

## Treasury Management Outturn Update 2025-26

To: Strategy, Resources & Performance Committee

Meeting Date: 11 December 2025

From: Executive Director of Finance and Resources

Electoral division(s): All

Key decision: No

Forward Plan ref: Not applicable

**Executive Summary:** Through this report the committee supervises the council's treasury management, and ensures that public money across the council's cashflows, borrowing and investments is utilised and deployed effectively and in compliance with the Treasury Management Strategy (TMS). This fulfils the statutory requirement for Full Council to consider the treasury management position regularly.

**Recommendation:** Strategy, Resources and Performance Committee is recommended to note the Treasury Management Quarter Two Update for 2025-26 and endorse it for consideration at Full Council.

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# 1. Creating a greener, fairer and more caring Cambridgeshire

- 1.1 This report sets out how the council is managing its treasury activity, including borrowing, lending and investments. This is a key enabling function that underpins all of the council's activities, with particular attention drawn to borrowing that funds the council's capital programme which delivers schools, highways maintenance, green energy schemes and other key projects.

## 2. Background

- 2.1 Treasury management is the coordination of the council's investments and cash flows, banking and deposits, and borrowings and money market transactions. The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code 2021 requires reporting on prudential indicators linked to treasury management activity quarterly as part of the authority's integrated revenue, capital and balance sheet monitoring, and consideration in more detail several times a year.
- 2.2 Updates on treasury management activities are provided quarterly to this committee, either through the Integrated Finance Monitoring Report (IFMR) or through this more detailed biannual report and are necessarily retrospective in describing the position at the end of a quarter. However, changes to the UK economy and corresponding implications for our treasury management activity can sometimes be fast paced, therefore some of the information relevant to this biannual report may be partially out of date by the time it is reported. Any significant live treasury management information is therefore presented on a regular basis to committee as part of the Integrated Finance Monitoring Reports.
- 2.3 As part of the council's Treasury Management Strategy, implementing the requirements of the Prudential Code, the detailed treasury report needs to be considered by Full Council twice annually. The key prudential indicators against which our treasury management activity is assessed are reviewed quarterly by Strategy, Resources and Performance Committee through the IFMR and these reports and are set out in Appendix 1.
- 2.4 This report therefore forms the biannual update on treasury management and is the first standalone report of 2025-26 for consideration by Council. The information presented is for the second quarter of the year, so reflects a report made at a specific point in time. In the current environment where the economic context and loan rate projections can move quickly, it is possible that some of the wider context has moved on by the time this report is reviewed.
- 2.5 This report covers the management of the council's cash, investments and borrowing. All three affect the general council budget. This is principally through the level of capital financing costs that we pay as a council when we need to borrow, but also in the returns we get on managing our cash balances and in returns from investments.
- 2.6 Treasury management is a complex area of local authority financial management and governance. As such, the most recent revision of the Treasury Management Code has tightened its stipulations to require ongoing member training in this area, as well as the completion of self-assessments against the required competencies. Training for members

of this committee with our external treasury management advisor will be arranged in due course.

- 2.7 Our treasury management position is impacted by the implementation of International Financial Reporting Standard 16 (IFRS 16) on lease accounting. This standard was implemented for the first time in 2024-25, and requires us to recognise assets and corresponding lease liabilities for items, such as rented properties. Lease payments are effectively financing the asset that is now on balance sheet, and so it impacts the in-year capital financing requirement, which is the first part of the prudential indicators set out at table 3.2. Implementation of IFRS 16 in 2024-25 required a total restatement of finance lease liability on our balance sheet, which can be seen in table 3.2.

### 3. Compliance with Treasury and Prudential Limits

- 3.1 The council's treasury and prudential indicators are summarised in Table 1 and Figure 1 below and are provided in detail in Appendix 1.
- 3.2 It is a statutory duty for the council to determine and keep under review the affordable borrowing limits. During the quarter ended 30 September 2025, the council has operated in compliance with and within all of the treasury and prudential indicators agreed by Full Council in the Treasury Management Strategy (TMS) for 2025-26, as demonstrated below:

Table 1: Treasury and prudential indicators quarter 2 (see appendix 1 for more explanation of these indicators)

Prudential and Treasury Indicators	2025-26 Planned TMS	31 Mar 2025 Actual	30 Jun 2025 Estimate	30 Sep 2025 Estimate
Annual capital expenditure	£160.8m	£177.7m	£149.1m	£149.5m
Annual capital financing	-£94.8m	-£112.2m	-£123.6m	-£115.8m
Annual MRP and loan repayments <sup>1</sup>	-£31.1m	-£25.7m	-£38.6m	-£31.8m
Finance Lease Liability Changes <sup>1</sup>	-£7.3m	£29.3m	-£7.2m	-£7.2m
<b>In-year Capital Financing Requirement</b>	<b>£27.6m</b>	<b>£69.1m</b>	<b>-£20.3m</b>	<b>-£5.4m</b>
Capital Financing Requirement (CFR) at 31 <sup>st</sup> March	£1,154.2m	£1,143.7m	£1,123.4m	£1,132.5m
Authorised limit for external debt	£1,305.0m	£852.4m	£842.3m	£819.2m
Operational boundary for external debt	£1,265.0m	£852.4m	£842.3m	£819.2m
Ratio of financing costs to net revenue streams – yearly average	9.8%	8.8%	10.8%	10.8%
Ratio of net income from commercial and service investments to net revenue stream	4.6%	4.0%	3.2%	3.0%

Prudential and Treasury Indicators	2025-26 Planned TMS	31 Mar 2025 Actual	30 Jun 2025 Estimate	30 Sep 2025 Estimate
Upper limit of fixed interest rates based on net debt <sup>1</sup>	150%	74%	77%	65%
Upper limit of variable interest rates based on net debt <sup>2</sup>	65%	26%	23%	35%
Principal sums invested over 365 days (excluding Third-Party Loans)	£50.0m	£32.4m	£33.2m	£33.3m
<b>Maturity structure of borrowing limits<sup>3</sup> -</b>				
Under 12 months	Max. 50% Min. 0%	28.3%	33.0%	36.4%
12 months to 2 years	Max. 50% Min. 0%	17.2%	14.8%	12.5%
2 years to 5 years	Max. 50% Min. 0%	10.1%	7.2%	6.7%
5 years to 10 years	Max. 50% Min. 0%	12.2%	12.3%	11.3%
10 years and above	Max. 80% Min. 0%	32.3%	32.7%	33.1%

Note 1 – Restated to include impact of IFRS 16 implementation, which has created a positive figure for 2024-25 only. This is due to the accounting treatment now required for leases, including PFI contracts, has increased the technical liability versus the previous accounting regulations.

Note 2 – The interest rate exposure is calculated as a percentage of net debt. Due to the mathematical calculation exposures could be greater than 100% or below zero (i.e., negative) depending on the component parts of the formula.

Note 3 – The indicators relating to the maturity structure of borrowing limits were reviewed as part of setting 2025-26's TMS and so differ to the previous year.

### 3.3 Indicators that currently appear in excess of the planned level set in the Treasury Management Strategy:

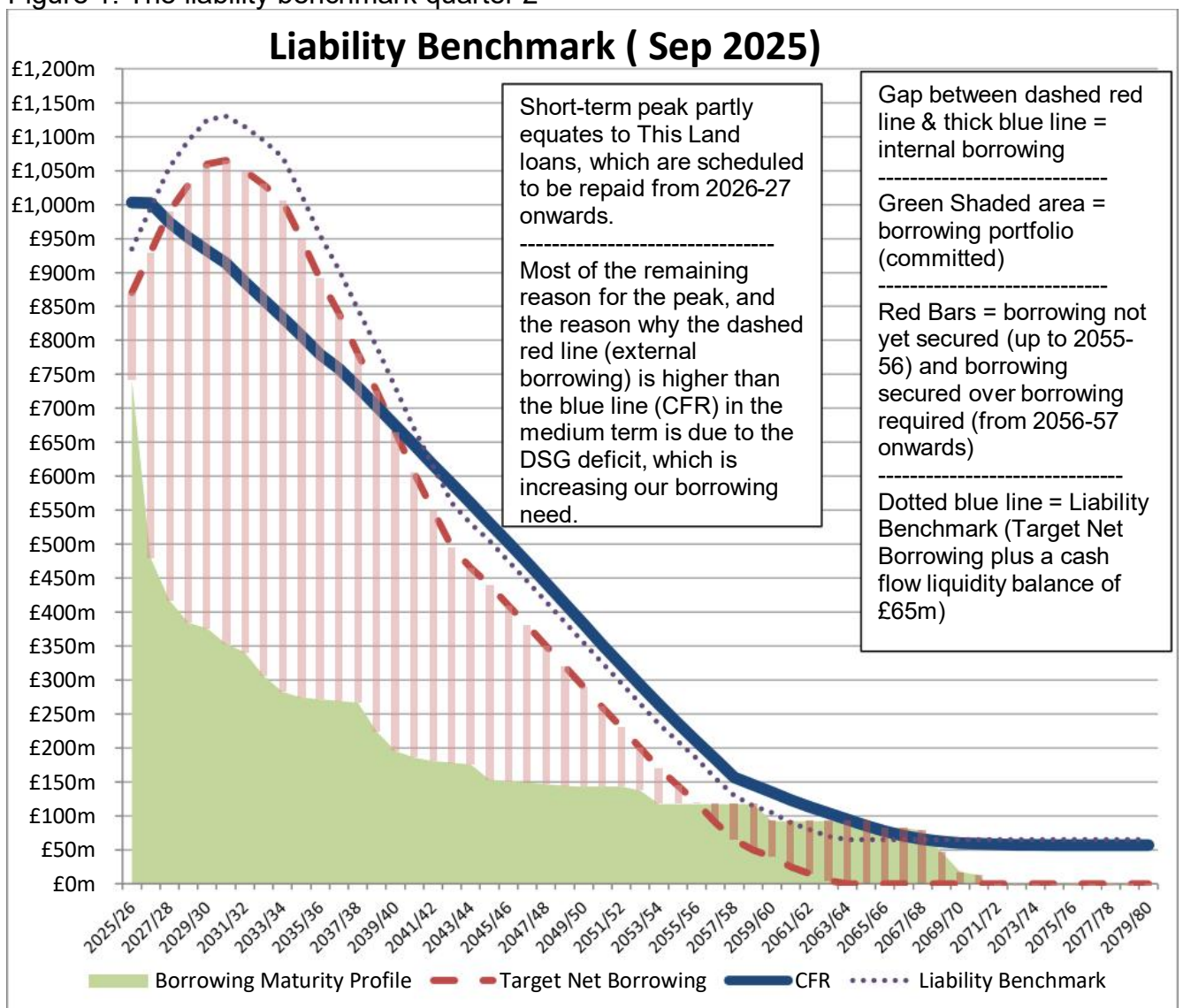
- Annual capital financing: higher levels of non-borrowing financing for capital spend is expected than when the budget was set (grants, contributions and capital receipts).
- Annual Minimum Revenue Provision (MRP): MRP is essentially an annual revenue charge to fund, over time, the principal repayment for loans taken out. The planned MRP charge required for the coming year is an estimate at the time the business plan is set and accordingly makes assumptions about the impact of capital spend on the necessary MRP for the following year. This higher charge is

as a result of a larger number of significant capital assets becoming operational towards the end of 2024-25 than anticipated, in large part due to much better delivery of the capital programme to budget than in previous years.

The impact of both of these increases above the planned level is positive in this context, as it has the effect of reducing the estimated in-year Capital Financing Requirement.

3.4 The liability benchmark is a projection of the amount of loan debt outstanding that an authority needs each year into the future to fund its existing debt liabilities, planned prudential borrowing and other cash flows. This is an indicator that we are required by regulations to compile and to present in a specific format. For further context, the short-term peak on the blue line equates to This Land loan schedule for repayment in 2026-27 onward.

Figure 1: The liability benchmark quarter 2



3.5 All treasury management operations have also been conducted in full compliance with the council's Treasury Management Practices and Investment Management Practices.

## 4. Summary Treasury Management Position

- 4.1 The level of net debt borrowing (including third-party loans) expected to be required as set in the Treasury Management Strategy (TMS) for 31 March 2026 is £776.1m. On 1 April 2025, net debt (excluding 3rd party loans and equity) was £779.7m; by 30 Sept 2025 this has decreased to £733.3m. This reflects a decrease in the need for extra borrowing in the first half of the year, whilst the Council's cash balances remain high (and therefore the Council has used internal borrowing instead).
- 4.2 Table 2 summarises the council's debt and investment position. For more in-depth information on investment and borrowing, please refer to sections 5 and 6.

Table 2: Net borrowing quarter 2

	Actual as at 1 Apr 2025 £m	Actual as at 30 Jun 2025 £m	Actual as at 30 Sep 2025 £m	Change 1 Apr to 30 Sep 2025 £m
Borrowing repayable in <12 months	248.5	284.5	298.5	50.0
Borrowing repayable in >12 months	603.9	557.8	520.7	-83.3
<b>Total Borrowings</b>	<b>852.4</b>	<b>842.3</b>	<b>819.2</b>	<b>-33.2</b>
Less Treasury Investments	-72.7	-148.9	-85.8	-13.1
<b>Total Net Debt/Borrowings</b>	<b>779.7</b>	<b>693.4</b>	<b>733.3</b>	<b>-46.3</b>
Less Third-Party Loans and Equity	-64.1	-64.0	-64.0	0.1
<b>Total Net Debt/Borrowings (including 3<sup>rd</sup> party loans and equity)</b>	<b>715.5</b>	<b>629.4</b>	<b>669.3</b>	<b>-46.3</b>

- 4.3 The council also reviews its treasury performance alongside near neighbours using CIPFA's financial resilience index. While the information in this is lagging, the council's gross external debt (equivalent to the total borrowings line in table 2) was rated as higher risk relative to the benchmarking group. This is likely due to relatively high gross borrowing resulting from loans to This Land Ltd as well as cumulative levels of investment in infrastructure in a high growth county. However, we are relatively more average in terms of risk in respect of the 'interest payable divided by net revenue expenditure' indicator, showing that despite the high level of borrowing, we are in a relatively more sustainable position to service that debt.

## 5. Investments

- 5.1 The Treasury Management Strategy for 2025-26, including the Annual Investment Strategy for financial assets, was approved by Council in February 2025. It sets out the council's investment priorities as being:

1. Security of capital

2. Liquidity; and then
3. Yield

5.2 The council will aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. Money Market Fund (MMF) and Call Account rates have plateaued and are now starting to decrease in line with Bank Rate decreases, therefore the council continues to ladder investments in order to balance the need to have liquid available cash, against securing higher rates for longer on slightly longer-term fixed deposits.

5.3 At 30 September 2025, the council's investment balances totalled £85.8m; this is split between Money Market Funds, Call/Notice accounts, Collective Investment Funds and deposit funds (see Table 3 below). This balance excludes third-party loans and shares capital (equity) of £64.0m.

#### 5.4 Collective Investment Funds

5.4.1 The council undertook investments into Collective Investment Funds beginning in 2019 to diversify our portfolio. The revised Prudential Code 2021 states that authorities with an expected need to borrow must review any existing commercial investments annually, which this Council undertakes in more detail as part of the quarter 4 report. Two of the Council's collective investment funds have continued to face challenges in maintaining their capital value amid current economic conditions (despite healthy dividends). However, their valuations have remained relatively stable in recent months, and fund managers remain optimistic about a medium-term recovery. Importantly, the impact of the capital value decline has been partially offset by strong dividend performance, which has continued to exceed budget expectations. The finance team, in collaboration with our external treasury management advisors, continues to monitor these investments closely.

5.4.2 **Property Fund:** The Property Fund's investment capital value in quarter 2 was £10.4m compared to the original investment of £12m. The portfolio is actively managed to achieve high income and long-term capital appreciation. The latest dividend rate of return for this fund was 3.85%, against a target of 4.35%. This is a longstanding investment fund with many local authorities as members, and we would expect capital values to return to the level expected over the medium-term.

5.4.3 **Better World Cautious Fund:** At the end of quarter 2, the capital value of the investment was £2.2m compared to an original investment value of £2.45m. The investment objective of the fund is to provide a total return (the combination of capital growth and income) after costs, of inflation plus 2% per annum over any rolling 5-year period. The fund invests in a broad range of assets including fixed/floating income securities (bonds) and global equities (shares of companies). The latest dividend rate of return for this fund was 4.41%, which is higher than expected and is therefore forecast to deliver £17k additional income this year.

5.4.4 **Multi-Class Credit Fund:** At the end of quarter 2, the valuation of the council's share of the fund stood at £15.3m compared to an original investment value of £14.6m. The fund aims to generate positive returns throughout the interest rate and economic cycles by allocating to different credit asset classes and through bottom-up security selection and has recovered its capital value position after recent slump. The latest dividend rate of return for this fund was 4.55%, which is higher than expected and is therefore forecast to deliver £188k

additional income this year.

5.4.5 **Infrastructure Income Fund:** At the end of quarter 2, the valuation of the council's share of the fund stood at £5.5m, compared to an original investment value of £8m. The fund's objective is to deliver a regular income, whilst preserving investor's capital throughout market cycles and with the potential for growth. The fund invests in a diversified portal of global listed securities and offers exposure to companies engaged in the provision, storage, supply and consumption of clean energy. The capital value of the fund continued to struggle over the last 18 months; however, the council receives monthly detailed updates from the fund managers and the performance of the fund (in terms of capital value) is expected to increase over the medium to long term as interest rates continue to fall. The fund performance generally sits between the two sector benchmarks but is also less volatile.

5.5 The average investment balance during quarter 2 (excluding Third-Party Loans and Equity) was £90.3m which carried a weighted average rate of 4.21%. The level of investment funds varies dependent on the timing of precept receipts, grants, the progress of the capital programme and decisions made about timing of borrowing. Table 3 below shows the investment by counterparty at 30 September 2025 (excluding Third-Party Loans and Equity).

Table 3: Investments allocation by counterparty quarter 2

Counterparty as at 30 Sep 2025	Liquidity	Principal £m	Principal %
Handelsbanken	Instant Access	20.0	23.3
Allianz Global Investors	Notice Period 14 days	15.3	17.8
Barclays Bank plc	Instant Access	2.5	3.0
CCLA Local Authorities Property Fund	Notice Period 6 months	10.4	12.1
SMBC Bank International plc	Fixed 3-6 months	10.0	11.7
SMBC Bank International plc	Fixed 3-6 months	10.0	11.7
Insight Liquidity Sterling C3	Same-Day	2.1	2.4
Aberdeen Liquidity Fund - Sterling Fund Class L-1	Same-Day	2.9	3.4
Deutsche Managed Sterling Platinum	Same-Day	3.2	3.8
Invesco	Same-Day	1.2	1.4
Thesis Unit Trust Management Limited formerly Valu-Trac AS	Same-Day	5.5	6.4
CCLA Better World Cautious Fund	Notice Period 6 months	2.2	2.6
National Westminster Bank plc	Instant Access	0.5	0.6
		85.8	100.0

5.6 The table overleaf summarises the maturity profile of the council's investment portfolio at the end of quarter 2 (excluding Third-Party Loans and Equity):

Table 4: Investment maturity profile at end of quarter 2

Product	Access Type	Daily	0-3m	3-6m	~5yrs	Total	
		£m	£m	£m	£m	£m	%
Money Market Funds	Same-Day	9.4				<b>9.4</b>	11.0
Bank Call Account	Instant Access	23.1				<b>23.1</b>	26.9
Fixed Deposit Account	3-6 Months			20.0		<b>20.0</b>	23.3
Notice Account	Notice to be given 30 or 60 days					<b>0.0</b>	0.0
Pooled Property Fund	Redemption Period Applies				10.4	<b>10.4</b>	12.1
Pooled Diversified Income Fund	Same-Day				2.2	<b>2.2</b>	2.6
Pooled Multi-class credit Fund	Redemption Period Applies				15.3	<b>15.3</b>	17.8
Income Fund (Energy)	Same-Day				5.5	<b>5.5</b>	6.4
	<b>Total</b>	<b>32.5</b>	<b>0.0</b>	<b>20.0</b>	<b>33.3</b>	<b>85.8</b>	<b>100.0</b>
	%	37.9	0.0	23.3	38.8	<b>100.0</b>	

- 5.7 The tables overleaf set out details of the amounts outstanding on loans and share capital investments classed as capital expenditure advanced to third-party organisations at the end of quarter 2. Unless otherwise stated, the original loan value is the outstanding amount. Where appropriate, the council holds security over these loans in the form of property charges (fixed and/or floating).
- 5.8 The majority of the council's third-party loans relate to loans made to the council's wholly owned housing company This Land Ltd. At the start of the year, the loan value outstanding with the company was approximately £59.901m, following a restructuring of the loan arrangements during 2024–25. Throughout 2024, the company experienced financial pressures, due to short-term cashflow and timing issues, which prompted a broader review of its medium-term strategy and profitability. This review was conducted in parallel with an assessment of the council's risk appetite in its dual role as lender and shareholder. As a result, the council undertook a detailed evaluation of the company's financial position, supported by reports presented to council committees during the 2024–25 period. This led to a formal decision by the committee to restructure the loans, resulting in a reduced third-party loan value. *As of September 2025, the outstanding loan remains at £59.901 million.*

Table 5: Loans/equity holdings in This Land companies end of quarter 2

Loan Summary	Amount Outstanding (£m)	Repayment Year
Land, Construction & Development loans	59.901	Up to 2028-29
Equity holding, current valuation	0.000	N/A
<b>Total Loans/Equity in This Land Ltd</b>	<b>59.901</b>	

Table 6: Loans/equity holdings in Pathfinder Legal Services end of quarter 2

Loan Summary	Amount Outstanding (£m)	Repayment Year
Cashflow loan	0.325	2029-30
Equity holding, current valuation	0.475	N/A
<b>Total Loans/Equity in Pathfinder Legal Services</b>	<b>0.800</b>	

Table 7: Other Third-Party Loans principal outstanding end of quarter 2

Loan Counterparty	Original Amount (£m)	Amount Outstanding (£m)	Repayment Year
Arthur Rank Hospice Charity	4.000	2.720	2042-43
Wisbech Town Council	0.150	0.150	2043-44
VIVA Arts & Community Group	0.300	0.028	2031-32
<b>Total Third-Party Loans</b>	<b>4.450</b>	<b>2.898</b>	

5.9 Investment returns compared to benchmark returns are shown in Table 8 below. The preferred benchmark is SONIA (Sterling Overnight Index Average), which is the risk-free rate for sterling markets administered by the Bank of England. SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors. The council uses the 30-day backward looking rate on a SONIA basis, as this most accurately reflects the type and length of investments (excluding Collective Investment Funds) that the council holds. The decision to use backward looking is because this reflects the rates at the time of decision-making, rather than forward looking rates at the time of reporting.

Table 8: Average benchmark versus Council performance (excluding Collective Investment Funds) for quarter 2

	Benchmark	Benchmark Return	Council Performance
Quarter 1	<b>30-day backward SONIA</b>	4.36%	4.43%
Quarters 1-2	<b>30-day backward SONIA</b>	4.24%	4.32%

5.10 Market conditions aside, the council’s return on investments is influenced by several factors, the largest contributors being the duration of investments and the credit quality of the institution or instrument:

- Credit risk is the consideration of the likelihood of default and is controlled through the creditworthiness policy approved by Council.
- The duration of an investment introduces liquidity risk; the risk that funds cannot be accessed when required.
- Interest rate risk, arising from fluctuating market interest rates.

5.11 These factors and associated risks are actively managed by the council’s finance team. Given the recent volatility of the financial markets, the finance team keeps a close eye on the credit ratings of institutions we have deposits with, as well as looking to spread deposits across a range of institutions and consider the mix of type and duration of deposits.

## 6. Borrowing

6.1 The council can borrow money to fund its capital programme to deliver on its strategic ambitions. The amount of borrowing required each year is based on plans for capital expenditure, projections of the Capital Financing Requirement, underlying borrowing requirements, forecasted cash reserves, and current and future economic conditions. The following table shows the highest, lowest (with dates) and average Public Works Loan Board (PWLB) rates for 2025-26 at the end of quarter 2:

Table 9: Highest / Lowest / Average PWLB Rates for 2025-26 at the end of quarter 2

	1 Year	5 Year	10 Year	25 Year	50 Year
<b>Low</b>	4.36%	4.62%	5.17%	5.78%	5.46%
<b>Date</b>	04/08/25	02/05/2025	02/05/2025	04/04/2025	04/04/2025
<b>High</b>	4.84%	4.99%	5.62%	6.41%	6.14%
<b>Date</b>	02/04/2025	21/05/2025	03/09/2025	03/09/2025	03/09/2025
<b>Average</b>	4.55%	4.82%	5.40%	6.11%	5.83%
<b>Spread</b>	0.48%	0.37%	0.45%	0.63%	0.68%

6.2 The council continues to utilise short to medium-term borrowing from other local authorities and authorised brokers, particularly in the current environment of higher interest rates which we expect to reduce over the medium-term, and whilst rates are more competitive compared to PWLB. In addition, the council will supplement borrowing from local authorities with loans from PWLB, particularly as we enter the second half of the financial year and market loans become less available. The council intends to continue with the strategy of keeping a reasonable proportion of the borrowing portfolio short-dated to avoid fixing in the current higher interest rates and is able to do so having taken advantage of the low-interest rate environment of pre-2022 to extend the average duration of loans in the portfolio during that time by fixing loans for extended maturities at historically low levels. This does present a risk that we will see higher costs over the medium-term if interest rates do not fall in line with current predictions. We take advice on our borrowing strategy from our external treasury management advisors. The council's average interest rate for borrowing was still relatively low at 3.80% for the first half of the year, despite facing higher rates on new loans (even as Base Rates were lowered), as well as higher rates on a number of historic debts.

This average will continue to rise, as we continue to have to refinance historic loans at higher rates.

6.3 During quarter 2, the council has repaid a total of £78.2m upon maturity. Out of this amount, £45.0m was short-term loans from other local authorities and £33.2m was longer-term PWLB loans. The council has raised £55.0m in loans from during this period, all short-term borrowing from other local authorities. The following table shows the movement in borrowing over the year to date:

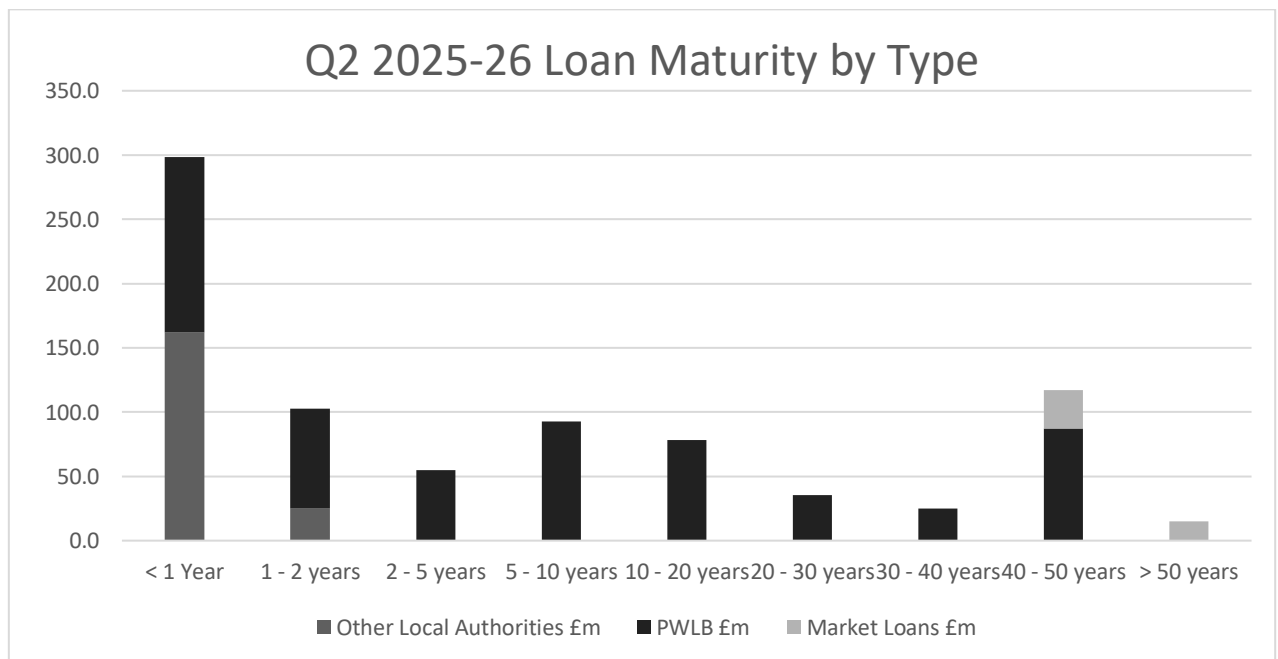
Table 10: Movement in borrowing during 2025-26

Actual as at 1 Apr 2025 £m	Repaid During 2025-26 £m	Raised During 2025-26 £m	Actual as at 30 Sept 2025 £m
852.4	-98.2	65.0	819.2

6.4 At the end of quarter 2, the council held £819.2m in borrowing, with £298.5m due to mature within a year. The council continues to be able to re-finance loans as required, albeit now at higher rates than in the case of some loans that were taken out during the period of historically low interest rates. Refinancing of maturing PWLB loans is also no longer possible at a lower rate in most cases, as current rates are now comparable to some of the older loans that were also fixed at a time of higher interest rates. Therefore, an increase in our revenue capital financing budget is built into the business plan.

6.5 Figure 2 below sets out the maturity profile of the council’s borrowing portfolio at the end of quarter 2; £587.2m is held with PWLB, £187.0m from other local authorities and £45.0m in market loans.

Figure 2: Loan maturities by type at 30 Sep 2025



- 6.6 The council is in an internally borrowed cash position. This means that we are utilising cash balances held (for example from grants received in advance of linked expenditure) to defer the need to borrow. Balances will need to be replenished at some point in the future (subject to expenditure demands), which is in accordance with our Treasury Management Strategy. This strategy is prudent while investment returns are no higher than the cost of servicing debt and serves to mitigate counterparty risk. The council therefore plans to maintain this internal borrowing position but will closely monitor those reserves, balances and cashflows supporting this approach.
- 6.7 In quarter 2 2025, the Council rescheduled £10m of debt held with Barclays. The Loan was brokered by MUFG, the Council's current external treasury management advisor. The council's loan portfolio limits opportunities for rescheduling. In the case of PWLB loans, early redemption rates exceed the carrying rate of existing borrowing for many loans, resulting in substantial exit costs. Similarly, market borrowing lenders hedge against forecast interest rate movements using the loans cashflow profile, passing on the cost of unwinding these instruments as an exit premium to the council. Officers are closely monitoring the situation as there are a minimal number of PWLB loans that could deliver a short-term benefit from rescheduling, but this would substantially reduce the portfolio's maturity profile.

## 7. Capital Financing Budget

- 7.1 The capital financing budget is held as a central budget and complies with the reporting requirement in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Treasury Management Practice. The projected outturn position at the end of Quarter 2 indicated an overspend of £2.9 million.

Table 11: Debt financing budget quarter 2

	Budget (£m)	Forecast Outturn (£m)	Variance (£m)
Interest payable	31.4	32.0	0.5
Interest charged to Other Funds	-12.2	-14.5	-2.3
Interest receivable	-10.6	-11.4	-0.7
Interest receivable charged from Other Funds	9.8	10.9	1.1
Capitalisation of interest cost	-1.2	-0.6	0.6
Technical & Other	0.3	0.2	-0.1
Minimum Revenue Provision	24.4	29.8	5.4
MRP charged to Other Funds	0.0	-1.6	-1.6
<b>Total</b>	<b>41.9</b>	<b>44.9</b>	<b>2.9</b>

7.2 The forecast is comprised of the following elements:

- Interest rates have not dropped as quickly as anticipated, which has resulted in higher levels of interest payable.
- The council is required to repay an element of the capital spend funded by borrowing each year through a revenue charge (MRP), so that over the course of the usable life of the asset we have provided for enough funding to repay the associated borrowing. Following analysis of capital schemes completed in 2024-25 and how they were funded, we are anticipating that the core MRP payment for 2025-26 will be £5.4m higher than budgeted. This is largely due to a few particularly large schemes funded by borrowing that completed during 2024-25. In addition to this, following restructure of This Land on 31 March 2025, an MRP charge has been made relating to financing to the company which has added a further £1.6m to the MRP charge – this has then been recharged to the This Land budget area.

## 8. Significant Implications

### 8.1 Finance Implications

This report provides information on performance against the Treasury Management Strategy. Decisions on treasury management, which are driven by the capital programme and the council's overall financial position, will impact the capital financing budget and are also reported through the financial monitoring process.

### 8.2 Legal Implications

There are no significant implications for this category.

### 8.3 Risk Implications

The council continues to operate within the statutory requirements for borrowing and investments.

### 8.4 Equality and Diversity Implications

There are no significant implications for this category.

## 9. Source documents guidance

### 9.1 The council's 2025-26 Treasury Management Strategy

## Appendix 1 – Prudential and Treasury Indicators at 30 September 2025

In this section, we will monitor Prudential and Treasury Indicators to ensure they align with the indicators approved by the council in February 2025, as outlined in the Treasury Management Strategy.

Did the council adopt the CIPFA code of practice for Treasury Management in Public Services?

Yes, the council has adopted the CIPFA's Treasury Management in the Public Services: Code of Practices and Cross-sectoral Guidance Notes.

### 1. The capital prudential indicators

Capital expenditure.

	<b>2025-26 TMS £m</b>	<b>Q1 25-26 £m</b>	<b>Q2 25-26 £m</b>
Total Capital Expenditure	160.8	149.1	149.5
Capital Financing	-94.8	-123.6	-115.8
<b>Net Capital Financing Need</b>	<b>66.0</b>	<b>25.5</b>	<b>33.6</b>
MRP and other financing movements	-38.4	-45.8	-39.1
<b>In Year Capital Financing Requirement</b>	<b>27.6</b>	<b>-20.3</b>	<b>-5.4</b>

For the detail of capital expenditure and funding please refer to the capital forecast outturn in the Integrated Finance Monitoring Report.

The council's borrowing need (The Capital Financing Requirement (CFR))

<b>Capital Financing Requirement in 2025-26 TMS</b>	<b>Actual Borrowings (1 Apr 2025)</b>	<b>Actual Gross Borrowings (30 Sep 2025)</b>	<b>Decrease in borrowing during 2025-26</b>	<b>Difference between CFR &amp; Borrowings (30 Sep 2025)</b>
<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
£1,154.2	852.4	819.2	-33.2	-313.4

Liability benchmark

There are four components to the liability benchmark:

1. **Existing loan debt outstanding:** existing loans that are still outstanding in future years.

2. **Loans CFR:** calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP. Only approved borrowing should be included.

3. **Net loans requirement:** the council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on approved prudential borrowing, planned MRP and any other major cash flows forecast.

4. **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance.

### The authorised limit for external borrowing

<b>2025-26 TMS Limit</b> <b>£m</b>	<b>Actual Borrowings</b> <b>30 Sep 2025</b> <b>£m</b>	<b>Headroom compared to</b> <b>Authorised Limit</b> <b>£m</b>
1,305.0	819.2	485.8

The Authorised Limit is the legal cap on the amount of debt the council can have, and it must not be exceeded. This means that the council cannot have more debt than this limit in any given year.

### The operational boundary

<b>2025-26 TMS Limit</b> <b>£m</b>	<b>Actual Borrowings</b> <b>30 Sep 25</b> <b>£m</b>	<b>Headroom compared to</b> <b>Operational Boundary</b> <b>£m</b>
1,265.0	819.2	445.8

The operational boundary serves as a warning that the debt is approaching the authorised limit and requires close monitoring.

## 2. Treasury management limits on activity

### Interest rate exposure

	<b>2025-26 TMS Limit</b>	<b>Q1 25-26</b>	<b>Q2 25-26</b>
Fixed rate	150%	77%	65%
Variable rate	65%	23%	35%

The interest rate exposure is calculated as a percentage of net debt. Due to the mathematical calculation, exposures could be greater than 100% or below zero (i.e., negative) depending on the component parts of the formula. Where the indicator is negative, it is due to investment income of that category exceeding debt of that category. The formulas are shown below:

Fixed rate calculation:

$$\frac{\text{Fixed rate borrowing}^* - \text{fixed rate investments}}{\text{Total borrowing} - \text{total investments}}$$

Note that the limit for this is set at above 100% as we, like most councils, would accept in a low interest-rate environment having more exposure to fixed-rate borrowing (the top part of the formula) than our total borrowing less investments (the bottom part of the formula). This would hedge us against interest rate fluctuations.

Variable rate calculation:

$$\frac{\text{Variable rate borrowing}^{**} - \text{variable rate investments}}{\text{Total borrowing} - \text{total investments}}$$

\* Defined as greater than 1 year to run

\*\* Defined as less than 1 year to remaining to maturity or, in the case of LOBO borrowing, the next call date falling within 12 months – to reflect the risk of fluctuation of short-term borrowing costs

### Maturity structure of borrowing

	<b>2025-26 TMS Upper Limit</b>	<b>Q1 25-26</b>	<b>Q2 25-26</b>
< 1 Year	50%	33.0%	36.4%
1 - 2 years	50%	14.8%	12.5%
2 - 5 years	50%	7.2%	6.7%
7.5 - 10 years	50%	12.3%	11.3%
>10 years	80%	32.7%	33.1%

### Total principal funds invested for the periods longer than 365 days

	<b>2025-26 TMS Limit</b>	<b>Q1 25-26</b>	<b>Q2 25-26</b>
Investment longer than 354 days to run*	£50.0m	£33.2m	£33.3m

\*Treasury Management Investment only

### 3. Affordability Indicators

Ratio of financing costs to net revenue stream.

<b>2025-26 TMS</b>	<b>Q1 25-26</b>	<b>Q2 25-26</b>
9.8%	10.8%	10.8%

Ratio of net income from commercial and service investments to net revenue stream

<b>2025-26 TMS</b>	<b>Q1 25-26</b>	<b>Q2 25-26</b>
4.6%	3.2%	3.0%