

Meeting: Audit Committee **Date:** 29 October 2025

Wards affected: All wards in Torbay

Report Title: Treasury Management Mid – Year Review 2025/26

When does the decision need to be implemented? Immediate

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1. Purpose of Report

- 1.1 This report provides Members with a review of Treasury Management activities during the first part of 2025/26. The Treasury function aims to support the provision of all Council services through management of the Council's cash flow and debt and investment operations.
- 1.2 The report has been prepared based on performance and data at 30th September 2025.
- 1.3 The key points in the Treasury Management review are as follows:
- Bank Rate reduced from 4.50% to 4.25% in May 2025, followed by a further reduction to 4.00% in August 2025.
 - No new borrowing has been undertaken and internal resources used to fund capital expenditure.
 - Further strategic investments in long term bonds to provide budgetary surety over the medium term
 - All decisions have complied fully with adopted principles and the Council's approved Treasury Management Strategy.

2. Reason for Proposal and its benefits

- 2.1 The preparation of a mid-year review on the performance of the treasury management function forms part of the minimum formal reporting arrangements required by the CIPFA Code of Practice for Treasury Management.

3. Recommendation(s) / Proposed Decision

- 3.1 That audit committee note the update on Treasury Management performance for the half year to 30 September 2025 and agrees to submit the update to Full Council.

Appendices

Appendix 1: Economic Commentary

Appendix 2: Non-Treasury Management Investments

Appendix 3: Borrowing and Investment Portfolio at 30th September 2025

Background Documents

[Treasury Management Strategy 2526.pdf](#)

1. Introduction

- 1.1 In February 2019 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve treasury management semi-annual and annual reports.
- 1.2 The Treasury Management strategy for 2025/26 was approved at a meeting on 25th February 2025. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.
- 1.3 Treasury Management decisions and strategies have been made in consultation with the Council's advisors, Arlingclose Ltd.

2. Economic Commentary

- 2.1 The significant economic events impacting the Treasury Management strategy during the year were:
 - UK headline consumer price inflation (CPI) increased over the period, rising from 2.6% in March to 3.8% in August, still well above the Bank of England's 2% target.
 - The Monetary Policy Committee cut Bank rate from 4.5% to 4.25% in May and to 4.00% in August.
- 2.2 A full economic commentary covering the first quarter 2025/26 by Arlingclose Ltd is provided at Appendix 1 to this report.
- 2.3 Arlingclose's key observations for the remainder of 2025/26 are set out below:
 - The MPC's sensitivity to higher inflation is partly offsetting the effect of the weak economic environment on Bank Rate expectations. However, we continue to forecast one more 0.25% rate cut in Q4 2025 to 3.75%, while recognising that uncertainty over the timing of this move has increased.
 - While downside risks to our forecasts remain, the Committee's stance argues against further downward moves in our central forecast for Bank Rate at this time. We expect the UK Budget to be an inflection point that may materially change the interest rate outlook.
 - Long-term gilt yields remain elevated for various reasons, both domestic and international. These issues may not be resolved quickly, but the UK Budget will be a key market driver.

3. Local Context

- 3.1 On 31st March 2025, the Council had net borrowing of £287m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31st March 2025 Actual £m
Total Capital Financing Requirement (CFR)	437
Less: Other debt liabilities	(14)
Borrowing CFR	423
Financed by:	
External borrowing	351
Internal borrowing	72
Total	423
Internal Resources for investment:	
Less: Balance Sheet Resources (useable reserves, working capital and other cash backed item)	(136)
Total Treasury Management Investments	(136)
Net Treasury Management Position	
External Borrowing	423
Investments	(136)
Net Total	287

NB because of the Capitalisation Policy, changes are only made to the CFR at year end, so it isn't possible to update this schedule mid-year.

- 3.2 The treasury management position (nominal values) on 30th September 2025 and the change over the six months is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.25 Balance £m	Movement £m	30.9.25 Balance £m	30.9.25 Rate %
Long-term borrowing	346	0	346	2.97
Short-term borrowing	5	(5)	0	0
Total borrowing	351	(5)	346	2.97
Long-term investments	(25)	(0)	(25)	4.75
Short-term investments	(38)	(14)	(52)	4.47
Cash and cash equivalents	(1)	(2)	(3)	
Total investments	(64)	(16)	(80)	4.51

4. Borrowing

- 4.1 Gilt yields have increased over the period amid concerns about inflation, the UK government's fiscal position and general economic uncertainty. The PWLB certainty rate for 10-year maturity loans was 5.38% at the beginning of the period and 5.53% at the end. The lowest available 10-year maturity certainty rate was 5.17% and the highest was 5.62%. Rates for 20-year maturity loans ranged from 5.71% to 6.30% during the period, and 50-year maturity loans from 5.46% to 6.14%. The cost of short-term borrowing from other local authorities has been similar to Base Rate during the period at 4.0% to 4.5%.
- 4.2 As outlined in the Treasury Management Strategy, the Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should long-term plans change being a secondary objective. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.
- 4.3 No new borrowing was undertaken while a £5m existing loan has matured without replacement.
- 4.4 The Council will continue to monitor, with the support of its Treasury advisor's, any alternative borrowing options.
- 4.5 Outstanding loans on 30th September 2025 are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.25 Balance £m	Net Movement £m	30.9.25 Balance £m	30.9.25 Weighted Average Rate %	30.9.25 Weighted Average Maturity (years)
Public Works Loan Board	341.0	(5.0)	336.0	2.97	25
Banks (LOBO)	5.0	-	5.0	4.39	54
Banks (fixed term)	5.0	-	5.0	4.70	50
Total borrowing	351.0	(5.0)	346.0	4.22	43

- 4.6 LOBO loans: The Council continues to hold £5m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. The lender option does not commence until 2028.
- 4.7 Private Finance Initiative debt balance outstanding stood at £14m on 30th September 2025, taking total debt to £360m.

5. Treasury Investment Activity

- 5.1 The CIPFA TM Code defines treasury management investments as those which arise from the Council's cash flows or treasury risk management activity that ultimately represents balances which need to be invested until the cash is required for use in the course of business.
- 5.2 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year investment balances ranged between £64m and £80m due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.25 Balance £m	Net Movement £m	30.9.25 Balance £m	30.9.25 Income Return %	30.9.25 Weighted Average Maturity days
Banks & Building Societies	1.1	2.0	3.1	3.25	1
Government Bonds	2.0	-	2.0	4.50	5,418
Local Authorities	42.0	(10.0)	32.0	4.32	323
Corporate Bonds	13.5	-	13.5	4.28	1,416
Money Market Funds	1.0	23.6	24.6	4.03	1
Other Pooled Funds:					
- Property fund	4.4	-	4.4	4.86	-
Total Investments	64	15.6	79.6	4.73	

- 5.3 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 5.4 Bank Rate reduced from 4.50% to 4.25% in May 2025, followed by a further reduction to 4.00% in August 2025.
- 5.5 Investments into longer term bonds were made in 2024/25 as part of the strategy of diversifying the portfolio. A further £10 million was placed in these instruments at yields of 4.118%, 4.551% and 4.802% providing budgetary security through returns beyond the medium term.
- 5.6 Cash levels were boosted at the start of the year by capital grant monies and the collection of Council tax and National Non-Domestic Rates which have collection profiles weighted towards the beginning of the year. After consideration of the effect on strategic cash flows and forecast reductions to interest rates, a number of deposits were made through the period, with other Local Authorities, to lock in rates before they fell. Rates obtained from these transactions ranged from 3.95% to 5.15%. Otherwise, investments were kept short-dated to provide liquidity in anticipation of significant 3rd-quarter expenditure on approved housing schemes, and these short-term funds were invested with the government DMADF facility, in Money Market Funds and other Local Authority deposits.
- 5.7 The progression of risk and return metrics are shown in the extracts from Arlingclose' s quarterly investment benchmarking exercise in Table 5 below.

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

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
30.06.2025	4.06	AA-	30%	1,022	4.79%
30.09.2025	3.95	AA-	37%	1,119	4.40%
Similar LAs	4.55	A+	62%	95	4.69%
All LAs	4.54	A+	62%	11	4.47%

- 5.8 The benchmarking results reflect the Council's appetite for low-risk counterparties which may impact the overall level of return. The high average maturity period is driven by the move into longer dated bond investments. Details behind the benchmarking results suggest that other LA's use pooled funds for their strategic investments; these may be providing a higher return currently but are more volatile than the fixed return of bonds and may be subject to revenue impacts from potential changes to accounting regulations in the near future.
- 5.9 **Externally Managed Pooled Funds:** £5m of the Council's investments is held in an externally managed strategic pooled property fund where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability.
- 5.10 **Statutory override:** Further to consultations in April 2023 and December 2024 MHCLG wrote to finance directors in England in February 2025 regarding the statutory override on accounting for gains and losses in pooled investment funds. On the assumption that when published regulations follow this policy announcement, the statutory override will be extended up until the 1st April 2029 for investments already in place before 1st April 2024. The override will not apply to any new investments taken out on or after 1st April 2024.
- 5.11 The Council has reserves available to mitigate the impact of the statutory override not being extended after 1st April 2029. The Council's investment which is impacted by the override is the £5m investment in the CCLA Property Fund. This investment was made before 1st April 2024 meaning it falls within the parameters of the extension of the override to 1st April 2029.

6. Non-Treasury Investment.

- 6.1 The definition of investments in the Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and/or for commercial purposes (made primarily for financial return).
- 6.2 A full list of the Council's non-treasury investments is presented at Appendix 2.

7. Impact of Treasury Performance on the Revenue Budget

- 7.1 The net revenue budget for treasury management is projected to be underspent as a result of reduced external borrowing expectations and the rise in investment returns, as shown in table 6 below.

As at 30 th September 2025	Budget 2025/26 To September 2025	Projected Outturn 2025/26 To September 2025	Variation
	£m	£m	£m
Investment Income	(0.9)	(1.0)	(0.1)
Interest Paid on Borrowing	6.7	6	(0.7)
Net Position (Interest)	5.8	5	(0.8)
Minimum Revenue Provision	3.5	3.5	(0.0)
Amortisation of discount on repaid loans	0	(0.1)	(0.1)
Net Position (Other)	3.5	3.4	(0.1)
Net Position Overall	9.3	8.4	(0.9)

8. Compliance

- 8.1 The Chief Finance Officer reports that all treasury management activities undertaken during the period complied fully with the principles in the TM Code and the Council's approved Treasury Management Strategy. Compliance with specific limits is demonstrated in tables 7 and 8 below.

Table 7: Debt Limits

	2025/26 Maximum	30.9.25 Actual	2025/26 Operational Boundary	2025/26 Authorised Limit	Complied? Yes/No
Borrowing	£350m	£346m	£430m	£480m	Yes
PFI & Finance Leases	£14m	£14m	£20m	£20m	Yes
Total Debt	£364m	£360m	£450m	£500m	Yes

Table 8: Investment Limits

	Maximum in period	30.9.25 Actual	2025/26 Limit	Complied? Yes/No
Any single organisation, except the UK Government	£10m	£10m	£15m	Yes
UK Central Government	£0m	£0m	Unlimited	Yes
Money Market Funds	£37m	£25m	Unlimited	Yes

Treasury Management Indicators: The Council measures and manages its exposures to treasury management risks using the following indicators.

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating/credit score of its investment portfolio. The credit score is calculated by applying a value to each investment (AAA=1, AA+=2, A=6 etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	30.9.25 Actual	2025/26 Target	Complied?
Portfolio average credit rating (score)	AA- (4)	A (6)	Yes

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling one-month period, without additional borrowing.

	30.9.25 Actual	2025/26 Target	Complied?
Total cash available within one month	£27m	£10m	Yes

Interest rate exposures: This indicator is set to control the Council's exposure to interest rate risk.

The Council's debt portfolio is virtually all at fixed rate and therefore has no exposure to fluctuations in interest rates. As such no specific limits are proposed on interest rate exposure but any new borrowing will be restricted to a maximum 30% of the total portfolio exposed to variable interest rate. No new borrowing has been undertaken during the first part of the year.

Maturity structure of borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	30.9.25 Actual	Upper limit	Lower limit	Complied?
Under 12 months	0%	10%	0%	Yes
12 months and within 24 months	0%	15%	0%	Yes
24 months and within 5 years	6%	30%	0%	Yes
5 years and within 10 years	11%	40%	10%	Yes
10 years and within 20 years	18%	50%	10%	Yes
20 years and within 30 years	19%	50%	10%	Yes
30 years and within 40 years	28%	50%	10%	Yes
40 years and above	18%	50%	0%	Yes

Principal Sums Invested for Periods Longer than a year: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments.

	2024/25	2025/26	2026/27
Actual principal invested beyond year end	£15m	£15m	£15m
Limit on principal invested beyond year end	£40m	£40m	£40m
Complied?	Yes	Yes	Yes