

CABINET

DATE	10th December 2025
REPORT OF	Councillor Stephen Harness Portfolio Holder for Finance, Resources and Assets
RESPONSIBLE OFFICER	Guy Lonsdale, Section 151 Officer (interim)
SUBJECT	Treasury H1 Outturn 2025-26
STATUS	Open
FORWARD PLAN REF NO.	CB 12/25/02

CONTRIBUTION TO OUR AIMS

Effective treasury management will provide support towards the achievement of Council Plan aims and objectives. Treasury management is an integral part of the Council's finances providing for cash flow management and financing of capital schemes. It therefore underpins all the Council's aims.

EXECUTIVE SUMMARY

The report contains details of treasury management arrangements, activity and performance during the first half of the 2025-26 financial year.

During the period covered, the Council complied with its legislative and regulatory requirements.

The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential & Treasury Indicators	2025-26 Approved Budget £'m	H1 2025-26 £'m	Revised 2025-26 Estimate £'m
Capital Expenditure			
Capital Financing Requirement	260.6	241.3	252.1
Authorised Borrowing Limit	280.0	280.0	280.0
Operational Boundary	250.0	250.0	250.0
External Borrowing	199.3	166.8	192.9
Investments >365 days	11.0	0.0	11.0

RECOMMENDATIONS

It is recommended that Cabinet:

- 1) Receives the report and notes the treasury management activity during 2024/25.
- 2) Refers the Report to Council for noting such activity and pursuant to adoption by Council of the Treasury Management Policy, for Council to seek assurance from the report in accordance with guidance.

REASONS FOR DECISION

The Council's treasury management activity is guided by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year with interim updates on performance against Prudential Indicators reported quarterly. We therefore report in full after Quarter 2 and year end with Prudential Indicators being reported additionally after Quarters 1 and 3 in the Council Plan Resources and Finance Report.

1. BACKGROUND AND ISSUES

- 1.1. CIPFA has defined treasury management as:

The management of the organisation's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

- 1.2. The Treasury Management Strategy Statement (TMSS) for 2025-26 was developed in consultation with our treasury management advisors, Link Treasury Services Ltd. This statement also incorporates the Investment Strategy.
- 1.3. Whilst the Council has appointed advisors to support effective treasury management arrangements, the Council is ultimately responsible for its treasury decisions and activity. No treasury activity is without risk. The successful identification, monitoring and control of risk is therefore an important and integral element of treasury management activities.
- 1.4. The Council has nominated the Audit & Governance Committee as responsible for ensuring effective scrutiny of the treasury management arrangements.
- 1.5. Key points to note with specific regard to economic and Treasury activity during the period:

- Central Banks in most developed economies took time to evaluate how the recent period of elevated rates has impacted domestic inflation before they were willing to press on with a move toward a lower rate environment to support their respective economies without bringing about a recession. The EU was an exception having already reduced its lending rate to 2% by period end.
- Short, medium and long-dated UK government bonds (gilts) and therefore our future borrowing rates ground higher, more so than peers as markets factored in not only their expectation that inflation was not yet beaten but that in the UK at least fiscal constraints and exceptional levels of issuance merited additional premia.
- After a positive start to 2025, growth slowed in Q1 (+0.2%). Much of this was put down to businesses anticipating US Tariff Policy during the first 3 months of 2025 and then reacting to its implementation in Q1 of our Financial Year, although sentiment surveys across the period appear to contradict this somewhat. Perhaps because the UK quickly struck an Accord, providing some clarity.
- CPI inflation remained well above its target of 2% hitting 3.8% in July and remaining at that level in subsequent periods to September. CPI is now expected to gradually reduce although it is not forecast to hit target now until late 2027 (Bank of England).
- The continuation of restrictive policy by the Bank of England as it sought to contain inflation, provided us with further strong investment returns but also meant that borrowing remained significantly more expensive than our portfolio average rate. As a result, a strategy of deferring long-term commitment through use of reserves and short-term borrowing arrangements was adopted.
- Higher investment returns, even with our cautious approach, has generated surplus income (above budget) of £0.669m during the period, and we are again on course to generate over £1m of investment income during the full financial year which is made available to fund frontline services.
- The Treasury Management Strategy covers the Council's treasury aims and principles. The Council also considers direct 'commercial' investments from time-to-time with the aim of generating financial return. Although reference is made to these types of investments in the TMSS' these transactions are guided and limited by the Capital Strategy document.

2. RISKS AND OPPORTUNITIES

- 2.1 No Treasury activity is without risk. Specific risks include, but are not limited to, Counterparty Credit Risk (the risk of an investment not being repaid), liquidity risk (the risk that the Authority does not have its funds in the right place, at the right time and in the right amount to make its payments as they fall due),

interest rate risk (the risk that future rate movements have a revenue implication for the Authority) and reputational risk (see Section 4 below).

- 2.2 The attached Appendices define our approach toward mitigating these risks.
- 2.3 Treasury is an Authority-wide function and therefore its environmental sustainability and equalities implications are the same as for the Council itself. (See more detail on approach under 7. below)
- 2.4 **General Data Protection Regulation 2018** – Relationships with external providers covered by the Treasury management Practices are governed by and operated in accordance with the Act.

3. OTHER OPTIONS CONSIDERED

- 3.1 These were set out on Page 30 of the Treasury Management Strategy Statement.

4. REPUTATION AND COMMUNICATIONS CONSIDERATIONS

- 4.1 As you would expect, with large sums of public money involved, any treasury activity carries a high degree of reputational risk. Any losses have not just financial but also significant, ongoing resource implications for the Council.

5. FINANCIAL CONSIDERATIONS

- 5.1 The report confirms that all investment and borrowing transactions were in line with the Approved 2024-25 Treasury Management Strategy. No changes to the Strategy were necessary during the 2024-25 financial year despite a volatile interest rate and geopolitical environment.

6. CHILDREN AND YOUNG PEOPLE IMPLICATIONS

- 6.1. As an Authority-wide corporate function, the immediate impacts of day-to-day Treasury operations on children and young people are the same as for the Council as a whole. However, certain Treasury decisions, most notably those relating to long-term borrowing transactions, will place a greater burden on young residents, over time, relevant to other demographics. The benefits arising from capital schemes funded by borrowing will accrue to the advantage of younger residents, in the same way as they do for all past and future generations.

7. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

- 7.1 In line with the Authority's declaration of a Climate Emergency, the S151 Officer will aim to assess and monitor, not just Environmental but all, Environmental, Social and Governance (ESG) factors when selecting investment options.

7.2 Full assessment is however restricted by the fact that, at the time of writing, there is no consistent rating framework with which to measure and benchmark specific counterparty ESG metrics.

7.3 The UK and EU have both announced their intentions to introduce regulation for ESG ratings providers, which should greatly aid assessment of the associated and relevant risks Counterparties present. Until this market data gap is fully resolved, our approach to managing the risks associated with the Environmental activities of our Counterparties is as follows: -

- As the Ratings Agencies headline ratings on our Counterparties now incorporate ESG risk assessments alongside more traditional financial risk metrics and so provide both an holistic risk measure and a proxy for ESG 'scoring' in the absence of anything more robust
- The Council will continue to Prioritise Security, Liquidity and Yield, in that order
- The Council recognises that as large, global institutions our high-quality counterparties operate across the full range of marketplaces in which they are legally able to, and as a result climate change considerations are an increasingly important and heavily scrutinised part of their overall business.
- Excluding any one counterparty will likely mean others will similarly have to be avoided and thus impact the Authority's capacity to mitigate risk through diversification.
- The Council notes that bonds issued by Supranational institutions offer strong ESG credentials, combined with the explicit underwriting support of all major developed countries. This results in excellent ratings (typically AA+ - AAA) being applied. As such, the Council actively seeks exposure to these assets (commensurate with its investment horizon) and in doing so, contributes to market liquidity and therefore capital raising abilities of these bodies who then deploy that capital in ESG positive schemes.

8. CONSULTATION WITH SCRUTINY

8.1 This Report was taken to Audit and Governance Committee on 6 November 2025 and duly recommended to Cabinet.

9. FINANCIAL IMPLICATIONS

9.1 As set out in the appendix.

10. LEGAL IMPLICATIONS

- 10.1 There are no direct legal implications arising from the recommendations in this report which are not covered in the body of the report. The Council has complied with its statutory obligations arising from the Local Government Act, the Local Government Finance Act and all relevant CIPFA guidance.

11. HUMAN RESOURCES IMPLICATIONS

- 11.1 There are no immediate HR implications arising from the recommendations contained in this report.

12. WARD IMPLICATIONS

- 12.1 All wards indirectly affected.

13 BACKGROUND PAPERS

- 13.1 CIPFA Treasury Management Code and Guidance Notes
- 13.2 Treasury Management Strategy Statement 2025-26
- 13.3 Capital Strategy Statement 2025-26

14. CONTACT OFFICER(S)

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Portfolio Holder for Finance, Resources and Assets

Treasury Half-year Report 2025/26



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Abbreviations Used In This Report

CDS: Credit Default Swaps. Financial contracts in which the buyer purchases protection against losses on default of a counterparty. The price of the 'insurance premium' is therefore a good guide to perceived risk

CFR: capital financing requirement - the council's annual underlying borrowing need to finance capital expenditure and a measure of the council's total outstanding indebtedness.

CIPFA: Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

ESG: environmental, social, and governance. A set of non-financial aspects considered when evaluating investments with counterparties

Gilts: bonds issued by the UK Government to borrow money on the financial markets. The yields on Gilts change inversely to the price of gilts i.e. a rise in the price of a gilt will mean that its yield falls.

LOBO: a loan carrying provision for the lender to periodically amend the interest rate applicable. If the lender chooses to exercise this option the borrower then receives the secondary option to choose to repay the loan without penalty.

MHCLG: The Ministry of Housing, Communities and Local Government

MRP: minimum revenue provision - a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

PWLB: Public Works Loan Board – the section within H.M. Treasury which provides loans to local authorities to finance capital expenditure.

S151 Officer: an Officer appointed under section 151 of the Local Government Act to carry out the duties of 'Responsible Financial Officer' as defined by CIPFA

SONIA: Sterling Overnight Index Average, the 'risk-free' rate for market transactions.

TMSS: the annual treasury management strategy statement reports that all local authorities are required to submit for approval by the full council before the start of each financial year.

Key Messages:

All investment and borrowing transactions were in line with the Approved 2025-26 Treasury Strategy.

There are no necessary in-year policy changes to the TMSS; the details in this report update the half-year position against the updated economic environment and any budgetary changes already approved.

Our revised central case for rates is now for short-term interest rates to fall only slightly from their current level of 4% to somewhere in the range 3-3.25% over the next 18 months or so. Uncertainty remains however and the implications for both investment income and borrowing cost will be closely monitored.

S151 Officer Overview

The Council operates a balanced budget, which broadly means cash raised during the year will meet its non-capital expenditure, however there will always be timing differences in how funds are received, and expenses settled. A fundamental element of treasury management is to ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, whilst retaining adequate liquidity and finally seeking appropriate investment return, consistent with those two primary objectives.

Our 2025-26 Treasury Strategy was tailored to allow the Council to manage risks related to cash investments and has, once again, stood up well to the ongoing pressures presented by persistent inflation and elevated interest rates, both of which exceed our default expectations going into the period. Being able to manage circumstances a standard deviation or two beyond that expected is a key determinant of successful Treasury Management delivery. Rare or 'once in a generation/lifetime' events happen more regularly than you'd think. The role of Treasury Management at North East Lincolnshire Council is to ensure those occurrences do not endanger the larger mission of the Authority.

To deliver that high level brief, the main functions of Treasury are divided into 4 main elements:-

1. The arrangement of funding for the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending plans as they fall due. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. Occasionally, debt previously drawn may be restructured to meet Council risk or cost objectives.
2. Safeguarding surplus funds – investing the Council's funds in line with the principles of Security, Liquidity and Yield orders of priority.
3. Day-to-day cash flow management – ensuring the Authority has funds available in the right place, at the right time, in the right size to meet its payment obligations as they fall due.
4. Horizon scanning of financial data and market intelligence and sharing this with the wider organisation as appropriate to help inform strategic decision making.

In an elevated rate environment, such as that seen over the last two years, we have opted for shorter term borrowing, to 'ride out' the cycle before locking in loans for the long-term. Higher than anticipated rates have boosted our investment return. Income that is now available to support services. At the time of writing, rates were expected to now only reduce slowly from their current level of 4%, meaning our income generated will hold up. However, increases in long-term rates will likely meant borrowing will become more expensive over time. We continue to monitor rate paths and develop a borrowing strategy that best meets the requirements of the Authority's plans.

Key Messages:

No Treasury activity is without risk. These risks include, but are not limited to, Credit Risk, Liquidity Risk, Interest Rate Risk, Inflation Risk and Reputational Risk.

The Council uses in-house knowledge, advisors (MUFG Treasury Services), treasury management software (Treasury Live) and the CIPFA Treasury Management Code to manage these risks.

Scrutiny of Treasury activity is undertaken by Audit and Governance Committee and reported twice-yearly to Full Council. Updates on Prudential Indicators are also provided as part of quarterly budget updates Reports.

Introduction and External Context

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy’s (CIPFA) Code of Practice on Treasury Management (revised 2021) to provide a review of treasury management activities and the actual prudential and treasury indicators for 2025-26. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

CIPFA is currently consulting local authorities in respect of potential changes to the Codes. At the time of writing, the focus seems to primarily be on the Non-Treasury investment aspects of local authority activity. Officers will provide an update on any material developments/changes in due course. The Authority responded to the Consultation in October.

This report covers the following:

- An economic update for the 2025-26 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council’s capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Council's investment portfolio in 2025-26;
- A review of the Council's borrowing strategy for 2025-26;
- A review of any debt rescheduling undertaken during 2025-26;
- A review of compliance with Treasury and Prudential Limits for 2025-26.

The Authority 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 regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides an updated position for treasury activities and highlights compliance with the Council’s policies previously approved by members.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to the above treasury management report by the Audit Committee before they were reported to the full Council. Member training on treasury management issues is provided annually by our retained Advisors to support members’ scrutiny role.

Key Messages:

The Council has taken a cautious approach to investing but is also fully appreciative that the external risk environment is very much shaped by developments around inflationary pressures and economic outlooks.

As of October 2025 our advisors, MUFG, are forecasting that Bank Rate will continue slowly easing from its current level of 4%. Central Banks globally remain committed to taming inflation but have now also shifted to maintaining a close watch on growth slowdowns which, were they to materialise, would likely require a much swifter reduction in rates. In summary, the picture over the next 12 months is one of marginally lower rates but retains a large degree of uncertainty.

Introduction and External Context

Having risen from historic lows since the end of 2021, rates peaked at 5.25% in 2023 following 14 consecutive increases by the Bank of England before the first cut in Aug 2024 in what is believed to be a gradual loosening cycle.

The Council has appointed MUFG as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. MUFG’s expectation for interest rates within the treasury management strategy for 2025-26 was that Bank Rate would fall to 3.75% by March 2026. Subsequent data has been supportive of this forecast. MUFG now expect that rates will continue to decline slowly through subsequent periods to a cycle low of 3.25% in 2028. We are cognisant that a) our longer PWLB term rates are built on forecast rate paths and so lead actual Bank of England announcements, b) historic data show that markets often under-estimate the pace of rate changes over a full cycle, opening the possibility that longer-term rates will have to ‘catch-up’ and c) rates are not likely to revert to near zero and so the Authority’s borrowing costs are expected to rise sharply over the next 3 years as capital spend is committed and existing debt matures and is replaced.

Falling rates will hit our investment returns but savings – on budgeted debt cost – may appear if material capital items are re-profiled (into a cheaper rate environment)

Key economic data during the period saw:-

- Interest rates continue to ease, taking Bank Rate from 4.5% down to 4% at period end.
- Short, medium and long-dated gilt yields however remain elevated on the back of concerns around structural inflation, issuance and restricted fiscal flexibility.
- A 0.3% pick up in GDP for the period April to June 2025. Subsequently, the economy flatlined in July, with higher taxes for businesses restraining growth.
- CPI inflation has ebbed and flowed but finished September at 3.8%, whilst core inflation eased to 3.6%.
- A cooling in labour market conditions, but only limited signs that it has led to an easing in wage growth (as average earnings rose at an annual rate of 4.8% in July).

The Authority does not typically have sufficient surplus cash balances to be able to place deposits for more than around six months so as to earn higher rates from longer deposits. In a declining rate environment this has the negative effect of investment rates rate reductions applying more quickly but would usually also offer up lower borrowing rates, which ultimately is of greater value to the Authority.

Key Messages:

The Treasury Management Strategy Statement, (TMSS), for 2025-26 was approved by this Council in February 2025. No changes are considered necessary despite the continued uncertainty around inflation and rate forecasts.

The Authority has an increasing CFR over the next three years due to the capital programme, and with reduced investments will therefore need to borrow up to £73m over the next few years. An additional £48m will be required to replace maturing loans.

Since the Global Financial Crisis, the Authority has adopted a cautious approach whereby investments are framed by low counterparty risk considerations, the trade-off being lower overall returns.

Local Context

The Treasury Management Strategy Statement, (TMSS), for 2025-26 was approved by this Council on 21 February 2025.

No in-year policy changes to the TMSS are necessary – pleasing to note in exacting economic circumstances; the Strategy did its job in protecting public funds whilst allowing sufficient flexibility to cope with challenging operational demands.

Gross borrowing and the Capital Financing Requirement (CFR) - to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council must ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. Compliance shows that the Council is not borrowing to support revenue expenditure.

The table below highlights the Council’s gross borrowing position against the CFR. The Council has complied with this prudential indicator, and we are on target to achieve the original forecast.

	31 March 2025 Principal	Rate/ Return	Average Life yrs		30 September 2025 Principal	Rate/ Return	Average Life yrs
Total debt	£188.9m	4.05%	17.8		£166.8m	3.76%	19.3
Capital Financing Requirement (CFR)	£233.6m				Est £241.3m		
Over / (under) borrowing	(£44.7m)				(£73.2m)		
Total investments	£31.2m	4.44%	0.1		£31.7m	3.98%	0.1
Net debt	£157.7m				£135.1m		

The overall level of investment balances fluctuated during the period as the Authority utilised a mix of internal borrowing and short-term loans to both defer more expensive long-term borrowing and minimise its credit risk exposure. The growing under-borrowed position is typical for similar authorities but still represents increased interest rate risk to be managed.

Key Messages:

When undertaking new borrowing the Council will review both the source and tenure of loans it seeks to take.

At 30/09/2025 the Authority held £167m of loans, (down £22m in the period) as a consequence of funding prior years’ capital programmes.

Other Liabilities shown across reflect lease liabilities brought ‘on-balance sheet’ under IFRS16.

The Council’s current borrowing portfolio is predominantly of a long-term and fixed nature. Whilst this provides certainty of cost it can restrict flexibility to restructure debt as plans and finances change.

Borrowing Strategy

The first key control over treasury activity is the Capital Financing Requirement (CFR), a prudential indicator designed 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. The Council has approved a policy for borrowing in advance of need which will be adhered to if such borrowing proves prudent, meets the CFR criteria above and after due evaluation is believed to represent a Value for Money proposition.

	2025/26 Outturn Original Estimate £m	Mid-year Position 30/09/2025 £m	Revised 2025-26 Final Position £m
Borrowing	199.3	166.8	192.9
Other Long Term liabilities	4.0	6.5	7.7
Total debt	203.3	173.3	200.6
CFR (year end position)	260.6	241.3 (est)	252.1 (est)

The structure of our debt portfolio as at 30.09.2025 is shown below

Type of Loan	Amount	% of Portfolio
PWLB Fixed	£94.1m	56%
LOBO	£11.0m	7%
Market Fixed	£36.7m	22%
Short-term Fixed	£25.0m	15%
Variable Rate	£0.0m	0%
Total	£166.8m	

Key Messages:

Affordability and the “cost of carry” remained strong influences on the Authority’s borrowing strategy. As interest rates rose, we arranged £45m of new loans over several start dates and periods of up to a year (details on P11) to secure sufficient funding to meet the Council’s cash flow needs whilst deferring long-term borrowing until the peak in the cycle passed.

Borrowing short-term from other local authorities provides a useful source of funding below current long-term rates and with the ability to exit loans within a reasonable timeframe.

It remains true though that future borrowing will now be more expensive than current portfolio average rates (at current rates/projections)

Borrowing Strategy (continued)

- During the period, the Council maintained an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), was not fully drawn in loan debt, as cash supporting the Council’s reserves and cash flow was used as an interim measure. This strategy was prudent as it minimises cost of carry. Reduced counterparty risk is also a factor.
- The policy of delaying new borrowing by utilising spare cash balances and securing short-term loans from other local authorities, has served well in recent years. However, we are conscious that the Authority has a significant long-term borrowing requirement to finance its capital spend and so, should long term rates show signs of reducing materially in anticipation of future Bank of England rate cuts, we will actively assess whether a proportionate amount of new long-term borrowing is merited, in order capture those reductions should they materialise. While no-one knows where rates will ultimately settle, it is not anticipated that we return to a scenario where rates are near zero for another decade without another seismic exogenous shock akin to the Global Financial crisis or Covid-19. All types of borrowing will therefore be kept under review, with a default view that a ‘mix’ of short and long-term now makes some economic sense.
- It is anticipated that further borrowing will be undertaken during the 2025-26 financial year.
- Regardless of the economic background there are always risks within any forecast, so caution is adopted within treasury operations. The S151 Officer monitors interest rates in financial markets and will adopt a pragmatic strategy based upon the following general principles to manage interest rate risks :
 - where there was a significant perceived risk of a sharp FALL in long and short term rates, (e.g. due to a marked increased risk of recession or risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing may be considered.
 - if it was felt that there was a significant risk of a sharp RISE in long and short term rates, perhaps arising from ‘sticky’ inflation or Sterling weakness, then the portfolio position would be re-appraised. Our starting point in such circumstances would be to shorten the length of any loans arranged and re-profile once rates showed signs of declining.
- Clearly there is a window between the two scenarios above where rates fall sufficiently to make a proportionate amount of new long-term borrowing warranted.

Key Messages:

The Authority’s traditional source of long-term borrowing is the Public Works Loan Board (HM Treasury).

The rate at which the Authority can borrow is determined by the Gilt Market (the Government’s own primary source of borrowing) and fluctuates with market conditions. On top of this ‘core rate’ PWLB apply a margin, typically 0.8% for NELC.

Following a series of cuts in 2024-25, rates have continued to decline quarterly in the first half of 2025-26 rates. By period end however, the pace of reductions was expected to slow materially as the Bank weighs action to combat inflation stubbornness against slowing growth.

Borrowing Strategy (continued 2)

PWLB rates are based on gilt (UK Government bonds) yields with H.M.Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations, movements in global yields and Defined Benefit Pension Scheme liabilities.

The current margins over gilt yields are as follows: -.

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps) for targeted schemes
- National Wealth Fund lending is gilt plus 40bps (G+40bps) – subject to scheme criteria being met with rates being revised twice daily.

The past six months has seen near constant pressure being exerted on medium and longer dated gilt yields. The yield on the key 10-year gilt rose from 4.4% in early April to 4.8% in mid-April following wider global bond market volatility stemming from the “Liberation Day” tariff announcement, before easing back as trade tensions began to de-escalate. By the end of April, the 10-year gilt yield had returned to 4.4%. In May, concerns about stickier inflation and shifting expectations about the path for interest rates led to another rise, with the 10-year gilt yield fluctuating between 4.6% and 4.75% for most of May. Thereafter, as trade tensions continued to ease and markets increasingly began to price in looser monetary policy, the 10-year yield edged lower, and ended Q2 at 4.50%.

Our expectation for interest rates going forward

Whilst rates have started to move lower, it is not our current base case that they revert to the ultra-low levels of the last decade. Indeed, the current view is that rate paths are still to be fully determined. Should inflation not trend back down to the target of 2% rate cuts will need to be paused or even reversed. Conversely, if signs of faster than desired contraction appear then the bank will have to increase the pace of cuts to stimulate activity again. History suggests that ‘soft-landings’ (the taming inflation without causing a recession and job losses), whilst not impossible, is a difficult trick to pull off.

Borrowing in advance of need

The Council has not borrowed more than, or in advance of its needs, purely to profit from the investment of the extra sums borrowed, so expects to retain access to PWLB. The forward starting loans recently arranged were secured to meet a portion of the anticipated requirement over the next year, while lower rates remained accessible.

Key Messages:

Several loans were agreed during 2025-26 to support the Council’s Capital Plans and refresh maturing loans.

Debt rescheduling opportunities have increased as rates have risen. A small amount (£0.225m) of long-term debt was repaid early during 2024-25 as the Authority sought to take advantage of peak rates to exit its more expensive historic debt (carrying rates above 6%) as efficiently as possible. Further rescheduling will continue to be considered if it can deliver (net) long-term savings.

Rates are currently expected to decline only slowly over the next 2 years to settle above 3%

Borrowing Strategy (continued 3)

Borrowing – the following loans were arranged during the period:

Counterparty	Start Date	Maturity Date	Amount	Rate
East Devon District Council	01/04/2025	28/05/2025	£3,000,000	4.50%
Causeway Coast and Glens BC	04/04/2025	04/07/2025	£4,000,000	4.50%
Shropshire Fire and Rescue Service	07/04/2025	29/07/2025	£2,000,000	5.10%
Middlesborough Council	07/04/2025	09/06/2025	£5,000,000	4.80%
Middlesborough Council	16/04/2025	16/06/2025	£5,000,000	4.60%
Greater Manchester Combined Authority	25/04/2025	25/09/2025	£5,000,000	4.30%
Hertsmere BC	30/05/2025	30/10/2025	£5,000,000	4.25%
PWLB	26/06/2025	24/06/2050	£1,203,000	5.55%
London Borough of Havering	12/09/2025	19/12/2025	£5,000,000	4.15%
South Yorkshire Combined Authority	15/09/2025	31/03/2026	£10,000,000	4.15%

The PWLB loan listed above was taken to fund a matching loan to E-Factor Limited on which the Authority charges 1% additional interest. For the time being we are arranging loans to meet cash flow as and when required at terms out to 12-months.

Debt rescheduling

No debt rescheduling was undertaken during the period. Rescheduling will continue to be considered if it could deliver (net) long-term savings.

During the period, officers, supported by our advisors, explored a potential restructuring of the Dexia LOBO loan. Ultimately, it was felt that the proposed deal was weighted too heavily in the lenders favour and didn't offer sufficient real savings to NELC to warrant taking forward. It is now expected that Dexia will call their loan at the end of October. Short term funds have been secured (at a lower rate) to allow the Authority to exercise its secondary option to repay at that point without penalty and the debt will be re-phased more in line with the Liability Benchmark over time thereafter.

Key Messages:

The Authority has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. These funds are temporarily invested to generate a return until they are needed.

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

All other things being equal we would expect to see balances fall each year by the amount of corporately funded capital expenditure less any new borrowing.

The Authority is again on course to generate over £1m of income from its temporary financial investments during 2025-26.

Investment Activity

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. These funds are temporarily invested to generate a return until they are needed.

During 2025-26 total investment balances ranged between £17.7m and £73.6 million. The average balance maintained was £42m with a weighted average maturity of 12 days. During the period our target rate of 7-day SONIA was 4.18%. We out-performed the benchmark (achieving an average return of 4.21%). This reflects the slightly longer average maturities (mainly T-Bills) maintained during the period which garners higher yields – without jeopardizing liquidity. At period end we were earning an average yield of 3.98% vs 7-day SONIA at 3.97%.

Our investments generated £0.894m of income during the first half of 2025-26 and are on target to generate in excess of £1m of income for the Authority in the full year to 31 March 2026.

Investment Policy – the Council’s investment policy is governed by MHCLG guidance, which has been implemented in the annual investment strategy approved by the Council. Investment activity during the year conformed to the Investment Strategy for 2025-26 which aimed to reduce risk by;

- Setting value and term limits for counterparties based on Credit rating, available collateral and sector.
- Utilising data tools available online and MUFG Treasury Services to monitor risk.
- Ensuring a minimum level of liquidity was maintained to allow payments to be made as they fell due

The Council aims to achieve an adequate return (yield) on its investments commensurate with having prioritised security and liquidity. It is considered appropriate to keep investments short term to cover cash flow needs using our suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

Creditworthiness – Credit metrics for the financial institutions we interact with remained robust during the period. US Regional Banks and Credit Suisse in 2023 aside, the ‘damage’ resulting from global rates moving rapidly from zero to 5% has been remarkably light. This has prompted Regulators to begin rolling back some of the protections introduced following the Global Financial Crisis. We are keeping a close eye on any changes to risk profiles. No changes to TMSS limits, or indeed (more restrictive) operational limits were necessary during the period.

Key Messages:

Eliminating Credit Risk by maintaining lower balances whilst still ensuring adequate liquidity therefore remains a key strand of operational activity. It also reduces ‘cost of carry’ i.e. the spread between the rates we can obtain from investments versus those payable on our borrowing.

Investment Activity

Investments	Balance on 31/03/2025 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 30/09/2025 £m	Avg Rate/Yield (%) and Avg Life (years)
UK Government:					
- DMADF	21.2	316.5	(319.2)	18.5	4.23% 10 days
- Treasury Bills/Gilts	0.0	12.9	(9.9)	3.0	4.22% 52days
Bonds issued by Multilateral Development Banks	0.0	0.0	(0.0)	0.0	N/A
Direct Unsecured Investments (call accounts, deposits) with financial institutions					
- rated A- or higher	0.6	17.5	(17.5)	0.6	3.23% at Call
- rated below A-	-				
Tradable Investments with Financial institutions Corporates (CDs) rated A- or higher	0.0	1.0	-	1.0	4.10% 141 days
Money Market Funds	9.4	21.0	(21.7)	8.7	4.23% at Call
TOTAL INVESTMENTS	31.2	368.8	(368.3)	31.8	4.21% 12 days
Increase/ (Decrease) in Investments £m				0.5	

- *Figures are rounded so may not aggregate to total shown
- Given the relatively poor risk-reward returns from short-term unsecured bank investments, but lacking funds available for longer-term investment, the Authority is unable to simply diversify into more secure and/or higher yielding asset classes such as repurchase agreements or covered bonds which are secured on financial assets. Eliminating Credit Risk by maintaining lower balances whilst still ensuring adequate liquidity therefore remains a key strand of operational activity, subject to liquidity considerations. It also reduces ‘cost of carry’ i.e., the spread between the rates we can obtain from investments and those payable on our borrowing.

Key Messages:

Counterparty credit quality is assessed and with reference to credit ratings (the Authority’s minimum long-term counterparty rating for institutions defined as having “high credit quality” is A-); credit default swap prices, financial statements, and reports from quality financial news feeds.

Figuratively the Authority’s risk profile remained stable during the period, (with a narrow set of counterparties our risk profile primarily moves with UK sovereign rating where there were no changes during the period).

Our strategy to favour holding short-term Multi-lateral Bank Bonds hasn’t been warranted during the period as availability in tenors that suited cash flow wasn’t at adequate levels.

Investment Activity (contd.)

Credit Risk

Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating
31/03/2025	3.13	AA
30/06/2025	2.85	AA
30/09/2025	3.19	AA

Scoring:

- Value weighted average reflects the credit quality of investments according to the size of the deposit
- Time weighted average reflects the credit quality of investments according to the maturity of the deposit
- AAA = highest credit quality = 1
- D = lowest credit quality = 26
- Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

Credit risk (as defined by Credit Swap premia) remained low during the period as it became clearer that the series of rapid global rate rises on bank Balance Sheets was being successfully accommodated. The table above suggests that our own average risk also remained very low. Several factors contributed to this:-

- The scores above reflect Credit Rating Agencies ratings. These are far less ‘agile’ than Credit Default Swap (CDS) rates, so there may be Outlook changes and Watch changes prior to ratings being changed in a deteriorating financial environment. Changes to the UK Sovereign Rating in either direction can directly affect banks own ratings due to country exposure.
- Our strategy to favour holding short-term Multi-lateral Bank Bonds hasn’t been possible during the period as availability in tenors that suited hasn’t been sufficient. These instruments are typically AAA-rated thanks to their enshrined callable capital claims on the World’s major developed countries. They have the additional positive characteristic of possessing strong ESG credentials.
- NELC largely seeks to avoid direct bank exposure and where we do invest it is generally on a call or tradeable basis.

Key Messages:

In an environment where direct unsecured bank deposits present increased uncompensated risk, NELC sought to avoid this imbalance by utilising UK Government based investments and diversified funds.

Ultimately, we seek to minimise counterparty risk by limiting our cash levels whilst still maintaining adequate liquidity.

There were no operational breaches of the limits set in the TMSS during the period.

Investment Activity (contd.)

Benchmarking

- Comparisons are made to other Authorities using the Treasury Live database which looks at almost £11Bn of local Authority investments. As at the period end this showed that other Authorities:-
 - Hold more cash than NELC. Average balance £137m (estimated) vs £32m at NELC
 - Invest for longer periods. 124 days on average vs only 13 days at NELC
 - Take more risk than us collectively.
 - Deliver lower return than us. 3.84% vs 3.98 at NELC%
- The above shows how the Council has been able to take advantage of rising rates. NELC is of the view that, in a post Bail-in environment, elimination of credit risk through lower balances is worth potential lower overall return. To ensure this strategy does not replace credit risk with liquidity risk NELC maintains a liquid balance at least £10m (roughly equivalent to peak weekly cash outflows).
- Also important to note that the benchmarking group pays a similar average rate of 3.7% as NELC on its aggregated £30Bn of debt.
- Whilst we monitor performance against data on 80 other Authorities' activity (as summarised above) on a monthly basis, we have previously obtained additional specific data on what Unitary Authorities (like NELC), were investing in, to ensure we are not 'missing out' on anything those 'peers' are doing. Data was shared with us (confidentially and anonymised) by our Advisors, MUFG Treasury Services. Against this narrower group we were 'in the bunch' with the only difference being those who lent (sometimes long-term) to other Authorities. We reviewed the data and considered LA lending but for the time being the S151 Officer has taken the decision not to do so against a background of recent challenges and s114 notices in the sector.

Operational Breaches

- There were no operational breaches of the limits set in the TMSS during the period.

Key Messages:

The Authority confirms compliance with its Prudential Indicators for 2025-26, which were set in February 2025 as part of the Authority’s Treasury Management Strategy Statement.

Compliance with Prudential Indicators

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures: This indicator is set to control the Authority’s exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

	2025-26	2026-27	2027-28
Upper limit on fixed interest rate exposure	£310m	£330m	£340m
Actual*	£147m	£198m (est)	£212m (est)
Upper limit on variable interest rate exposure	£80m	£80m	£80m
Actual*	£48m	£45m (est)	£45m (est)

*= Peak position for 2025-26

Maturity Structure of Borrowing: This indicator is set to control the Authority’s exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	Upper	Lower	Actual
Under 12 months	70%	10%	30%
12 months and within 24 months	30%	0%	2%
24 months and within 5 years	30%	0%	7%
5 years and within 10 years	30%	0%	10%
10 years and within 20 years	30%	0%	9%
20 years and within 30 years	50%	0%	23%
Over 30 years	75%	10%	18%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. Note: LOBO option dates are included as potential repayment dates.

Key Messages:

A minimum cash balance of £10m will be maintained to ensure forecast liquidity needs are met.

The gap between the blue columns and green line in the Liability Benchmark chart shown here depicts the additional borrowing need the Authority currently projects – a peak requirement of £119m new loans by the end of 2027-28 – including replacement of maturing debt.

Before new long-term borrowing is entered into the Authority will have regard to the Liability Benchmark and its underlying assumptions will be assessed for their continuing prudence, with revisions made where necessary.

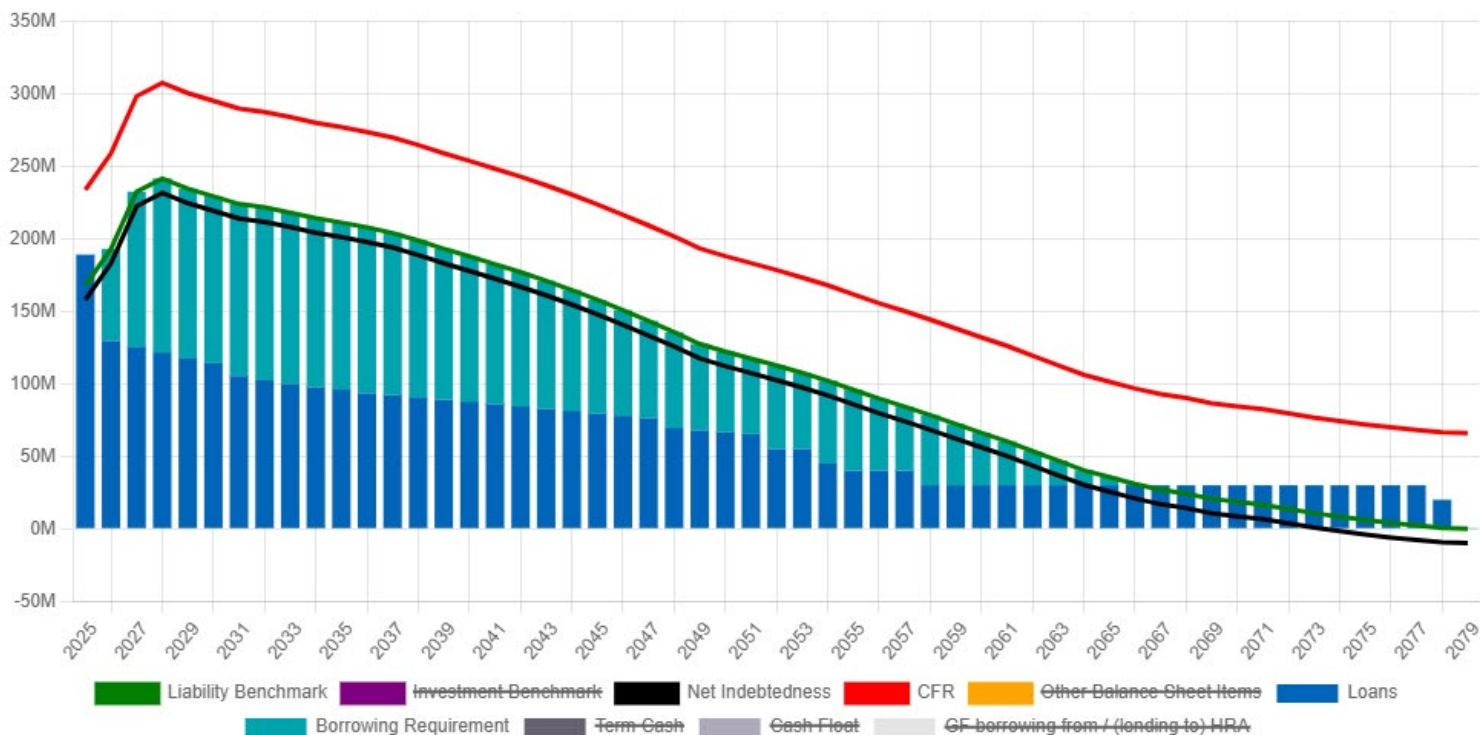
Prudential Indicators (The Liability Benchmark.)

CIPFA Guidance requires the use of the **Liability Benchmark** tool as a formal Prudential Indicator. NELC used, reported and provided Member training on this Benchmark for several years prior to its adoption by CIPFA.

The Benchmark forecasts our need to borrow over a 50+ year period. This aids decision making when it comes to the quantum and term to be chosen, the aim being to avoid cost of carry revenue implications and avoid the trap of defaulting to ultra-long tenors just because the yield curve tail slopes downward. It represents the level of our anticipated borrowing and in the ordinary course of business would not be expected to be exceeded. It therefore should closely mirror the Operational Boundary.

The benchmark assumes:

- lower future capital expenditure funded by borrowing beyond the current programme on average
- minimum revenue provision on new capital expenditure based on an annuity profile of c30 years average
- No changes to Reserves beyond the current MTFP period (3 years)



Key Messages:

For 2025-26 a minimum cash level of £10m was targeted and there were no breaches of this, or other Indicators.

Compliance with Prudential Indicators (contd.)

Principal Sums Invested for Periods Longer than 365 days: The purpose of this indicator is to control the Authority’s exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2025/26	2026/27	2027/28
Limit on principal invested beyond 365 days	£11m	£11m	£11m
Actual	£0m	£0m	£0m

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

	Target	Actual
Portfolio average credit rating	A	AA

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

	Target	Actual (Low)
Total cash available within 1 month	£10m	£18m

Key Messages:

Borrowing remains comfortably below control levels as a result of continued internal borrowing support for the Capital Programme.

Borrowing levels were projected to be £199m at the end of 2025-26 when the TMSS was set in Feb 2025. Half-way through the year this outturn is now projected to be £193m due to changes in anticipated delivery of the Capital Programme.

Lease liabilities under IFRS16 Accounting Rules are now included under 'Other Long-Term Liabilities'.

Compliance with Prudential Indicators (contd.)

Other Prudential Indicators

The following prudential indicators are relevant to the treasury function as they concern limits on borrowing and the adoption of the CIPFA Treasury Management Code.

Operational Boundary for External Debt: The operational boundary is based on the Authority’s estimate of most likely, i.e. prudent, but not worst-case scenario for external debt.

Operational Boundary	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Borrowing	£230m	£250m	£260m	£270m
Other long-term liabilities	£30m	£20m	£20m	£20m
Boundary for Total Debt	£260m	£270m	£280m	£290m

Authorised Limit for External Debt: The authorised limit is “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2025-26 the Council has maintained gross borrowing within its authorised limit.

Authorised Limit	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Borrowing Limit	£260m	£280m	£300m	£310m
Other long-term liabilities	£40m	£30m	£30m	£30m
Total Debt Limit	£300m	£310m	£340m	£340m
Projected Peak Debt levels	£189m	£193m	£232m	£241m

Adoption of the CIPFA Treasury Management Code: The Authority adopted the Chartered Institute of Public Finance and Accountancy’s Treasury Management in the Public Services: Code of Practice 2021 Edition in February 2023.

Key Messages:

The Local Government Act 2003 requires the Authority to have regard to CIPFA’s Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow.

The Authority confirms compliance with its Capital Finance Prudential Indicators for 2025-26, which were set in February 2025 as part of the Authority’s Treasury Management Strategy Statement.

Changes to the 2025-26 and later programmes may occur as these are progressed in the coming months.

Compliance with Capital Finance Prudential Indicators

The Local Government Act 2003 requires the Authority to have regard to CIPFA’s Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure

The Authority’s planned capital expenditure and financing as at 30.9.2025 may be summarised as follows.

Capital Expenditure and Financing	2025-26 Original £m	2025-26 Changes £m	2025-26 Draft Outturn £m	2026-27 Estimate £m	2027-28 Estimate £m
Total Expenditure	126.6	(34.7)	91.9	98.5	29.0
Capital Receipts	2.1	-	2.1	2.2	-
External Grants	82.0	(26.8)	55.2	31.5	0.9
Other External Funding (\$106 etc)	0.1	-	0.1	-	-
Borrowing	42.4	(7.9)	34.5	61.8	28.1
Total Financing	126.6	(34.7)	91.9	98.5	29.0

Key Messages:

The percentage of the Council’s income required to service its debt came in below projections due to a combination of reprofiling the capital programme and the effect of using short-term lenders which offered lower interest rates and delivered in-year cost-savings.

Future year projections on the other hand have been adversely affected by the sharp rise in longer term rate expectations during the period. Maintaining debt costs within 10% of the Council’s overall budget is now susceptible to several factors beyond the Authorities control including rates (cost of borrowing) and inflation (cost of schemes being financed).

Compliance with Capital Finance Prudential Indicators (contd.)

Ratio of Financing Costs to Net Revenue Stream

This is a voluntary indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income. The Section 151 Officer considers 10% to be a prudent limit.

Ratio of Financing Costs to Net Revenue Stream	2025-26 Original Estimate %		2025-26 Revised Estimate %	2026-27 Estimate %	2027-28 Estimate %
General Fund	8.8%		6.5%	8.7%	9.7%

There are a range of factors that affect these future estimates, some internal, such as returns delivered by capital investment in terms of future income, and others which are external and largely out of the Authority’s control, such as the impact of interest rate changes. Any future borrowing must be in accordance with prudential borrowing principles. In other words, borrowing must always be affordable, sustainable and prudent.