above the budgeted rate of 4.00%. Strategic funds earned an estimated return of 4.12% which is 0.13% below the budgeted rate of 4.25%.

3.14 The Council holds £10.000m 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 £5.000m in Environmental Social and Governance (ESG) focused funds, and £5.000m in a property fund, as listed below.

- £5.000m CCLA Local Authorities Property Fund.
- £3.000m FP Foresight UK Infrastructure Income Fund.
- £2.000m VT Gravis Clean Energy Income Fund.

3.15 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 nine months we have seen a small increase in the value of our strategic investments of £0.095m to £7.648m, up from £7.553m on 31<sup>st</sup> March 2025. This is shown in the table below:

	<b>CCLA Local Authorities Property Fund £</b>	<b>FP Foresight UK Infrastructure Income Fund £</b>	<b>VT Gravis Clean Energy Income Fund £</b>	<b>Total £</b>
<b>Historic Cost</b>	5,000,000	3,000,000	2,000,000	<b>10,000,000</b>
<b>Fair Value as at:</b>				
31/12/2025	4,253,975	2,130,064	1,264,164	<b>7,648,203</b>
30/09/2025	4,269,278	2,162,156	1,297,843	<b>7,729,276</b>
30/06/2025	4,260,249	2,246,128	1,336,119	<b>7,842,497</b>
31/03/2025	4,253,634	2,072,300	1,227,138	<b>7,553,072</b>
31/03/2024	4,177,465	2,173,120	1,346,161	<b>7,696,746</b>

3.16 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 31<sup>st</sup> March 2029 for investments existing before 1<sup>st</sup> 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**

3.17 The breakdown of the 2025/26 revenue budget and the forecast year end position for interest and capital financing, based on the period April 2025 to December 2025, is included in **Appendix 6**. An overall underspend of £1.537m is reported towards the Council's net revenue outturn and is included within the Revenue and Capital Budget Monitoring, Cash Limits and Virements – April 2025 to December 2025 report to Cabinet. 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 Finance (S151 Officer) and Monitoring Officer.

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<b>Background papers</b>	Treasury Management Strategy Statement 2025/26
<b>Please contact the report author if you need to access this report in an alternative format</b>	

## 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 31 <sup>st</sup> December 2025
Operational Boundary – borrowing.	£414.000m	£285.250m
Operational Boundary – other long-term liabilities	£9.000m	£0.000m
<b>Operational Boundary – TOTAL</b>	<b>£423.000m</b>	<b>£285.250m</b>
Authorised Limit – borrowing.	£442.000m	£285.250m
Authorised Limit – other long-term liabilities.	£9.000m	£0.000m
<b>Authorised Limit – TOTAL</b>	<b>£451.000m</b>	<b>£285.250m</b>

#### 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 31 <sup>st</sup> December 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 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.

Liquidity Risk Indicator	2025/26 Prudential Indicator	Minimum Liquidity During year	Date of Minimum Liquidity
Minimum total Cash Available within 3 months	£15.000m	£18.800m	30-Apr-25

### 4. Interest Rate Exposure

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 31 <sup>st</sup> December 2025
Upper limit on one-year revenue impact of a 1% rise in interest rates	+/- £0.800m	-£0.080m
Upper limit on one-year revenue impact of a 1% fall in interest rates	+/- £0.800m	£0.080m

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 £80.000m.

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 31 <sup>st</sup> December 2025
	%	%	%
Under 12 months	30.00	Nil	17.53
12 months and within 24 months	30.00	Nil	0.00
24 months and within 5 years	50.00	Nil	6.70
5 years and within 10 years	75.00	Nil	15.74
10 years and within 25 years	100.00	25.00	35.81
Over 25 years	100.00		24.23

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 Lender Option / Borrower Option's (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

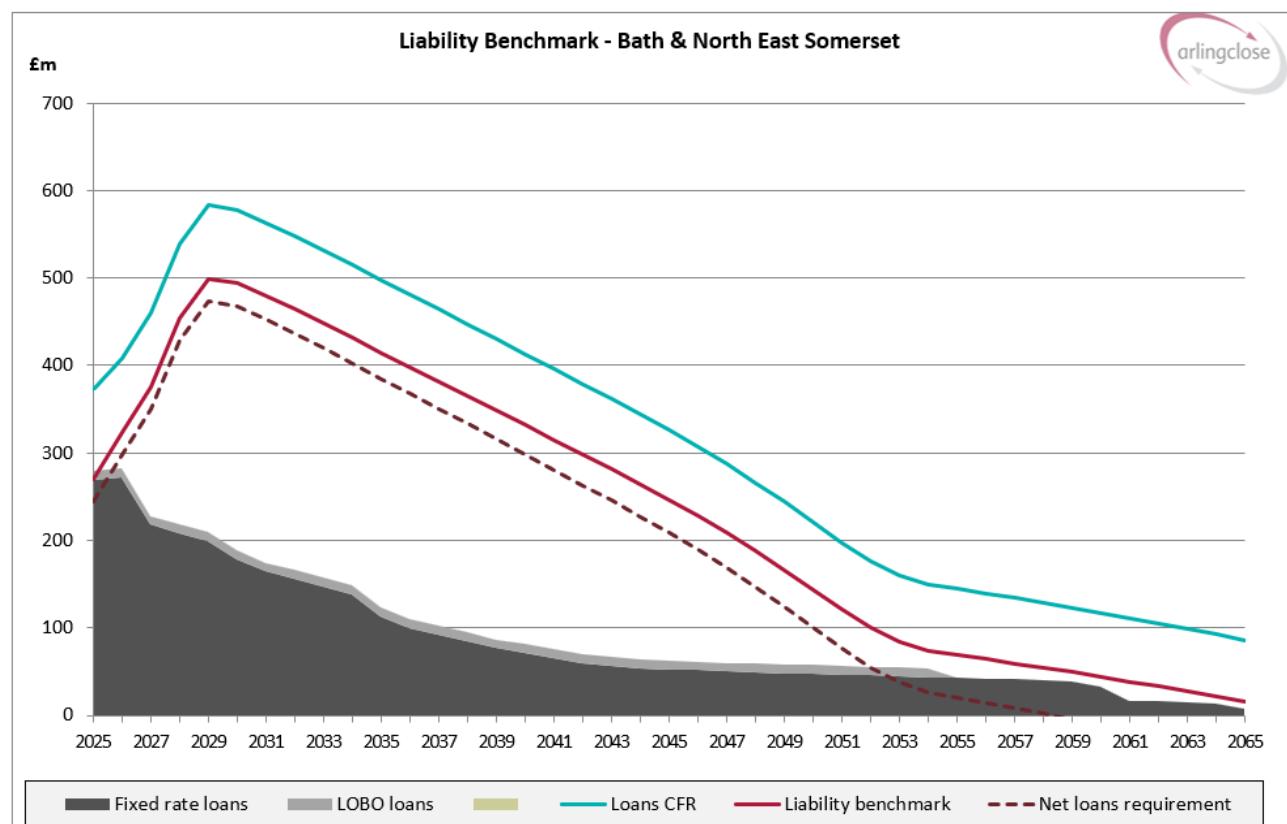
The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price Risk Indicator	2025/26 Prudential Indicator	Actual as at 31 <sup>st</sup> December 2025
Limit on principal invested beyond 31 <sup>st</sup> March 2025	£50.000m	£10.000m*
Limit on principal invested beyond 31 <sup>st</sup> March 2026	£20.000m	£10.000m*
Limit on principal invested beyond 31 <sup>st</sup> March 2027	£10.000m	£10.000m*

\*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 £38.350m 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 31<sup>st</sup> December 2025

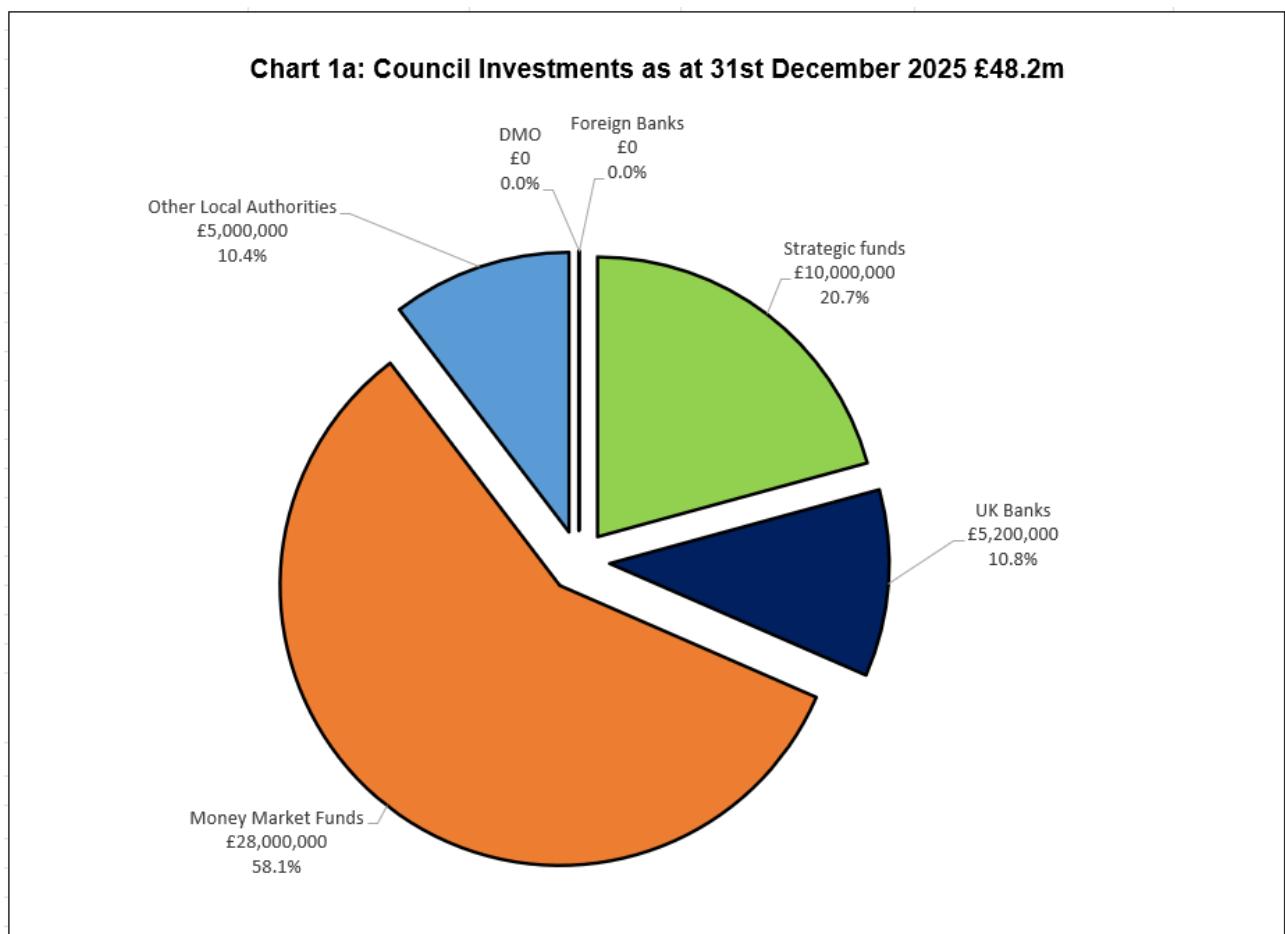
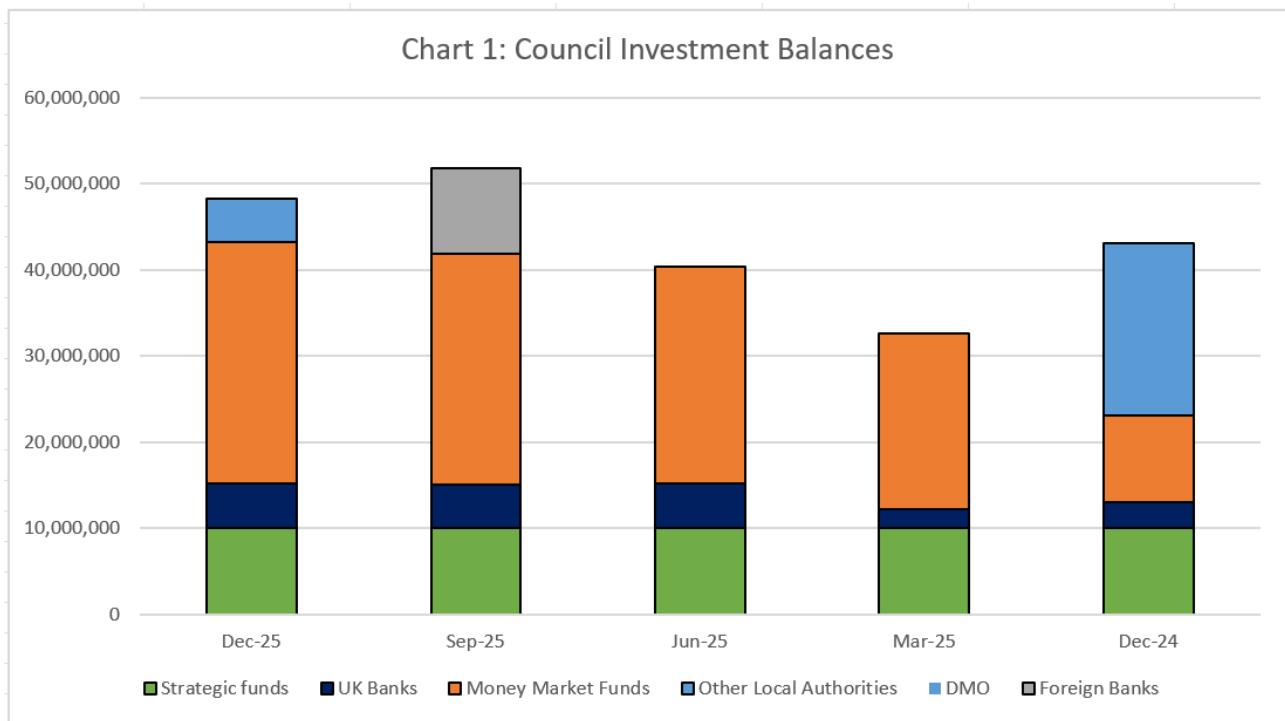
The term of investments is as follows:

Term Remaining	Balance at 31 <sup>st</sup> December 2025	Comparator	
		Balance at 30 <sup>th</sup> September 2025	Balance at 31 <sup>st</sup> March 2025
	£m	£m	£m
Notice (instant access funds)	33.200	31.800	22.600
Up to 1 month	0.000	0.000	0.000
1 month to 3 months	5.000	10.000	0.000
3 months to 6 months	0.000	0.000	0.000
6 months to 12 months	0.000	0.000	0.000
Strategic Funds	10.000	10.000	10.000
<b>Total</b>	<b>48.200</b>	<b>51.800</b>	<b>32.600</b>

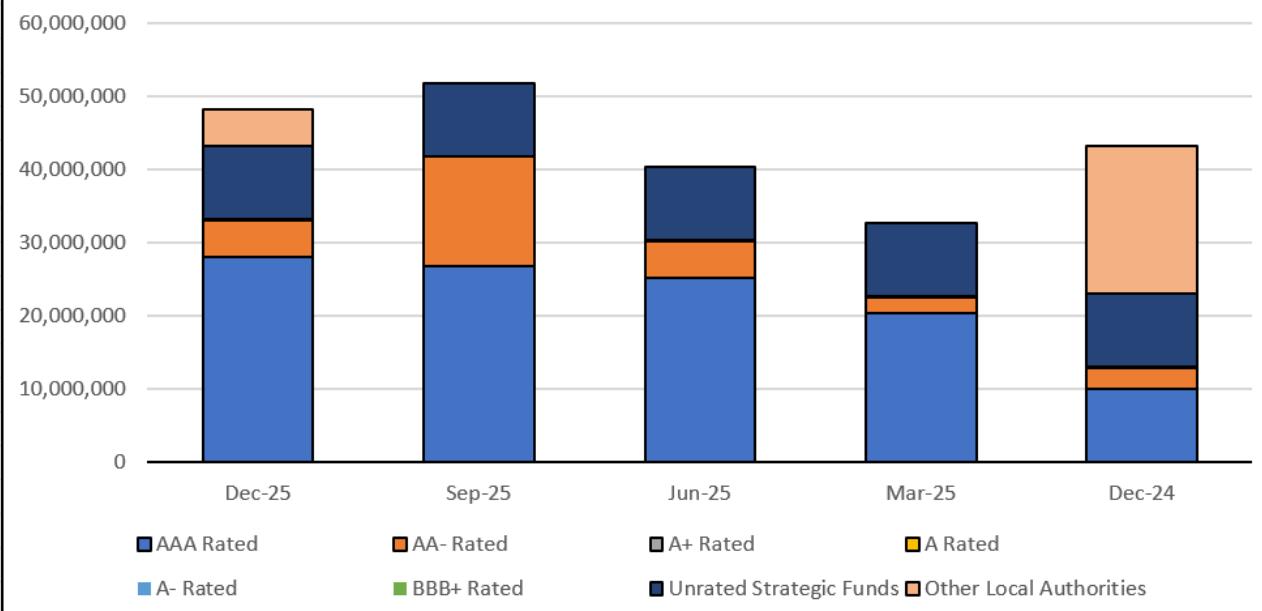
The investment figure is made up as follows:

	Balance at 31 <sup>st</sup> December 2025	Comparator	
		Balance at 30 <sup>th</sup> September 2025	Balance at 31 <sup>st</sup> March 2025
	£m	£m	£m
B&NES Council	44.750	48.590	29.770
Schools	3.450	3.210	2.830
<b>Total</b>	<b>48.200</b>	<b>51.800</b>	<b>32.600</b>

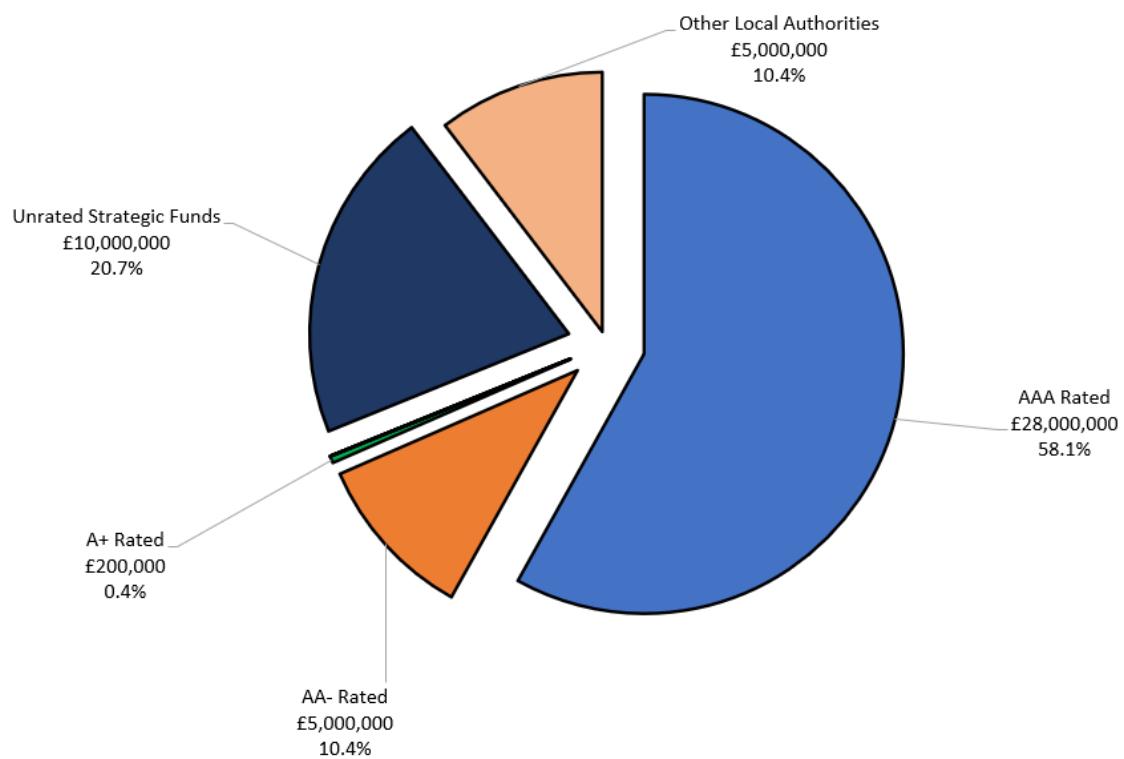
The Council had a total average net positive balance of £58.600m during the period April 2025 to December 2025.



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



**Chart 2a: Council Investments Per Lowest Equivalent Long Term Credit Rating as at 31st December 2025 £48.2m**



## 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%	4.08%	0.10%
August 2025	4.08%	3.95%	0.13%
September 2025	4.02%	3.94%	0.08%
October 2025	4.00%	3.94%	0.06%
November 2025	3.96%	3.95%	0.01%
December 2025	3.90%	3.82%	0.08%
<b>Average</b>	<b>4.10%</b>	<b>4.05%</b>	<b>0.05%</b>

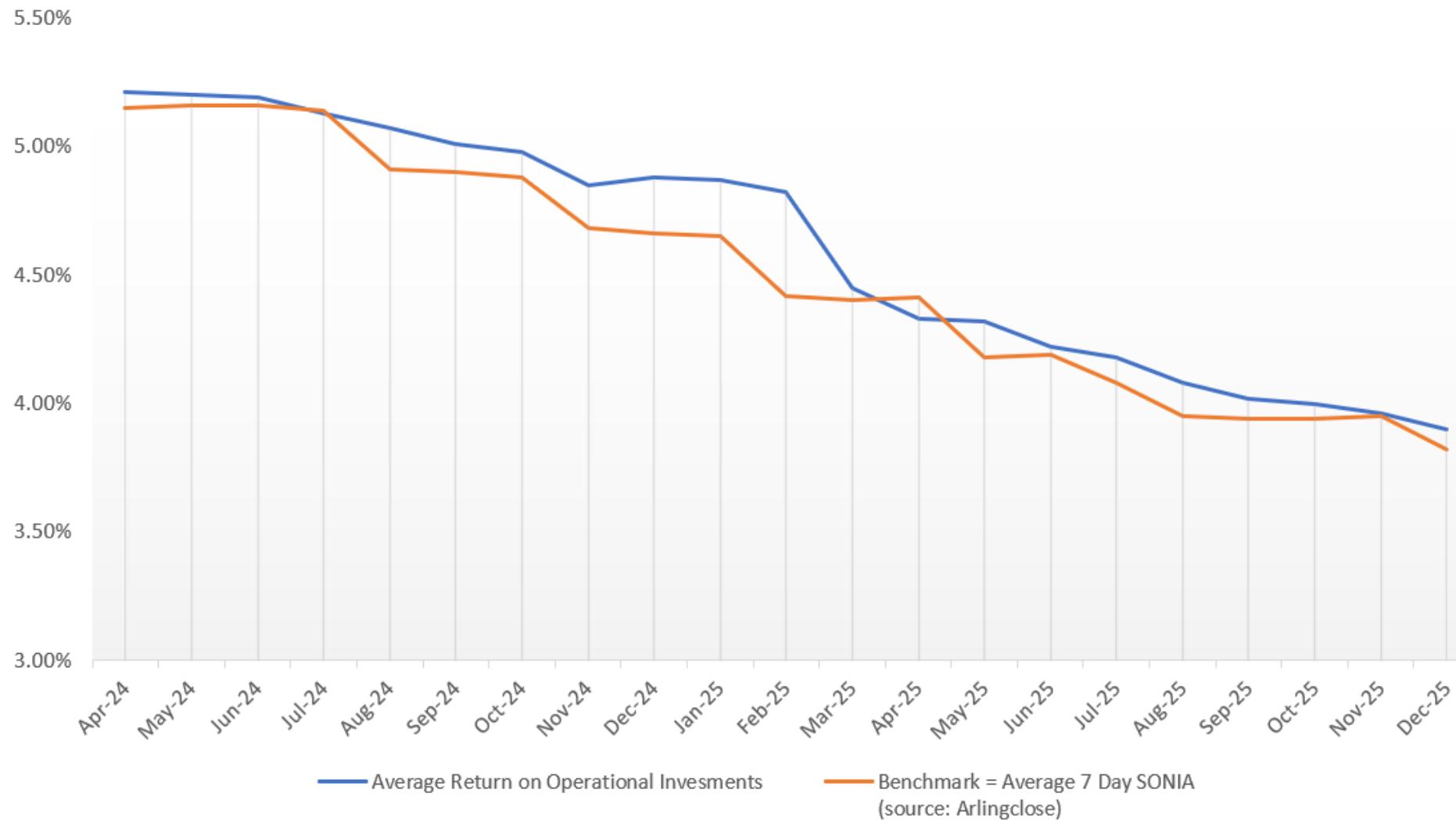
For comparison, the average rate of return on investments in 2024/25 was as follows:

	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%
<b>Average</b>	<b>4.97%</b>	<b>4.84%</b>	<b>0.13%</b>

### Strategic Investment Return

Estimated average return for strategic investments was 4.12% 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 31<sup>st</sup> December 2025

Lender	Amount outstanding @ 30 <sup>th</sup> September 2025 £	Change in Quarter £	Amount outstanding @ 31 <sup>st</sup> December 2025 £	Start date	End date	Interest rate
<b>Long term</b>						
PWLB489142	<b>10,000,000</b>	-	<b>10,000,000</b>	15/10/2004	15/10/2034	4.75%
PWLB497233	<b>5,000,000</b>	-	<b>5,000,000</b>	12/05/2010	15/08/2035	4.55%
PWLB497234	<b>5,000,000</b>	-	<b>5,000,000</b>	12/05/2010	15/02/2060	4.53%
PWLB498834	<b>5,000,000</b>	-	<b>5,000,000</b>	05/08/2011	15/02/2031	4.86%
PWLB498835	<b>10,000,000</b>	-	<b>10,000,000</b>	05/08/2011	15/08/2029	4.80%
PWLB498836	<b>15,000,000</b>	-	<b>15,000,000</b>	05/08/2011	15/02/2061	4.96%
PWLB503684	<b>5,300,000</b>	-	<b>5,300,000</b>	29/01/2015	08/04/2034	2.62%
PWLB503685	<b>5,000,000</b>	-	<b>5,000,000</b>	29/01/2015	08/10/2064	2.92%
PWLB505122	<b>14,105,914</b>	(365,375)	<b>13,740,539</b>	20/06/2016	20/06/2041	2.36%
PWLB508126	<b>7,767,122</b>	(174,091)	<b>7,593,031</b>	06/12/2018	20/06/2043	2.38%
PWLB508202	<b>9,246,861</b>	(59,166)	<b>9,187,695</b>	12/12/2018	20/06/2068	2.59%
PWLB508224	<b>3,868,978</b>	(87,769)	<b>3,781,209</b>	13/12/2018	20/06/2043	2.25%
PWLB505744	<b>6,806,341</b>	-	<b>6,806,341</b>	24/02/2017	15/08/2039	2.28%
PWLB505966	<b>7,207,958</b>	-	<b>7,207,958</b>	04/04/2017	15/02/2042	2.26%
PWLB506052	<b>6,124,587</b>	-	<b>6,124,587</b>	08/05/2017	15/02/2042	2.25%
PWLB506255	<b>6,397,257</b>	(42,037)	<b>6,355,220</b>	10/08/2017	10/04/2067	2.64%
PWLB506729	<b>7,585,986</b>	(176,474)	<b>7,409,512</b>	13/12/2017	10/10/2042	2.35%
PWLB506995	<b>7,625,752</b>	(174,704)	<b>7,451,048</b>	06/03/2018	10/10/2042	2.52%
PWLB506996	<b>8,178,315</b>	(134,559)	<b>8,043,756</b>	06/03/2018	10/10/2047	2.62%
PWLB507749	<b>7,776,051</b>	-	<b>7,776,051</b>	10/09/2018	20/07/2043	2.42%
PWLB508485	<b>18,559,450</b>	-	<b>18,559,450</b>	11/02/2019	20/07/2068	2.52%
PWLB509840	<b>7,907,916</b>	-	<b>7,907,916</b>	04/09/2019	20/07/2044	1.40%
PWLB677322	<b>4,646,572</b>	(123,605)	<b>4,522,967</b>	22/11/2023	22/11/2038	4.88%
PWLB687799	<b>4,630,494</b>	(128,478)	<b>4,502,016</b>	29/12/2023	29/12/2038	4.28%
PWLB700594	<b>9,275,053</b>	-	<b>9,275,053</b>	09/02/2024	09/02/2039	4.54%

Lender	Amount outstanding @ 30 <sup>th</sup> September 2025 £	Change in Quarter £	Amount outstanding @ 31 <sup>st</sup> December 2025 £	Start date	End date	Interest rate
PWLB815779	<b>10,000,000</b>	(897,926)	<b>9,102,074</b>	10/04/2025	09/04/2030	4.45%
PWLB816767	<b>10,000,000</b>	(396,024)	<b>9,603,976</b>	14/04/2025	13/04/2035	4.50%
PWLB882302	-	10,000,000	<b>10,000,000</b>	28/11/2025	28/11/2035	4.86%
KBC Bank N.V *	<b>5,000,000</b>	-	<b>5,000,000</b>	08/10/2004	08/10/2054	4.50%
KBC Bank N.V *	<b>5,000,000</b>	-	<b>5,000,000</b>	08/10/2004	08/10/2054	4.50%
<b>Medium term</b>						
Tunbridge Wells B.C.	<b>5,000,000</b>	(5,000,000)	-	14/11/2024	14/11/2025	4.85%
PWLB781146	<b>10,000,000</b>	(10,000,000)	-	09/12/2024	09/12/2025	5.09%
North Yorkshire Council	<b>5,000,000</b>	-	<b>5,000,000</b>	26/03/2025	25/03/2026	4.75%
Halton Borough Council	<b>5,000,000</b>	(5,000,000)	-	21/03/2025	20/06/2025	6.00%
West of England Combined Authority	<b>5,000,000</b>	-	<b>5,000,000</b>	25/04/2025	27/10/2025	4.50%
South Oxfordshire District Council	<b>5,000,000</b>	-	<b>5,000,000</b>	25/04/2025	24/04/2026	4.50%
West of England Combined Authority	<b>10,000,000</b>	-	<b>10,000,000</b>	29/04/2025	28/04/2026	4.50%
West Midlands Combined Authority	<b>5,000,000</b>	-	<b>5,000,000</b>	30/04/2025	29/04/2026	4.45%
Portsmouth City Council	<b>5,000,000</b>	(5,000,000)	-	07/05/2025	06/05/2026	4.50%
West Midlands Combined Authority	-	10,000,000	<b>10,000,000</b>	06/10/2025	05/10/2026	4.30%
West of England Combined Authority	-	5,000,000	<b>5,000,000</b>	27/10/2025	26/10/2026	4.50%
Tunbridge Wells BC	-	5,000,000	<b>5,000,000</b>	14/11/2025	13/11/2026	4.35%
<b>Total Borrowing</b>	<b>278,010,608</b>	<b>7,239,793</b>	<b>285,250,401</b>			

\*All LOBO's 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:** Early in the first quarter was dominated by US trade tariffs and the negative impact on equity and bond markets. While this was reversed somewhat in the second quarter with equity markets making gains, it also saw a divergence in US and UK government bond yields. UK yields persisted at higher levels as investors demanded higher returns in the form of term premia due to the more uncertain UK fiscal and economic position.

The latter part of the period included the government's November autumn Budget. Despite much speculation and drip-feeding of potential policies in the weeks leading up to the event, what was ultimately announced was generally deemed more muted than had been anticipated, helping ease investors' fears of significantly higher government borrowing.

UK Consumer Price Index (CPI) inflation was 3.2% in November 2025, down from 3.6% in the previous month and lower than the 3.5% expected, but still well above the Bank of England (BoE) target. Core CPI eased to 3.2% from 3.4%, against forecasts of it staying at 3.6%.

According to the Office for National Statistics (ONS), the UK economy expanded by 0.7% in the first quarter of the calendar year, by 0.3% in Q2 and by 0.1% in Q3. Of the subsequent monthly figures, the ONS estimated that Gross Domestic Product (GDP) fell by 0.1% in October.

The labour market continued to ease over the period as unemployment rose, vacancies fell and inactivity remained flat. In the three months to October 2025, the unemployment rate rose to 5.1%, higher than the level previously expected by the BoE, while the employment rate slipped to 74.9%.

The Bank of England's Monetary Policy Committee (MPC) voted 5-4 to cut Bank Rate to 3.75% in December 2025, as was expected. Policymakers wanting a cut judged that disinflation was established while those preferring to hold Bank Rate at 4.00% argued that inflation risks remained sufficiently material to leave it untouched at this stage.

The November BoE Monetary Policy Report projected GDP would expand by a modest 0.2% in calendar Q4 2025. Estimates of inflation in the report were quickly out of date when CPI fell quicker than expected in November. Predictions of a modestly growing economy were echoed by the Office for Budget Responsibility in its Economic and Fiscal Outlook published with the Autumn Statement which revised down its estimate of annual GDP to around 1.5% between 2025 and 2030.

Arlingclose, the Council's treasury adviser, held a central view that Bank Rate would be cut further in 2025/26 with most BoE policymakers remaining more worried about weak GDP growth than higher inflation. In line with Arlingclose's central forecast, Bank Rate was reduced to 3.75% in December. Further cuts are expected in 2026, with the central forecast being that Bank Rate will be eased to around 3.25%.

The US Federal Reserve continued cutting rates, reducing Fed Funds Rate target range by 0.25% at its December meeting to 3.50%-3.75%. The meeting minutes noted that most policymakers judged that further rate cuts would be likely in 2026 if inflation continues to ease, however they were still divided in their assessment of the risks between inflation and unemployment.

The European Central Bank (ECB) held its key interest rates in December for a fourth consecutive meeting, maintaining the deposit rate at 2.0% and the main refinancing rate at 2.15%. The ECB maintained that future policy decisions will remain data-dependent, that inflation is close to its 2% target and that the euro area economy continues to expand despite a challenging global environment, including heightened geopolitical risks and trade tensions.

**Financial Markets:** After declining sharply early in the period, sentiment in financial markets has been mostly buoyant, but risky assets remained volatile. Bond yields initially declined early in the period, but increasing uncertainty around the UK's economic and fiscal outlook caused medium and longer yields to rise. Yields remained elevated until the third quarter when the potential negative impact of the UK Budget were deemed less than expected and yields eased modestly.

Equity markets gained the previous declines seen in the April sell-off and have continued to rise, even in the face of ongoing uncertainty around the existence of an Artificial Intelligence (AI)-related 'bubble' and concentration in US and global stock markets.

Over the period, the 10-year UK benchmark gilt yield started at 4.65% and ended at 4.48%. However, these nine months saw significant volatility with the 10-year yield hitting a low of 4.39% and a high of 4.82%. It was a similar picture for the 20-year gilt which started at 5.18% and ended at 5.11% with a low and high of 5.05% and 5.55% respectively. The 7 Day SONIA averaged 4.05% over the nine months to 31<sup>st</sup> December.

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

Earlier 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. Fitch later upgraded Clydesdale Bank and HSBC, but downgraded Lancashire County Council and Close Brothers.

In May, Moody's downgraded the United States sovereign long-term rating to Aa1 and affirmed OP Corporate's rating at Aa3. Moody's later upgraded Transport for London, Allied Irish Banks, Bank of Ireland, Toronto-Dominion Bank, DZ Bank, Nordea and HSBC and downgraded Close Brothers.

S&P upgraded Clydesdale Bank, Allied Irish Banks and Bank of Ireland, and assigned Warrington Council a BBB+ rating.

After spiking in April following the US trade tariff announcements, UK Credit Default Swap (CDS) prices trended down before picking up modestly in October and November. They declined again in December and ended the year in line with levels seen in the first half of the year and most of 2024.

European banks' CDS prices have generally been flatter and lower compared to the UK, as have Singaporean and Australian lenders while some Canadian bank CDS prices have remained elevated since the beginning of the period in part due to ongoing trade tensions with the US.

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, and CDS 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.

## 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	Forecast Spend or (Income) £'000	Forecast Over or (Under) spend £'000	
<b>Interest &amp; Capital Financing</b>				
- Debt Costs	11,932	10,832	(1,100)	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
<b>Total</b>	<b>5,476</b>	<b>3,939</b>	<b>(1,537)</b>	<b>FAV</b>

## 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

Risk Nr	Description	Current Risk Score										Trend			Management Action	
		Likelihood					Impact					This Period	Periods Ago			
		1	2	3	4	5	1	2	3	4	5		1	2	3	
		L	M	H	L	M	L	M	H	L	M		1	2	3	
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	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	9	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	9	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 policies 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.