

THE VALE OF GLAMORGAN COUNCIL

GOVERNANCE AND AUDIT COMMITTEE: 12TH OCTOBER 2026

REFERENCE FROM CABINET: 24TH SEPTEMBER 2026

**“C66 QUARTER 1 TREASURY MANAGEMENT MONITORING 2026/27
(EL/PR) (RESOURCES SCRUTINY COMMITTEE) –**

The Leader presented the report which set out the Treasury Management position against a number of key Treasury and Prudential Indicators as at 30th June 2026 with updated prudential and treasury indicators set out at Appendix A including estimates for other long term liabilities as part of the IFRS16 leasing standard.

The report detailed changes in the Capital Programme since last reported to Cabinet and also updated the prudential indicators to reflect those changes. All changes were within the limits as set out in the Treasury Management and Investment Strategy.

A significant issue highlighted in the report was the continued reduction of available reserves and balances used to support internal borrowing which would usually avoid additional external borrowing costs, but such resources were largely depleted. As such, the Capital Programme was increasingly financed through fixed-rate external borrowing via the Public Works Loan Board at a more reasonable cost to the Authority and which provided certainty over future financing costs.

While borrowing rates remained high, the Council used shorter terms loans to allow a more flexible approach over the shorter and medium term. There was no new borrowing undertaken in Quarter 1, but more borrowing was expected in Quarter 2.

As of the end of June, the Council held total external borrowing of £178.46m, compared to £181.87m at the end of March 2026 which reflected normal loan repayments at the end of the Quarter.

In terms of investment performance, investment balances increased during the Quarter mainly due to timing of income and expenditure flows. Total investments increased from just over £37m up to £56.6m by the end of June, with distributed investments across a range of low-risk counterparties. The average rate of return was approximately 4.1%.

The report noted that current forecasts indicated that the Housing Revenue Account financing cost ratio may exceed target levels in future years, not the current year, and the position would be reviewed as part of the Housing Improvement Programme for 2027/28.

In terms of the economic environment, there continued to be instability in the Middle East, inflation remained above the Bank of England's 2% target, and the bank rate was being maintained at 3.75%. There was also uncertainty about future interest rate movements and market volatility in bonds and financial markets. The Council's Treasury Advisors would continue to monitor the market and provide advice and support borrowing investment decisions going forward.

Councillor Wilson referred to Table 1 on Capital expenditure by service in the report, which showed the ambition of the Council. Continuation of investment in capital would also in turn reduce revenue spending. The previous Welsh Government provided additional grant funding to the Authority, and the Council would continue to lobby the new Welsh Government for support going forward in order to make improvements for the residents of the Vale of Glamorgan and reduce the liability of Council Tax payers.

This was a matter for Executive decision.

Cabinet, having considered the report and all the issues and implications contained therein

RESOLVED – T H A T the Quarter 1 Monitoring report for Treasury Management 2026/27 be accepted and that the report be referred to Governance and Audit Committee for review, with any Recommendations referred back to Cabinet for consideration.

Reason for decision

Having regard to the monitoring position for Treasury Management as at 30th June 2026 and to inform Governance and Audit Committee of the position in respect of Treasury Management.”

Attached as Appendix – Report to Cabinet: 12th October, 2026

Meeting of:	Cabinet
Date of Meeting:	Thursday, 24 September 2026
Relevant Scrutiny Committee:	Resources Scrutiny Committee
Item which the Chair has decided is urgent (Part I) (If yes, why)	Not applicable
Urgent Decision Procedure Used (15.14 of the Constitution) (If yes, why)	Not applicable
Item Type	Part I
Report Title:	Quarter 1 Treasury Management Monitoring 2026/27
Portfolio Holder:	Executive Leader and Cabinet Member for Performance and Resources
Strategic Leadership Team:	Head of Finance/Section 151 Officer
Lead Officer:	Head of Finance/Section 151 Officer

1.0 What is this report about?

- 1.1 This report sets out the Treasury Management position against a number of key Treasury and Prudential Indicators as at 30th June 2026 with updated prudential and treasury indicators set out at Appendix A including estimates for other long term liabilities as part of the IFRS16 leasing standard.
- 1.2 This quarterly monitoring report continues to incorporate leasing liabilities among the performance indicators, in compliance with IFRS 16.
- 1.3 Throughout the first quarter of the financial year and in accordance with the Council's Treasury Management Strategy, investment balances have continued to be kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing. The use of reserves and balances to support internal borrowing in previous years has been considered a prudent strategy given the high external borrowing rates available from the markets. However, the Council reserves and balances are now virtually depleted, and it will need to finance the majority of its capital requirements through external borrowing. Market interest rates have remained elevated during the period, although expectations remain that they will reduce over the medium term. Given the current cost of

long term borrowing, the Council has continued to take a short term borrowing approach to avoid locking into higher rates. This provides flexibility to review borrowing decisions as market conditions change.

- 1.4 The /Section 151 Officer Section 151 Officer advises that all treasury management activity undertaken during the period to 30th June 2026 complied with the approved strategy, the CIPFA Code of Practice, and the relevant legislative requirements. The 2025/26 actual figures are based on the Council's Treasury Management balances within the unaudited statement of accounts. These figures remain subject to audit by Audit Wales and may be amended following completion of the audit.

2.0 What is the Recommendation?

	Recommendation – What and How?	Reason for Recommendation – Why?
2.1	That Cabinet accepts the Quarter One Monitoring report for Treasury Management 2026/27 and that the report be referred to Governance and Audit Committee for review, with any Recommendations referred back to Cabinet for consideration.	To inform Cabinet of the monitoring position for Treasury Management as at 30th June 2026 and inform Governance and Audit Committee of the position in respect of Treasury Management.

3.0 What is the background to this report?

- 3.1 This quarterly Treasury Management Monitoring Report covers the latest position in respect of Prudential and Treasury indicators for Quarter 1 2026/27 for the period 1st April to 30th June 2026.
- 3.2 CIPFA published revised versions of the Prudential Code for Capital Finance in Local Authorities (2021 Edition) and the Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (2021 Edition) on 20th December 2021. Formal adoption of the revised Code of Practice was required for the financial year beginning 2023/24. The Council must have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and any other related reports during the financial year.
- 3.3 For the purposes of this report the revised Treasury Management Code requires an Authority to prepare quarterly reporting to Members of the Treasury and Prudential Indicators. The Head of Finance/Section 151 Officer is required to establish procedures to monitor and report performance against all forward looking prudential indicators at least quarterly. The Head of Finance/Section 151 Officer is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators.
- 3.4 The summary of the reporting requirements for Prudential and Treasury Indicators, as per the 2021 CIPFA Prudential Code for Capital Finance in Local Authorities and 2021 CIPFA

Treasury Management in the Public Services Code of Practice and Cross-sectoral Guidance Notes are set out at Appendix A.

- 3.5 The indicators are required to help Members understand and evaluate the prudence and affordability of the Authority's capital expenditure plans and the borrowing and investment activities undertaken in support of this.
- 3.6 The Council's annual Treasury Management and Investment Strategy for 2026/27 was reported to and approved by Council on 9th March 2026
- 3.7 With the UK economy experiencing a stable interest rate environment during the first quarter of the financial year, investment returns have remained stable, supporting investment income within the revenue budget. While the Monetary Policy Committee (MPC) is expected to maintain interest rates in the short term, future changes will continue to be monitored as they may affect investment income later in the financial year. A full breakdown of these investments is detailed later in this report.
- 3.8 Funds available for investment continued to be placed with the Debt Management Office (DMO), other Local Authorities, Money Market Funds (MMFS,) and the Lloyds Instant Access Deposit Account. No funds were invested in UK treasury Bills during the period under review as the rates of return offered were poor in relation to the other investment opportunities available to the Council.
- 3.9 The Head of Finance//Section 151 Officer continued to adopt a cautious approach with respect to treasury management investment operations. The Council's primary objectives for the management of its investments are to give priority to the security and liquidity of its funds before seeking the best rate of return.
- 3.10 The Council's primary objective for the management of its debt is to ensure its long term affordability. Most of its loans have therefore been borrowed from the Public Works Loan Board at long term fixed rates of interest. This approach provides certainty over borrowing costs and supports the Council's budget setting process.

External Context

Economic Background

- 3.11 This quarter has seen the continuation of the Middle East conflict, started on 28th February 2026 with strikes by Israel and the US on Iran. The conflict led to the closure of the Hormuz Strait, a waterway through which around 20% of the world's oil and liquified natural gas flows, resulting in sharp rises in energy and other commodity prices. Towards the end of the quarter, the US and Iran came to an agreement to negotiate a peace settlement, which prompted a reduction in energy commodity prices, albeit remaining higher than pre-war.
- 3.12 Having been expected to cut Bank Rate from 3.75%, the Bank of England's Monetary Policy Committee (MPC) instead held Bank Rate steady throughout the quarter. Despite sending hawkish signals with each monetary policy decision, and the voting split changing

from a 9-0 hold in March to a 7-2 hold in June, the majority of committee members appear to believe the UK economy and labour market were soft enough to absorb the price shock without producing the persistent inflationary conditions seen in 2022, which led to Bank Rate rising to 5.25%. This appears to be backed up by business surveys towards the end of the quarter suggesting that business pricing pressures, while elevated, are abating.

- 3.13 Against expectations, UK headline Consumer Price Index (CPI) decreased over the quarter, from an annual rate of 3.3% in March to 2.8% in May, but still well above the Bank of England's 2% target. The core measure of CPI inflation also decreased, from 3.1% to 2.6% over the same period. Upside pressure in inflation generally reflected fuel prices, but many other categories experienced disinflation, providing some evidence that higher energy prices were not immediately feeding into a wider subset of products.
- 3.14 Inflation is expected to rise from July following a 13% increase in the retail energy price cap, with forecasts suggesting inflation could rise to between 3.5% and 4.0%. This is likely to test the MPC's resolve to maintain Bank Rate at 3.75%.
- 3.15 Data released during the period showed the UK economy expanded by 0.6% in the first quarter of the calendar year, following three previous quarters of weaker growth. However, monthly GDP data showed a contraction of 0.1% in April as weaker confidence affected spending and investment decisions. Purchasing managers' index (PMI) data indicated that softer growth was also likely in May and June, with the services PMI denoting a small contraction in activity from both months.
- 3.16 Labour market data showed a continued softening in employment conditions, as weaker private sector earnings growth was reported for the period February to April 2026. The unemployment rate for April was 4.9%, Pay As You Earn (PAYE) employment was down over the year, and the number of vacancies continued to fall. The looser labour market is supporting the MPC's decision not to tighten monetary policy, with the likelihood of wage growth rising in line with inflation appearing remote.
- 3.17 Arlingclose, the Authority's treasury adviser, maintained its central view that Bank Rate remain at 3.75%, and that the Bank of England would focus on the spare capacity in the economy, notably the labour market, rather than the upside risk of persistent inflation. The balance of risks over the near term, however, is deemed to be to the upside as signs of second round inflationary effects will prompt policymakers to raise interest rates. Over the medium term, the balance of risk for Bank Rate shifts to the downside, with tighter monetary policy, higher prices and weaker growth presenting downside risks for inflation.
- 3.18 The US Federal Reserve also held interest rates steady the period, maintaining the Federal Funds Rate at 3.50% to 3.75%. The decision in June was the sixth consecutive month where no changes were made to the main interest rate. US CPI jumped to 4.2% in May on the back of higher gasoline prices, raising the possibility that policy under new Federal Chair Kevin Warsh may lead to higher rather than lower rates.
- 3.19 The European Central Bank (ECB) hiked rates in June, the first rise since September 2023. The ECB noted heightened uncertainty in the near-term from the effects of the war,

including higher inflation and potentially weaker growth. The June hike to 2.40% represented an insurance move to maintain inflation around the 2% target.

Financial Markets

- 3.20 After the sharp deterioration early in the quarter, sentiment in financial markets showed signs of improvement during the period as hopes for an end to the US/Israel war with Iran increased. However, bond and equity markets remained volatile. Early in the period bond yields rose sharply due to tighter monetary policy expectations but yields steadily declined as it became apparent central banks, including the Bank of England, were not going to immediately hike policy rates. Equity markets sold off sharply in March but gained back some of the previous declines, particularly in US markets, where AI related sentiment remained strong.
- 3.21 Political uncertainty in the UK due to poor local election results for the Labour party placed upward pressure on medium and longer-term gilt yields. The eventual resignation of Keir Starmer and the likely succession of Andy Burnham reduced some uncertainty and prompted a decline in yields.
- 3.22 Over the quarter, the 10-year UK benchmark gilt yield started at 4.86% and ended at 4.77% having hit 5.20% in late April. The 20-year gilt yield was slightly more stable, starting at 5.45% and finished at 5.42%, after peaking at 5.79% in May. The Sterling Overnight Rate (SONIA) averaged 3.73% over the quarter to 30th June.

Credit Review

- 3.23 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.
- 3.24 During the quarter, Fitch upgraded numerous banks due to a rating methodology change, which placed greater emphasis on resolution regimes, loss-absorbing debt buffers and depositor protection. It also changed the reference obligations used for Issuer Default Ratings and introduced more differentiated notching between deposits, senior preferred, senior unsecured and senior non-preferred debt ratings.
- 3.25 Moody's also made changes to the ratings of European banks following the passing of EU legislation introducing full depositor preference across the bloc which places deposits ahead of senior unsecured debt in the creditor hierarchy. This resulted in upgrades to the ratings to several counterparties on Arlingclose's recommended list.
- 3.26 Credit default swap (CDS) prices on UK banks spiked through late March/early April following escalation in the Iran war but eased back over the rest of the quarter to end at broadly pre-conflict levels.
- 3.27 European banks' CDS prices followed a similar pattern, albeit some German banks were modestly higher compared to the previous quarter. Trade tensions between Canada and the US caused Canadian bank CDS prices to rise over the quarter and remain elevated

compared to earlier Q1 2026 while Australian and Singaporean lenders were broadly unchanged.

- 3.28 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.
- 3.29 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.

Local Context

- 3.30 On 31st March 2026, the Authority had net borrowing of £144.771M arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31/3/26	31/3/27
	Actual	Forecast
	£m	£m
General Fund CFR	124.109	129.319
HRA CFR	89.525	110.808
Total CFR	213.634	240.127
Less: *Other debt liabilities	(3.506)	(2.416)
Borrowing CFR	210.128	237.711
External borrowing**	(181.871)	(219.737)
Internal borrowing	28.257	17.974
Less: Balance sheet resources	(67.000)	(28.000)
Amount Available for Investments	38.743	10.026

- 3.31 The treasury management position at 30th June 2026 and the change over the quarter is shown in Table 2 below.

Table 2: Treasury Management Summary

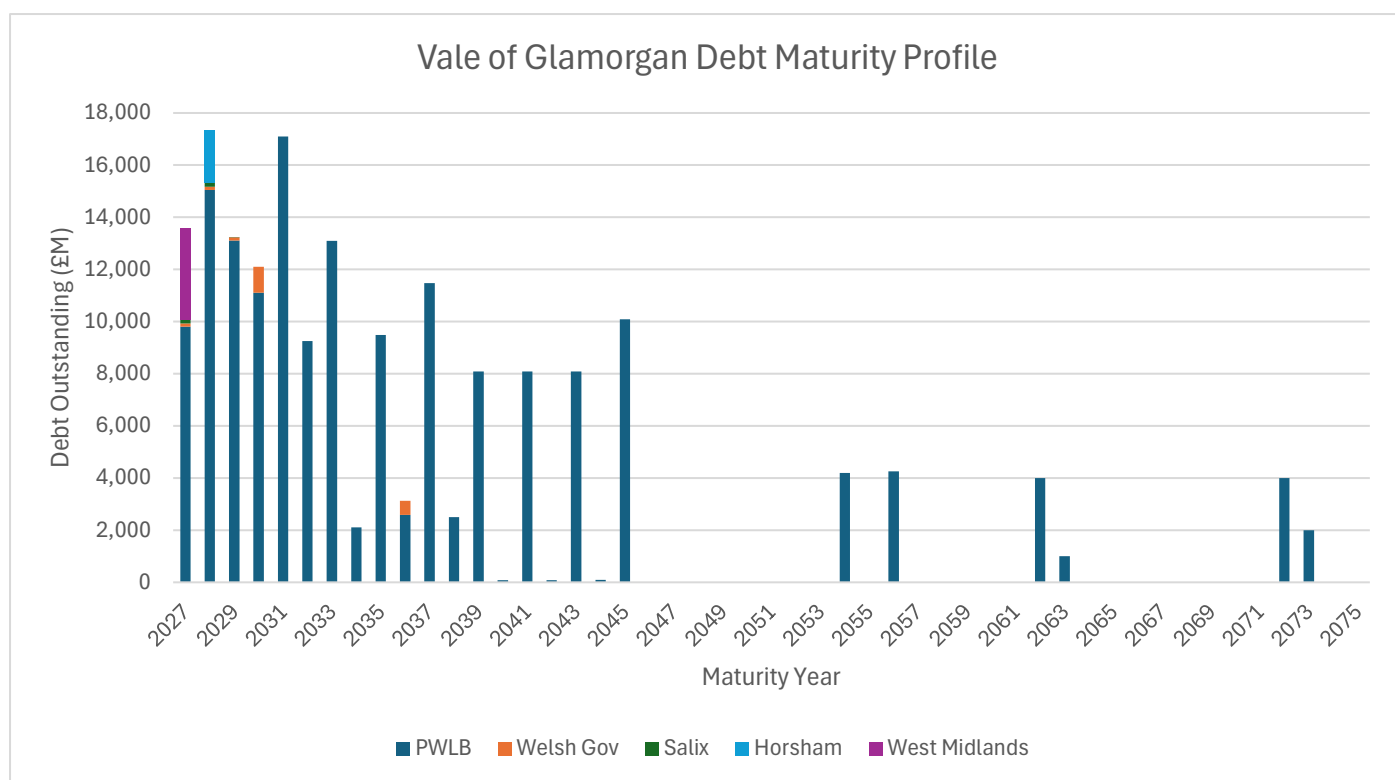
	31.3.26 Balance	Movement	30.6.26 Balance	30.6.26 Rate
	£m	£m	£m	%
Long-term borrowing				
PWLB	(173.935)	3.238	(170.697)	4.38
Other	(7.936)	0.169	(7.767)	3.52
Total borrowing	(181.871)	3.407	(178.464)	4.34
Long-term Investments	0.000	0.000	0.000	0.00

Short-term investments	34.350	19.625	53.975	4.16
Cash and cash equivalents	2.750	(0.100)	2.650	3.51
Total investments	37.100	19.525	56.625	4.14
Net (borrowing)	(144.771)	22.932	(121.839)	

Borrowing Strategy and Activity

3.32 As outlined in the Treasury Strategy, the Authority'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 Authority's long-term plans change being a secondary objective. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer term stability of the debt portfolio. The following table confirms the Council's debt maturity position as at 30th June 2026.

Chart 1 – Debt Maturity Profile



3.33 The majority of the Authority's external borrowing is made up of Public Works Loan Board (PWLB) fixed rate debt. Debt is heavily concentrated in the short to medium term with peaks reaching around £17M. After 2044, debt repayments begin to fall, with smaller maturities every few years through to 2072.

3.34 Gilt yields have moved about during the period but overall have decreased slightly. Oil prices have reduced and inflationary figures in the UK have not risen by as much as markets initially expected. Concerns about the tepid UK economy have also lessened expectations of future rate rises which has lowered gilt yields.

- 3.35 The PWLB certainty rate for 5-year maturity loans was 5.16% at the beginning of the period and 5.07% at the end. The lowest available 5-year maturity certainty rate was 5.04% and the highest was 5.49%. In contrast rates for 20-year maturity loans ranged from 6.02% to 6.50% during the period, and 50-year maturity loans from 5.89% to 6.35%. After coming down from a characteristic spike seen around financial year end, the cost of short term borrowing from other Local Authorities has remained a little above Base Rate, at between 4.0% and 4.5%, throughout the period.
- 3.36 CIPFA's 2021 Prudential Code is clear that Local Authorities must not borrow to invest primarily for financial return and that it is not prudent for Local Authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to Local Authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes. The Authority has no new plans to borrow to invest primarily for financial return.
- 3.37 The PWLB HRA rate which is 40 basis points below the certainty rate is available up to March 2027. This discounted rate is to support Local Authorities borrowing for the Housing Revenue Account (HRA) and for refinancing existing HRA loans.
- 3.38 As at 30th June 2026 the Authority held £178.463m of loans, a decrease of £3.408m to 31st March 2026, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 30th June 2026 are summarised in Table 3 below:

Table 3: Borrowing Position

Loan Type	Opening Balance 31/03/2026	Received	Repaid	Closing Balance 30/06/2026	Weighted Average Rate
	£m	£m	£m	£m	%
PWLB	173.935	0.000	(3.238)	170.697	4.38
Local Authority Loan	5.500	0.000	(0.000)	5.500	4.43
Salix Loans	0.511	0.000	(0.169)	0.342	0.00
WG Loans	1.925	0.000	(0.000)	1.925	1.54
Total	181.871	0.000	(3.407)	178.464	

- 3.39 Investment balances have continued to be kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets, particularly during periods of elevated borrowing rates. However, available balances and reserves are now practically exhausted, and the Council continues to borrow externally from the Public Works Loan Board (PWLB).
- 3.40 Due to current high borrowing costs, the Council has adjusted its borrowing strategy to consider a wider range of borrowing maturities. This includes longer term fixed rate borrowing, extending from a previous period of 7 years up to 12 years, while also considering shorter term borrowing of between 2 and 4 years where this provides better value. This approach balances the benefits of securing longer term rates and reducing refinancing risk with the potential advantages of shorter term borrowing where market conditions are favourable.

- 3.41 Borrowing rates remain elevated, reflecting ongoing economic uncertainty and geopolitical tensions. While market expectations continue to anticipate a gradual easing in interest rates over the medium term, the outlook remains uncertain. Continued instability in the Middle East, including the conflict involving Iran, has increased the risk of rates remaining higher for longer or experiencing further upward pressure. The spread of PWLB rates can be found at Appendix B.
- 3.42 The Council's primary objective for the management of its debt is to ensure its long-term affordability. It has been the Council's policy to borrow from the Public Works Loan Board at long term fixed rates of interest. Borrowing long term with fixed interest rates provides certainty to the budget setting process. This policy will be resumed as soon as PWLB rates fall from their current inflated levels.
- 3.43 No external borrowing was undertaken during the first quarter of 2026/27. Borrowing is to be undertaken during the second quarter to finance approved General Fund and Housing Revenue Account capital expenditure. Eligible PWLB loans are expected to benefit from a 20 basis point deduction for General Fund borrowing and a 60 basis point deduction for HRA borrowing.

Treasury Management Investment Activity

- 3.44 The CIPFA Treasury Management Code now defines treasury management investments as those investments which arise from the Authority's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.
- 3.45 The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the first quarter, the Authority's investment balances ranged between £37.100M and £56.625M due to timing differences between income and expenditure. The investment position is shown in Table 4 below.

Table 4: Treasury Management Position Investment Counterparty	31/03/26 Balance	Invested	Returned	30/06/26 Balance	30/06/26 Income Return	30/06/26 Weighted Average Maturity
	£m	£m	£m	£m	%	Days
UK Local Authorities	16.500	24.000	(9.000)	31.500	4.35	241.0
Debt Management Office	0.000	201.200	(198.725)	2.475	3.72	16.6
Federated Hermes Money Market Funds (MMF)	7.850	6.150	(4.000)	10.000	3.87	n/a
CCLA Money Market Funds (MMF)	10.000	0.000	0.000	10.000	3.80	n/a

Lloyds Deposit Account	2.750	4.625	(4.725)	2.650	3.51	n/a
Total	37.100	235.975	(216.450)	56.625		

- 3.46 Both the CIPFA Code and Government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 3.47 The average monthly yields on these investments are set out at Appendix A (Table 17).
- 3.48 All investment activity during the first quarter of 2026/27 conformed to the approved Treasury Management Strategy. The Council did not experience any liquidity difficulties during the period, and liquidity remained strong. The strengthening of liquidity during the quarter was partly attributable to timing differences in cash flows and the receipt of grant funding
- 3.49 The Council manages its investments in house and can invest with those institutions which meet the minimum credit rating criteria and are included on the approved lending list as laid out in the investment strategy. The Council currently invests short term for a range of periods from overnight to 364 days, dependent on its cash flows, its interest rate view, and the interest rates/periods on offer. A laddering approach to investments continued to be used during the first quarter of 2026/27.
- 3.50 The Bank Rate remained unchanged at 3.75% during the first quarter of 2026/27. The MPC has maintained Bank Rate at its current level, with short term interest rates remaining broadly stable. The outlook remains uncertain, with expectations that rates will remain unchanged in the short term. Interest rate forecasts for 2026/27 can be found at Appendix B.
- 3.51 The rates on the Debt Management Account Deposit Facility (DMADF) deposits ranged between 3.70% and 3.74% and money market rates between 3.76% and 3.90%.
- 3.52 Most major asset classes delivered positive returns over quarter 1 of 2026/27, although markets remained volatile and sensitive to geopolitical developments, energy prices and changing expectations for interest rates. The quarter generally represented a recovery from the weakness seen towards the end of 2025/26, when markets were unsettled by the escalation of conflict between the US, Israel and Iran. As tensions in the Middle East began to ease and oil prices fell back, investor sentiment improved and most asset prices recovered.
- 3.53 Equity markets generally performed strongly over the quarter, supported by improving risk appetite, resilient corporate earnings and continued enthusiasm for technology and AI-related investment. Emerging markets performed most strongly, with UK equities also delivering positive returns, although lagging overseas markets. This partly reflected the more defensive composition of the UK market and its exposure to falling commodity prices (such as oil).

- 3.54 Bond markets produced more modest but generally positive returns. Government bond markets were affected by competing influences. Higher energy prices and geopolitical uncertainty initially raised concerns about inflation, while later falls in oil prices and softer economic data helped support expectations that global central banks may still ultimately be able to reduce interest rates over time. UK gilts came under pressure (prices falling, yields increasing) with expectations of Bank Rate increases, plus domestic political uncertainty rising, but yields declined during June following the apparent ‘conclusion’ of the war, reduction in energy prices and decline in interest rate expectations, finishing the quarter at similar levels to the start.
- 3.55 Investment returns remained strong during the first quarter of 2026/27, with no change in the Bank Rate during the period. Returns are expected to remain stable in the short term, subject to future changes in interest rates.
- 3.56 Funds available for investment continued to be placed with the Debt Management Office (DMO), other Local Authorities, Money Market Funds (MMFS) and the Lloyds Instant Access Deposit Account. No investments were placed with and Treasury Bills as the other investment tools available offered more favourable rates of return and low risk.
- 3.57 Money Market Funds (MMFs) are still the most beneficial investment tool as not only do they permit instant access to the funds invested, the rates of return are also calculated daily and move simultaneously with the upward movement in interest rates. Since rates have been cut some money market fund rates have remained competitive and are currently achieving a yield more than Bank Rate.
- 3.58 Deposits placed with local authorities and the DMO were for periods between overnight and 364 days.
- 3.59 Deposits placed with Money Market Funds and the Lloyds Accounts had instant access and were drawn down when needed to meet the Council’s financial commitments.
- 3.60 The Head of Finance/Section 151 Officer will continue to keep the borrowing and investment strategies under review.
- 3.61 The Head of Finance/Section 151 Officer reports that all treasury management activity undertaken during the financial year complied with the approved strategy, the CIPFA Code of Practice, and the relevant legislative provisions. Compliance with specific investment limits is demonstrated in Table 6 below.

Table 6: Investment Limits

	2026/27 Maximum	30.6.26 Actual	2026/27 Limit	Complied Yes/No
UK Government – Treasury Bills and DMADF	Unlimited	£0	Unlimited	Yes
UK Local Authorities	£5M per LA	£5M	£5M per LA	Yes
UK Fire & Police Authorities	£5M per Organisation	£0M	£5M per Organisation	Yes
UK Call Bank Accounts in UK Banks	£10M per Organisation	£2.65M	£10M per Organisation	Yes

Money Market Funds (AAA)	£10M per Organisation	£10M	£10M per Organisation	Yes
UK and Foreign Financial Institutions (A-)	£10M per Organisation	£0M	£10M per Organisation	Yes

4.0 What issues are there to be considered?

Prudential Indicators

- 4.1 Updated prudential and treasury indicators are set out at Appendix A. Tables appearing under Appendix A include the following.

Capital Expenditure (Tables 1 and 2)

- 4.2 The purpose of this indicator is to provide a summary of the Council's capital expenditure.
- The Council is required to make reasonable estimates of the total capital expenditure that it plans to incur in the forthcoming financial year and the following three financial years.
 - After the year end the actual capital expenditure incurred during the financial year will be recorded.
 - Expenditure that it plans to incur in the forthcoming financial year and the following three financial years.

Capital Financing Requirement (Tables 3, 4 and 5)

- 4.3 The Capital Financing Requirement ("CFR") shows the difference between the Authority's capital expenditure and the revenue or capital resources set aside to finance that spend. The CFR will increase where capital expenditure takes place and will reduce as the Authority makes Minimum Revenue Provision ("MRP").
- The Council will make responsible estimates for the total Capital Financing Requirement (CFR) at the end of the forthcoming financial year and the following three years.
 - After year end the actual Capital Financing Requirement (CFR) will be calculated directly from the Council's balance sheet.
- 4.4 The Authorised Limit is the affordable borrowing limit required by Section 3 (1) of the Local Government Act 2003 for English and Welsh authorities. Once it has been set, the Council does not have the power to borrow above this level.
- 4.5 The Authorised Limit reflects a level of external debt that, whilst not desired, could be afforded by the Authority in the short term, but which is not sustainable in the longer term.
- 4.6 The Authority should ensure that gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and the next three financial years.

- 4.7 If the level of gross borrowing is below the Authority's capital borrowing need (the CFR) it demonstrates compliance with the requirement of this Indicator.

Authorised Limit (Table 6)

- 4.8 The Council will set for the forthcoming financial year and the following two financial years an Authorised Limit for its total gross external debt, separately identifying borrowing from other long-term liabilities.

The Operational Boundary and Actual Debt Indicators (Table 7)

- 4.9 The Operational Boundary is the limit beyond which external debt is not normally expected to exceed. Unlike the Authorised Limit, the Operational Boundary is not an absolute limit, but it reflects the Authority's expectations of the level at which external debt would not ordinarily be expected to exceed.
- 4.10 The Council will also set for the forthcoming financial year and the following two financial years an Operational boundary for its total gross external debt, separately identifying borrowing from other long-term liabilities.

External Debt

- 4.11 The Council must disclose the closing balance for actual gross borrowing in respect of the financial period just ended. This will clarify to Members the Authority's overall level of external debt and allow comparison to the Authority's actual borrowing need as provided by the Gross debt and the CFR Indicator.

Gross Debt and the Capital Financing Requirement (Tables 8, 9 and 10)

- 4.12 An Authority should only borrow to support a capital purpose, and borrowing should not be undertaken for revenue or speculative purposes.
- 4.13 To ensure that over the medium-term debt will only be for a capital purpose the Council should ensure that debt does not, expect in the short term, exceed the total Capital Financing Requirement in the preceding year plus the estimates of any additional Capital Financing Requirement for the current and next two financial years.

Ratio of Financing Cost to Net Revenue Stream (Table 11)

- 4.14 This Indicator shows the trend in the cost of capital borrowing and other long-term obligation costs against the net revenue stream i.e., Council Tax and Social Housing rent income.
- 4.15 The higher the ratio, the higher the proportion of resources tied up just to service net capital costs and which represent a potential affordability risk.

- The Council will estimate for the forthcoming year and the following two financial years the proportion of financing costs to net revenue stream.
- After the year end, the proportion of financing costs to net revenue stream will be calculated directly from the Council's income and expenditure statement.
- Please note that the net revenue stream figures have been calculated to include leasing actuals and future leasing estimates.
- The target for HRA is anticipated to be breached in 2028/29 and 2029/30. Targets will be reviewed as part of the Housing Improvement Programme setting for 2027/28.

Treasury Indicators

Liability Benchmark (Tables 12 and 13)

- 4.16 The liability benchmark provides an indication of the Council's future borrowing requirements and the level of debt required to support its capital investment plans.

Maturity Structure of Borrowing (Tables 14 and 15)

- 4.17 The Council is required to set gross limits on maturities for the periods shown and covers both fixed and variable rate borrowings. The reason being to try and control the Council's exposure to large sums falling due for refinancing.
- 4.18 The Council will set for the forthcoming year both upper and lower limits with respect to the maturity structure of external borrowing. The periods to which these limits will apply are as follows:
- Under 12 months
 - 12 Months and within 24 months
 - 24 months and within 5 years
 - 5years and within 10 years
 - 10 years and above
- 4.19 The Authority's borrowing is spread across a range of maturity periods, providing a balanced repayment profile and limiting exposure to refinancing risk. This approach supports effective cash flow management and helps manage the impact of changes in interest rates.

Limits for Long Term Treasury Management Investments (Tables 16 and 17)

- 4.20 This Indicator is seeking to support control of liquidity risk. The limits should be set with regard to the Authority's liquidity needs and also reduce the potential need to have to make early exit from an investment in order to recover funds.
- 4.21 The indicator relates solely to the Authority's investments for treasury management purposes.

- 4.22 Where a Council invests, or plans to invest, for periods longer than a year, the Council will set an upper limit for each forward financial year period for the maturing of such investments.

5.0 How has evidence been used to inform the report, including the views of others?

- 5.1 This report has been prepared on the basis of internal and external evidence sources to ensure it meets the requirements of the CIPFA Code of Practice on Treasury Management (the Code), the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) and the Welsh Government (WG) revised guide on Local Government Investments (April 2010). The financial data presented is extracted from the Council's financial ledger and subject to established internal control and reconciliation processes.
- 5.2 The Head of Finance/Section 151 Officer has undertaken a review of the report to provide assurance on its accuracy, interpretation of data, and compliance with the Council's financial governance framework. In addition, the Council's external treasury management advisors (Arlingclose) have been consulted, providing specialist technical input and independent commentary on market conditions, performance, and risk considerations.

6.0 What are the next steps if the recommendations are approved?

- 6.1 Following approval, Treasury Management activities will continue to be undertaken in accordance with the approved Treasury Management Strategy, with performance and compliance monitored throughout the year, including consideration of suitable borrowing opportunities as they arise.
- 6.2 The next formal report will be the Mid-Year Treasury Management Report, which will provide an update on the Council's treasury position and performance.

7.0 How does this report support Vale 2030 and Reshaping?

- 7.1 Investment income contribution to the income generation stream within the reshaping programme.

8.0 How does this demonstrate the Five Ways of Working?

- 8.1 The Treasury Management and Investment Strategy ensures that the financial plans of the Council are sustainable into the future and do not adversely impact on future generations.
- 8.2 The Treasury and Investment Strategy underpins the financial management of the Council and its ability to achieve its well-being objectives as set out in the Corporate Plan.

Resources

9.0 Finance

- 9.1 Money is borrowed for capital purposes and interest is charged to revenue accounts.

10.0 Workforce

10.1 There are no direct employment issues relating to this report.

11.0 Legal and Equalities

11.1 **Does an Equalities Impact Assessment need to be completed? If not, why?**

An Equalities Impact Assessment has not been completed because this report relates to the continuation and enhancement of an existing operational system managing the Council's cash balances. It does not propose any change to eligibility criteria or substantive policy affecting residents. Accordingly, no full Equality Impact Assessment is considered necessary at this stage.

11.2 Compliance with the Local Government Act 2003 and CIPFA's "Code of Practice for Treasury Management in the Public Services" is mandatory.

12.0 Key Contacts

12.1 **Who are the primary officers to contact with any comments and/or queries on the report?**

Lead Officer: Matthew Bowmer Head of Finance/Section 151 Officer mbowmer@valeofglamorgan.gov.uk	Democratic Services Officer: Matt Swindell Cabinet and Committee Services Officer. mlswindell@valeofglamorgan.gov.uk
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Appendices

Appendix A – Prudential and Treasury Management Indicators

Appendix B – The UK Economy 2026/27 (@ 30.06.2026)

Background Documents

CIPFA's Code of Practice for Treasury Management in the Public Services" (2021 Edition), "The Prudential Code" (2021 Edition) and WG guidance on Local Authority investments.

Appendix A

Quarter 1 Treasury Management Prudential Indicators 2026/27

- The following tables are a summary of the reporting requirements for Prudential and Treasury Indicators, as per the 2021 CIPFA Prudential Code for Capital Finance in Local Authorities and 2021 CIPFA Treasury Management in the Public Services Code of Practice and Cross-sectoral Guidance Notes.
- The indicators are required to help Members understand and evaluate the prudence and affordability of the Authority's capital expenditure plans and the borrowing and investment activities undertaken in support of this.

Prudential Indicators	Treasury Indicators
Estimates of capital expenditure	Liability Benchmark
Actual capital expenditure	Maturity Structure of borrowing
Estimates of CFR	Limits for long-term treasury management investment
Actual CFR	Quarterly Investment Yield
Authorised limit for external debt	
Operational boundary for external debt	
Actual external debt	
Gross debt and the CFR	
Estimates of financing costs to net revenue stream	
Actual financing costs to net revenue stream	

1. Capital Expenditure

The purpose of this indicator is to provide a summary of the Council's capital expenditure. It reflects the quarter 1 capital programme presented to Cabinet on the same agenda as this report and the capital programmes proposed for the forthcoming financial year. A supplementary table is included detailing the resources to be applied to finance the capital spend and highlights any net financing need over the reporting period.

- This table shows a comparison of the capital programme as agreed by Cabinet with the latest updated Capital Programme which is reported as part of the Quarter 1 Capital Monitoring.

Table 1 – Capital Expenditure

Capital Expenditure	2025/26 Actual £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M	2029/30 Estimate £M
Non HRA	54.603	102.566	59.382	25.779	13.738
HRA	19.162	49.508	73.920	79.220	45.351
Total Capital Expenditure	73.765	152.074	133.302	104.999	59.089
IFRS16 Leasing New Advances	1.681	0.018	0.000	0.000	0.000
Total Capital Expenditure	75.446	152.092	133.302	104.999	59.089

Capital Expenditure by Service	2025/26 Actual £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M	2029/30 Estimate £M
Learning & Skills	32.721	56.396	20.413	11.871	2.915
Social Services	3.458	4.715	1.730	2.865	2.850
Environment & Transport	11.493	21.226	10.402	4.785	5.310
Place	5.228	16.031	11.546	0.000	0.000
Corporate Resources	0.796	1.437	0.601	0.653	0.148
City Deal	0	0.438	0.640	3.313	2.515
Pipeline Schemes	0.907	2.323	14.050	2.292	0.000
Housing Revenue Account (HRA)	19.162	49.508	73.920	79.220	45.351
Total Capital Expenditure	73.765	152.074	133.302	104.999	59.089
IFRS16 Leasing New Advances	1.681	0.018	0.000	0.000	0.000
Total Capital Expenditure	75.446	152.092	133.302	104.999	59.089

Changes to the Financing of the Capital Programme

- The table below shows the main sources of funding for the capital expenditure plans of the Authority shown above, highlighting the original supported and unsupported elements of the capital programme and the expected financing arrangements of this capital expenditure.
- The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt the Minimum Revenue Provision (MRP). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Table 2 – Net Financing Need

Sources of Capital Financing	2025/26 Actual £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M	2029/30 Estimate £M
Total Capital Expenditure					
Financed by:					
GCF Grant	2.964	4.370	4.370	4.370	4.370
General Fund Reserves & Revenue	2.137	7.978	5.250	1.200	1.200
HRA Reserves & Revenue	0.748	16.120	7.841	2.866	0.532
S106	5.770	6.032	1.940	0.000	0.000
Grants	45.248	76.534	42.930	18.366	7.570
Capital Receipts (General & HRA)	0.033	7.173	2.402	2.557	0.452
Total Financing	56.900	118.207	64.733	29.359	14.124
Net Financing need for the year					
Supported Borrowing Requirement GF	6.092	5.184	3.369	3.369	3.369
Prudential Borrowing Requirement - GF	1.577	5.410	7.143	4.794	4.799
Prudential Borrowing Requirement - HRA	9.196	23.273	58.057	67.477	36.797
IFRS16 New Advances	1.681	0.018	0.000	0.000	0.000
Total Borrowing Requirement	18.546	33.885	68.569	75.640	44.965
Total Financing Need	75.446	152.092	133.302	104.999	59.089

Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

2. Capital Financing Requirement

- The table below shows the CFR, which is the underlying external need for the Council to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

Table 3 – Capital Financing Requirement

	2025/26 Actual £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M	2029/30 Estimate £M
Prudential Indicator – the Capital Financing Requirement					
CFR – Non-Housing	120.603	126.903	133.011	136.677	140.118
CFR - HRA	89.525	110.808	166.406	230.259	262.083
Total CFR excl Other Long Term Liabilities (OLTL)	210.128	237.711	299.417	366.936	402.201
Non HRA OLTL CFR	3.506	2.416	1.780	1.498	1.242
Total CFR	213.634	240.127	301.197	368.434	403.443
Net Financing Need for the Year	16.866	33.867	68.569	75.640	44.965
Net Financing Need for OLTL	1.750	0.018	0.000	0.000	0.000
Less Minimum Revenue Provision	(5.973)	(6.284)	(6.863)	(8.120)	(9.700)
Less Minimum Revenue Provision Leasing	(1.095)	(1.108)	(0.636)	(0.282)	(0.256)
Less OLTL Disposals	(0.069)	0.000	0.000	0.000	0.000
Net movement in CFR	11.479	26.493	61.070	67.238	35.009

Table 4 – General Fund Capital Financing Requirement

Non HRA Capital Financing Requirement	2025/26 Actual £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M	2029/30 Estimate £M
Opening CFR	117.100	120.603	126.903	133.011	136.677
Non HRA OLTL CFR	2.921	3.506	2.416	1.780	1.498
Net Financing Need for the Year	7.670	10.594	10.512	8.163	8.168
Net Financing Need for the Year OLTL	2.054	0.018	0.000	0.000	0.000

Net Financing Need for Remeasurements	(0.304)	0.000	0.000	0.000	0.000
Less Minimum Revenue Provision	(4.168)	(4.294)	(4.405)	(4.496)	(4.727)
Less Minimum Revenue Provision Leasing	(1.095)	(1.108)	(0.636)	(0.282)	(0.256)
Less Lease Disposals	(0.069)	0.000	0.000	0.000	0.000
Closing Non HRA CFR	124.109	129.319	134.790	138.176	141.360

Table 5 Housing Revenue Account Capital Financing Requirement

HRA Capital Financing Requirement	2025/26 Actual	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
	£M	£M	£M	£M	£M
Opening CFR	82.135	89.525	110.808	166.406	230.259
Net Financing Need for the Year	9.195	23.273	58.057	67.477	36.797
Less Minimum Revenue Provision	(1.805)	(1.990)	(2.459)	(3.624)	(4.973)
Closing HRA CFR	89.525	110.808	166.406	230.259	262.083

3. Borrowing Activity

- A key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2025/26 and next two financial years. This allows some flexibility for limited early borrowing for future years. In line with CIPFA guidance the Council will not borrow more than or in advance of its needs purely to profit from the investment of the extra sums borrowed.
- Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. The figure shown below reflects the Council's current strategy in respect of maximising internal borrowing. This will be kept under review in consultation with the Council's Treasury Management advisers.

4. The Authorised Limit

- The Authorised Limit represents that limit beyond which borrowing is prohibited, and this needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Table 6 Authorised Limit

Authorised limit for external debt	2025/26 Actual £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M	2029/30 Estimate £M
Borrowing	255.800	298.472	360.857	425.486	459.910
Other long-term liabilities	10.000	10.000	10.000	10.000	10.000
Total	265.800	308.472	370.857	435.486	469.910

5. Operational Boundary

- The Operational Boundary is the limit beyond which external debt is not normally expected to exceed. Unlike the Authorised Limit, the Operational Boundary is not an absolute limit, but it reflects the Authority's expectations of the level at which external debt would not ordinarily be expected to exceed.
- The Council will also set for the forthcoming financial year and the following two financial years an Operational boundary for its total gross external debt, separately identifying borrowing from other long-term liabilities.

Table 7 Operational Boundary

Operational Boundary for External Debt	2025/26 Actual £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M	2029/30 Estimate £M
Borrowing	231.739	273.808	335.560	399.524	433.250
Other Long-Term Liabilities	5.429	4.393	3.767	3.474	3.242
Total Debt (Year End Position)	237.168	278.201	339.327	402.998	436.492

6. Gross Debt and the Capital Financing Requirement

- An authority should only borrow to support a capital purpose, and borrowing should not be undertaken for revenue or speculative purposes.
- To ensure that over the medium-term debt will only be for a capital purpose the Council should ensure that debt does not, expect in the short term, exceed the total Capital Financing Requirement in the preceding year plus the estimates of any additional Capital Financing Requirement for the current and next two financial years.
- The Council must disclose the closing balance for actual gross borrowing in respect of the financial period just ended. This will clarify to Members the Authority's overall level of external debt and allow comparison to the Authority's actual borrowing need as provided by the Gross debt and the CFR Indicator.

Table 8 Gross External Debt and CFR

	2025/26	2026/27	2027/28	2028/29	2029/30
	Actual	Estimate	Estimate	Estimate	Estimate
	£M	£M	£M	£M	£M
CFR	213.634	240.127	301.197	368.434	403.443
Gross borrowing	(181.871)	219.737	285.963	353.371	391.230
Other long term liabilities	(3.506)	2.416	1.780	1.498	1.242
Under/(over) borrowing (Loans)	28.257	17.974	13.454	13.565	10.971

Table 9 Gross Borrowing at Year End

	2025/26	2026/27	2027/28	2028/29	2029/30
	Actual	Estimate	Estimate	Estimate	Estimate
	£M	£M	£M	£M	£M
Loans at start of year	169.851	181.871	213.737	285.963	353.371
Lease/PFI liabilities at start of year	2.920	3.506	2.416	1.78	1.498
Total gross borrowing at start of year	172.771	185.377	222.153	287.743	354.869
New borrowing for capital spends	19.500	33.867	68.569	75.640	44.965
New borrowing for maturing debt	0.000	21.000	15.000	5.000	5.000
New lease/PFI liabilities	2.054	0.018	0.000	0.000	0.000
WG Loan	1.000	0.000	0.000	0.000	0.000
Loan repayments	(8.480)	(17.001)	(17.343)	(13.232)	(12.106)
Lease & PFI repayments	(1.095)	(1.108)	(0.636)	(0.282)	(0.256)

Lease Disposals/Remeasurements	(0.373)	0.000	0.000	0.000	0.000
Loans at end of year	181.871	219.737	285.963	353.371	391.230
Lease/PFI liabilities at end of year	3.506	2.416	1.780	1.498	1.242
Total gross borrowing at end of year	185.377	222.153	287.743	354.869	392.472

Table 10 Gross Debt / Internal Borrowing

	2025/26 Actual £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M	2029/30 Estimate £M
External Net Borrowing	181.871	219.737	285.963	353.371	391.230
Other Long-Term Liabilities	3.506	2.416	1.780	1.498	1.242
Total Debt	185.377	222.153	287.743	354.869	392.472
CFR (Year End Position)	213.634	240.127	301.197	368.434	403.443
CFR (Year End Position excl OLTL)	210.128	237.711	299.417	366.936	402.201
Estimated Internal Borrowing	28.257	17.974	13.454	13.565	10.971

- No difficulties are envisaged for the current or future years in complying with this prudential indicator.

7. Ratio of Relevant Financing Costs to Net Revenue Stream

- This Indicator shows the trend in the cost of capital borrowing and other long term obligation costs against the net revenue stream i.e., Council Tax and Social Housing rent income.
- The higher the ratio, the higher the proportion of resources tied up just to service net capital costs and which represent a potential affordability risk.
- The Council will estimate for the forthcoming year and the following two financial years the proportion of financing costs to net revenue stream.
- After the year end, the proportion of financing costs to net revenue stream will be calculated directly from the Council's income and expenditure statement.

Table 11 Ratio of Financing Costs to Net Revenue Stream

	2025/26	2026/27	2027/28	2028/29	2029/30
	Actual	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%
Non-HRA	2.82	2.77	3.11	3.05	3.10
Maximum Non-HRA	5	5	5	5	5
HRA	24.01	24.66	35.20	47.62	54.80
Maximum HRA	40	40	40	40	40

- The analysis above shows the Council Fund implications remain relatively stable throughout the period. The HRA cost is increasing over the period in line with the aspirations for maintenance and regeneration set out in the draft Housing Business Plan. The plan demonstrates that this level of investment is affordable over the 30-year period of the plan.

8. The Liability Benchmark

- The revised prudential code (December 2021) requires the Council to adopt a debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement.
- The Council is required to provide a comparison of the existing loan portfolio against the committed borrowing needs. This is to provide evidence that it has a strong grasp of both its existing debt maturity profile and how MRP and other cash flows affect the future debt requirement.
- This indicator should cover as a minimum the forthcoming financial year and the following two years. However, CIPFA strongly recommend that it is produced for at least ten years and should ideally cover the full debt maturity profile.
- The presentation should be in the form of a chart covering the following four areas:
- Existing Loan Debt (current external debt borrowing portfolio split by type of loan and presented as a stacked bar chart).
- Loans CFR (excluding any part of the CFR relating to other long-term liabilities).
- Net loans requirement (loan debt less Treasury Management Investments at the last financial year end and projected into the future based on approved prudential borrowing, planned MRP and other major cash flow forecasts).
- Liability Benchmark (net loans requirement plus any short term liquidity allowance).
- The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance. In its simplest form, it is calculated by deducting the amount of resources available for investment on the balance sheet (reserves, cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day to day cash flow.
- CIPFA recommends that the optimum position for external borrowing should be at the level of the Liability Benchmark where all balance sheet resources are used to maximise internal borrowing.

- The chart below shows the long-term borrowing impact of the current 30 year capital programme. For illustration, the assumption here is that no new external borrowing is undertaken during this period under review which would not be the case.

Graph A - LIABILITY BENCHMARK GRAPH INCLUDING 30 YEAR HOUSING BUSINESS PLAN

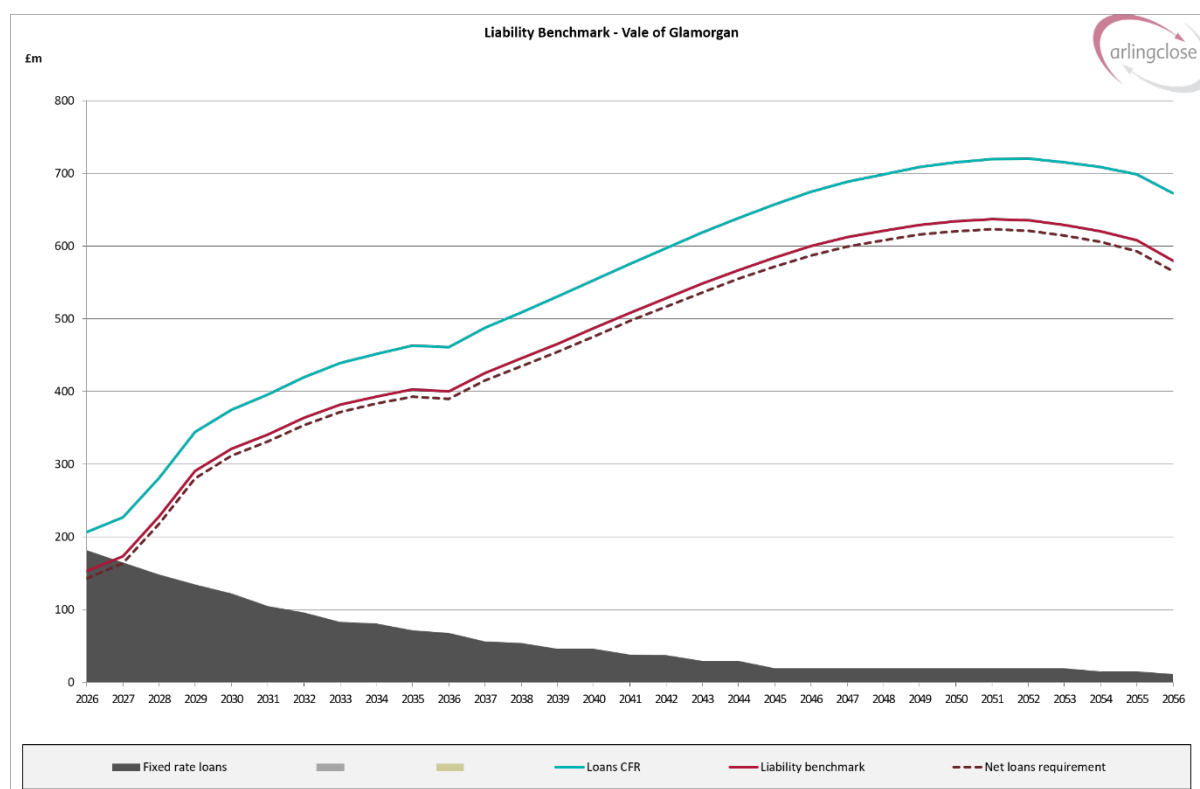


Table 12 – Liability Benchmark (Includes 30 Year Business Plan)

Year	Projected CFR	Projected External debt	Under/Over Borrowing
	£m	£m	£m
2025/26	210.128	181.871	28.257
2026/27	237.711	164.870	72.841
2027/28	299.417	147.527	151.890
2028/29	366.936	134.295	232.641
2029/30	402.201	122.189	280.012
2030/31	424.429	105.095	319.334
2031/32	448.377	95.843	352.534
2032/33	467.854	82.753	385.101
2033/34	480.372	80.647	399.725

2034/35	491.706	70.536	421.170
2035/36	489.736	67.404	422.332
2036/37	516.491	55.932	460.559
2037/38	537.818	53.436	484.382
2038/39	559.137	45.355	513.782
2039/40	581.560	45.272	536.288
2040/41	604.383	37.187	567.196
2041/42	625.921	37.100	588.821
2042/43	647.326	29.010	618.316
2043/44	667.451	28.918	638.533
2044/45	686.139	18.824	667.315
2045/46	703.220	18.824	684.396
2046/47	717.296	18.824	698.472
2047/48	727.705	18.824	708.881
2048/49	737.175	18.824	718.351
2049/50	744.144	18.824	725.320
2050/51	748.582	18.824	729.758
2051/52	748.980	18.824	730.156
2052/53	744.288	18.824	725.464
2053/54	737.681	14.629	723.052
2054/55	727.162	14.629	712.533
2055/56	712.407	10.374	702.033

- The chart shows that external borrowing falls below the liability benchmark. For as long as usable reserve balances are available the Council will maintain this under borrowed position.
- This means that the capital borrowing need of the Council will not be being fully financed with external loan debt as cash supporting the Council's reserves, balances and cash flow will be used as an interim measure to finance the Council's borrowing requirement. This is considered prudent as interest rates are predicted to fall over the short term. Council reserve balances are projected to reduce over the period under review and the Council will need to borrow externally up to and above the LB (as not all reserve balances can be used to finance capital expenditure) in order to finance the capital programme, it has committed to throughout the 30 year period
- The Council's current investments balances are provided in this report. These investments are expected to reduce further as reserves are utilised.
- The Council have forecast that in the worst-case scenario a buffer of £20M will be required to manage the day-to-day cash flow and therefore this amount is included as part of the treasury management liquidity

benchmark. The value of this buffer will need to be kept under review in the context of the current inflationary factors.

- The graph (graph B) below shows the approved five-year capital program, with the subsequent 25 year HRA business plan removed

LIABILITY BENCHMARK GRAPH INCLUDING 5 YEAR HOUSING BUSINESS PLAN

Graph B

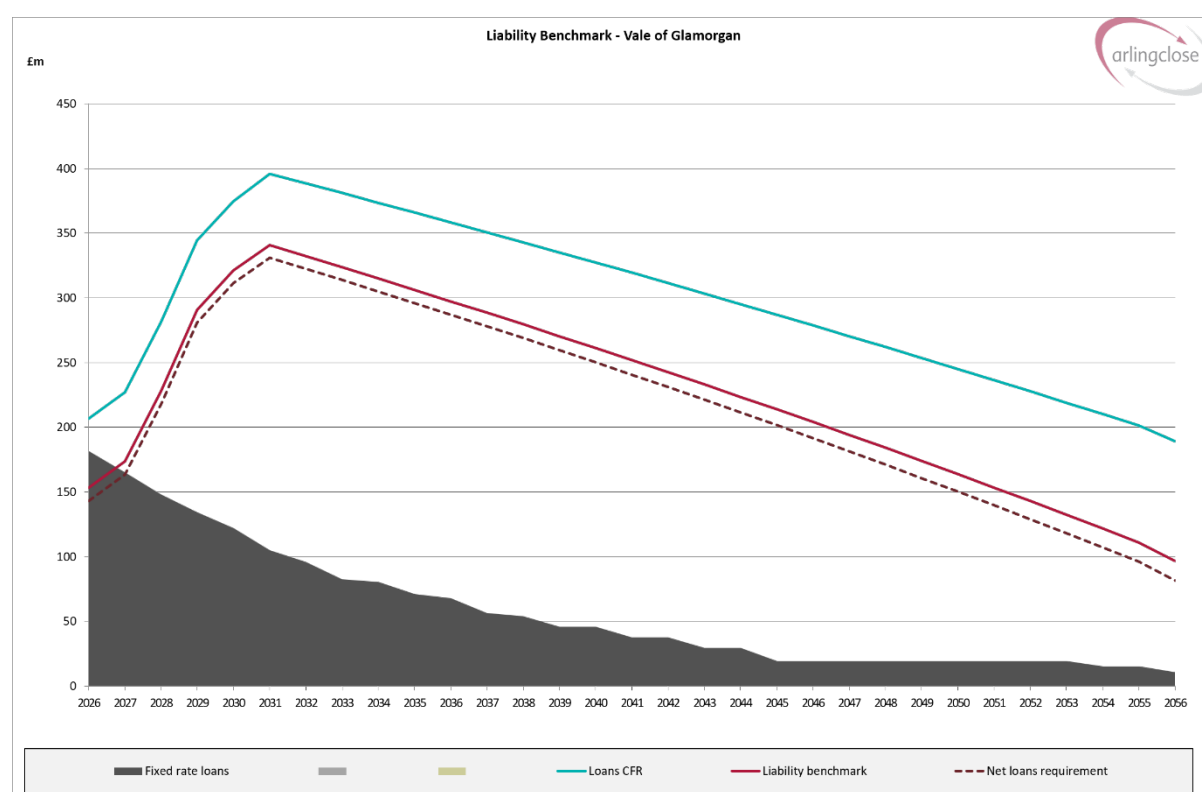


Table 13 (Includes 5 Year Business Plan)

Year	Projected CFR	Projected External debt	Under/Over Borrowing
	£m	£m	£m
2025/26	210.128	181.871	28.257
2026/27	237.711	164.870	72.841
2027/28	299.417	147.527	151.890
2028/29	366.936	134.295	232.641
2029/30	402.201	122.189	280.012
2030/31	424.429	105.095	319.334
2031/32	417.108	95.843	321.265

2032/33	409.720	82.753	326.967
2033/34	402.265	80.647	321.618
2034/35	394.743	70.536	324.207
2035/36	387.154	67.404	319.750
2036/37	379.498	55.932	323.566
2037/38	371.775	53.436	318.339
2038/39	363.985	45.355	318.630
2039/40	356.128	45.272	310.856
2040/41	348.204	37.187	311.017
2041/42	340.213	37.100	303.113
2042/43	332.155	29.010	303.145
2043/44	324.030	28.918	295.112
2044/45	315.838	18.824	297.014
2045/46	307.579	18.824	288.755
2046/47	299.253	18.824	280.429
2047/48	290.860	18.824	272.036
2048/49	282.400	18.824	263.576
2049/50	273.873	18.824	255.049
2050/51	265.279	18.824	246.455
2051/52	256.618	18.824	237.794
2052/53	247.890	18.824	229.066
2053/54	239.095	14.629	224.466
2054/55	230.233	14.629	215.604
2055/56	221.304	10.374	210.930

Graph B shows a position similar to graph A including the 30-year HRA business plan but removes the uncertainty surrounding the borrowing requirement beyond the five-year period.

9. Maturity Structure of Borrowing

- The Council is required to set gross limits on maturities for the periods shown and covers both fixed and variable rate borrowings. The reason being to try and control the Council's exposure to large sums falling due for refinancing.
- The Council will set for the forthcoming year both upper and lower limits with respect to the maturity structure of external borrowing. The periods to which these limits will apply are as follows:
 - Under 12 months
 - 12 Months and within 24 months

- 24 months and within 5 years
 - 5 years and within 10 years
 - 10 years and above
- As of 30th June 2026, the maturity breakdown of the Council's borrowing based on financial year is set out in the tables below.

Table 14 Maturity Structure of Borrowing

	Actual	Lower Limit	Upper Limit
	%	%	%
Under 12 months	7.62	0	20
12 months and within 24 months	9.72	0	40
24 months and within 5 years	23.78	0	40
5 years and within 10 years	20.77	0	40
10 years and above	38.11	0	100

Table 15 Maturity Profile

Maturity Period	2026/27	2026/27	2026/27
	Limits	@ 30.06.26	@ 30.06.26
	%	£M	%
Less than one year	20	13.594	7.62
Between one and two years	40	17.343	9.72
Between two and five years	40	42.433	23.78
Between five and ten years	40	37.064	20.77
Between ten and twenty years	100	48.580	27.21
Between twenty and thirty years	100	4.195	2.35
Between thirty and forty years	100	9.255	5.19
Between forty and fifty years	100	6.000	3.36
Total		178.464	100.00

- Due to the elevated levels in interest rates currently prevailing in the market the Council as advised by its treasury consultants, Arlingclose, has borrowed externally over shorter maturity dates as interest rates are forecast to fall in the shorter term. This is considered a prudent course of action which will benefit the Council in the longer term.

10. Limits for Long Term Treasury Management Investments

- This Indicator is seeking to support control of liquidity risk. The limits should be set regarding the Authority's liquidity needs and reduce the potential need to have to make early exit from an investment to recover funds.
- The indicator relates solely to the Authority's investments for treasury management purposes.
- Where a Council invests, or plans to invest, for periods longer than a year, the Council will set an upper limit for each forward financial year period for the maturing of such investments.

Table 16 – Limits for Long Term Treasury Management Investments

	2025/26 Actual £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M
Limit for investments > a year	£0m	£10m	£10m	£10m

Investment Yields

- The average monthly yields from the Council's investments for April to June 2026 are set out below. The Bank Base Rate remained unchanged at 3.75% between April and June 2026, with this rate continuing to be reflected in the returns from the Council's investments.

Table 17 – Average Monthly Interest

Average Monthly Interest	Local Authorities	Debt Manageme nt Office	Lloyds Bank	CCLA Money Market Funds	Federated Money Market Funds
	%	%	%	%	%
April 2026	4.83	3.72	3.51	3.76	3.83
May 2026	4.37	3.72	3.51	3.80	3.87
June 2026	4.33	3.72	3.51	3.83	3.90



Quarter 1 Treasury Management Monitoring Report 2026/27

Appendix B

The UK Economy and Interest Rates 2026/2027

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Spread of PWLB Rates 2026/2027

1.4.2026 to 30.6.2026

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.95%	5.24%	5.70%	6.29%	6.09%
Low Date	26/06/2026	01/05/2026	08/04/2026	08/04/2026	08/04/2026
High	5.37%	5.69%	6.18%	6.77%	6.55%
High Date	30/04/2026	22/05/2026	18/05/2026	18/05/2026	18/05/2026
Average	5.12%	5.43%	5.91%	6.51%	6.31%
Spread	0.42%	0.45%	0.48%	0.48%	0.46%

3.51

Interest rates forecast 2026/27.

Forecast Rates June 2026

	Current	Sep 26	Dec 26	Mar 27	Jun 27	Sep 27	Dec 27	Mar 28	Jun 28	Sep 28	Dec 28	Mar 29	Jun 29
Bank Rate													
Upside Risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Downside Risk	0.00	0.00	-	-	-	-	-	-	-	-	-	-	-
			0.25	0.25	0.50	0.50	0.75	1.00	1.25	1.25	1.25	1.25	1.25
3 Month Market Rate													
Upside Risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	3.90	3.85	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80
Downside Risk	0.00	-	-	-	-	-	-	-	-	-	-	-	-
		0.05	0.25	0.25	0.50	0.50	0.75	1.00	1.25	1.25	1.25	1.25	1.25
5 year Gilt													
Upside Risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.38	4.45	4.40	4.35	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30
Downside Risk	0.00	-	-	-	-	-	-	-	-	-	-	-	-
		0.40	0.50	0.50	0.50	0.75	0.85	0.95	1.20	1.25	1.25	1.25	1.25
10 Year Gilt													
Upside Risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.83	4.95	4.90	4.85	4.80	4.80	4.80	4.80	4.80	4.80	4.80	4.80	4.80
Downside Risk	0.00	-	-	-	-	-	-	-	-	-	-	-	-
		0.40	0.50	0.50	0.50	0.75	0.85	0.95	1.20	1.25	1.25	1.25	1.25
20 Year Gilt													
Upside Risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	5.46	5.50	5.50	5.45	5.40	5.40	5.40	5.40	5.40	5.40	5.40	5.40	5.40
Downside Risk	0.00	-	-	-	-	-	-	-	-	-	-	-	-
		0.40	0.50	0.50	0.50	0.75	0.80	0.90	1.00	1.20	1.20	1.20	1.20
50 Year Gilt													
Upside Risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	5.14	5.15	5.15	5.10	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05
Downside Risk	0.00	-	-	-	-	-	-	-	-	-	-	-	-
		0.40	0.50	0.50	0.50	0.75	0.80	0.90	1.00	1.20	1.20	1.20	1.20

Spread of Interest Rates 2026/27

1.4.2026 to 30.6.2026

	Bank Rate	Sonia	7 Day	1 Month	3 Months	6 Months	12 Months
High	3.75%	3.73%	3.82%	3.84%	4.04%	4.31%	4.73%
High Date	01/04/26	30/06/26	26/06/26	07/04/26	29/04/26	29/04/26	29/04/26
Low	3.75%	3.72%	3.76%	3.80%	3.92%	4.09%	4.33%
Low Date	30/06/26	09/06/26	01/05/26	01/05/26	25/06/26	17/04/26	17/04/26
Average	3.75%	3.73%	3.79%	3.82%	3.99%	4.19%	4.52%
Spread	0.00%	0.005%	0.05%	0.04%	0.12%	0.22%	0.39%