AUDIT & GOVERNANCE COMMITTEE

DATE	5 November 2026
REPORT OF	Guy Lonsdale, S151 Officer
SUBJECT	Treasury Outturn H1 2026-27
STATUS	Open

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 2026-27 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 and Treasury Indicators	**2026-27 Approved Budget £'m**	**H1 2026-27 £'m**	**2026-27 Outturn £'m**
Capital Expenditure	**130.9**	**30.0**	**111.0**
Capital Financing Requirement	**292.2**	**248.7**	**270.5**
Authorised Borrowing Limit	**335.0**	**335.0**	**335.0**
Operational Boundary	**290.0**	**290.0**	**290.0**
External Borrowing	**233.4**	**194.2**	**212.6**
Investments >365 days	**11.0**	**0.0**	**0.0**

RECOMMENDATIONS

Audit & Governance Committee is requested to:

1) Consider the content of the report and make any recommendations to Cabinet as necessary in respect of treasury management activity during 2026-27.

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 (this Report) 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 2026-27 was developed in consultation with our treasury management advisors, Arlingclose Ltd. This statement also incorporates the Investment Strategy.

1.3 Whilst the Council has appointed Arlingclose to support effective treasury management arrangements, the Council is ultimately responsible for its treasury decisions and activity. It is important to note that 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 Treasury activity:

Entering 2026-27, period end borrowing levels were forecast to be around £226.4m. Actual borrowing at period end stood at £187.7m and the revised year end forecast is £205.6m. This change was primarily due to slippage of schemes within the Capital Programme, although this was partially offset by temporary borrowing required to fund SEND deficits. As investment rates remained elevated the marginal cost of carry on this

temporary debt was easily managed within budget. As investment rates remained elevated the marginal cost of carry on this temporary debt was easily managed within budget.

- Overall Treasury is on course to deliver an outturn position £2.2m below the original 2026-27 budget.

- Borrowing costs are expected to rise going forward and are now projected to be above 10% of overall Net Budgets by the end of the current MTFP period. This an important indicator of prudence and affordability and capital spend plans may need to be adjusted over coming periods if external factors (rates) remain elevated. Due to the long-term nature of many capital projects any action may need to be taken, well before the indicator is reached, although some capacity is retained within the current capital investment programme to allow spend to be massaged, without removing schemes, in the first instance.

- During 2026-27:

    - The financial year was largely dominated by the conflict in the Middle East and its impact on global energy prices and inflation.
    - In UK politics, Andy Burham became the new Prime Minister.
    - Bond yields in both the US and UK increased markedly over the period. These rates have a direct correlation to the rates the Authority pays on its borrowing.
    - Bank of England rates started the year at 3.75% and remained at that level throughout the period. This would normally equate to a stable cost of short-term borrowing but distortions in the LA lending market as a consequence of SEND deficits having to be funded by Authorities across the country led to significant liquidity premia becoming a feature of that market.
    - Longer term rates were also volatile due to higher inflation expectations and new issuance supply from not just sovereign nations around the World but also major corporates seeking to fund AI infrastructure build out. More than once, longer-term rates hit millennial highs during the period.

- The Authority has deliberately favoured short-term borrowing in recent years, maintaining flexibility while awaiting the anticipated decline in interest rates following the reduction in inflation following the post-Covid peak and US tariff shock. However, geopolitical tensions resurfaced with the US-Iran conflict and its implications for inflation and energy markets have led many market participants, including the Council, to revise their expectations towards a higher-for-longer rate environment.

- Our response has been to adjust our reliance on sub one-year investments and selectively extending the duration of new lending to lock in attractive yields before rates begin to fall. Investment income remains robust and continues to provide valuable support to Council services.

- Higher investment returns, even with our cautious approach, has generated surplus income (above budget) of £0.4m during the period, income which is available to fund frontline services. Underspend on borrowing provided another £1.3m for distribution, across Council in support of services

- A Debt Financing Reserve is maintained to provide resilience against the impact of potential higher cost of debt in future years.

- 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 it's 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 its environmental sustainability and equalities implications are the same as for the Council itself.

2.4 The Authority will have regard to the environmental and equality activities of its Counterparties (where reported) but

- Prioritises Security, Liquidity and Yield,
- 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 such exposures are small parts 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.

2.5 **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 31 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 As set out in the Appendices.

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 younger residents, over time, relevant to other demographics. In a similar way, the benefits arising from capital schemes funded by that borrowing will accrue to the advantage of younger residents, as has been the case for all previous generations, and will continue to be so in future.

7. CLIMATE CHANGE, NATURE RECOVERY AND ENVIRONMENTAL IMPLICATIONS

7.1 In line with the Authority's declaration of a Climate Emergency, the Interim S151 Officer will aim to assess and monitor, not just Environmental but all, 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 a 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. PUBLIC HEALTH, HEALTH INEQUALITIES AND MARMOT IMPLICATIONS

8.1 There are no direct public health, health inequality, or Marmot implications arising from this Report. The treasury implications for these areas are consistent with those for the Authority as a whole.

8.2 The strategy's focus on security and liquidity helps protect the council's ability to respond to unforeseen pressures, in any area of activity.

9. FINANCIAL IMPLICATIONS

9.1 As set out in the appendix.

10. MONITORING COMMENTS

10.1 In the opinion of the author, this report does not contain recommended changes to policy or resources (people, finance or physical assets). As a result, no monitoring comments have been sought from the Council's Monitoring Officer (Chief Legal Officer) or AD People and OD.

11. BACKGROUND PAPERS

11.1 CIPFA Treasury Management Code and Guidance Notes

11.2 Treasury Management Strategy Statement 2026-27

11.3 Capital Strategy Statement 2026-27

11. CONTACT OFFICER(S)

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Guy Lonsdale,
Section 151 Officer

Treasury Half-year Report 2026/27



Contents

Glossary	Page 3
Director of Finance Overview	Page 4
Introduction and External Context	Page 5
Local Context	Page 7
Borrowing	Page 8
Investments	Page 12
Treasury Prudential Indicators	Page 16
Capital Finance Prudential Indicators	Page 20



Abbreviations Used In This Report

CDS: Credit Default Swaps. Financial contracts in which the buyer purchases protection against loses 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 borrow 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 2026-27 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 rise from their current level of 3.75% to somewhere in the range 4-4.5% over the next 12 months. 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 robust liquidity and finally seeking appropriate investment return, consistent with those two primary objectives.

The main functions of Treasury can be divided into 4 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.

Our 2026/27 Treasury Strategy has, once again demonstrated its resilience, enabling the Council to manage investment and financing risks effectively despite persistent inflation, elevated interest rates and ongoing geopolitical volatility. A key measure of successful treasury management is the ability to perform in conditions that differ significantly from those anticipated at the start of the year. The Strategy has continued to protect the Council's priorities of security and liquidity while delivering strong investment returns. As interest rate expectations and market dynamics evolve, we are refining our borrowing approach to ensure the Treasury Strategy continues to support the Authority's wider financial objectives.

In recent years, the Authority has tactically favoured short-term borrowing to retain flexibility while awaiting an anticipated decline in interest rates following the falls in inflation after the post-Covid peak and US tariff shocks. However, geopolitical tensions have now resurfaced with the US-Iran conflict and its implications for inflation and energy markets have led many market participants, including the Council, to revise their projections towards a higher-for-longer rate environment. Our response has been to adjust reliance on sub one-year loans and selectively extend the duration of new lending to remove some interest rate risk while still ensuring liquidity is maintained. Investment income remains robust and continues to provide valuable support to council services.

Guy Lonsdale, Interim S151 Officer
Oct 2026



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 (Arlingclose), 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 2026-27. 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 2026-27 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 2026-27;
- A review of the Council's borrowing strategy for 2026-27;
- A review of any debt rescheduling undertaken during 2026-27;
- A review of compliance with Treasury and Prudential Limits for 2026-27.

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 S151 Officer confirms that we have complied with the requirement under the Code to give Audit Committee prior scrutiny to this treasury report before it was reported to 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 2026, our advisors, Arlingclose, are forecasting that Bank Rate will remain at its current 3.75% level but that the risks are very much to the upside. The market certainly feels rises will be necessary to contain second round effects from the middle east conflict.

Longer term rates remain close to 30-year highs due to inflation expectations and a number of structural factors.

Introduction and External Context (contd)

The key story of the period was the conflict in the Middle East and its impact on global energy prices and inflation, while on the UK politics side, Andy Burham became the new Prime Minister. Oil and gas prices rose sharply once again in Q3. Around mid-September, Brent oil and UK gas prices were over 30% and 70% higher respectively compared to the period preceding the Bank of England's previous inflation estimates in the July Monetary Policy Report (MPR). Although the Policy Committee voted to maintain bank rate at 3.75% by 6-3 in September it commented specifically that inflation risks were now very much to the upside.

Bond yields in both the US and UK increased markedly over the period, with the gap between gilts and US Treasuries tightening towards the end of the period. While term premia are still embedded in gilt yields, given the relatively uncertain fiscal outlook, a more hawkish Fed alongside persistent US inflation and fiscal concerns have pushed the yields on US Treasuries to their highest levels in years.

The Council has appointed Arlingclose as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. Arlingclose now expect that rates will remain at 3.75% in 2026/27. We can foresee some increases beyond that. It is important to note that PWLB term rates are built on a combination of forecast rate and inflation paths and have therefore already risen sharply during the period, to 30-year highs in some cases. The Authority's borrowing costs are expected to rise significantly over the next 3 years as capital spend is committed and existing debt matures and is replaced. This is now likely to test our 10% of Revenue Prudential Indicator (see Slide 21). Further budget pressures may appear if material capital items are re-profiled (into a more expensive rate environment), although higher rates do improve our investment returns.

Key economic data during the period saw:-

- Official bank rate remained unchanged at 3.75%.
- Short, medium and long-dated gilt yields however rose markedly on concerns around structural inflation, issuance and restricted fiscal flexibility.
- Despite all the headwinds the UK economy surprised to the upside with GDP growth coming in at 0.5% in Q1 and 0.4% in July
- CPI inflation ebbed and flowed but finished the period at 3.1%, whilst core inflation, which removes some volatile items, was steady at 2.6%.
- Labour market data continued to show softening employment conditions. The unemployment rate fell to 4.9% in April and remained at that level to July, against expectations it would tick up.

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 2026-27 was approved by this Council in February 2026. No changes are considered necessary despite the continued inflation and rate uncertainty.

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 £71m over the next few years. A further £80m will be required to replace maturing loans.

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

Local Context

The Treasury Management Strategy Statement, (TMSS), for 2026-27 was approved by this Council on 19 February 2026.

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 2026 Principal	Rate/ Return	Average Life yrs		30 September 2026 Principal	Rate/ Return	Average Life yrs
Total debt	£178.1m	3.97%	15.4y		£187.7m	3.96%	14.4y
Capital Financing Requirement (CFR)	£236.5m				est£248.7m		
Over / (under) borrowing	(£58.4m)				(£61.0m)		
Total investments	£12.5m	3.66%	0.02y		£15.8m	3.70%	0.02y
Net debt	£165.6m				£171.9m		

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 30/09/2026 the Authority held £188m of loans, (up £9m in the period) reflecting the funding of prior years' and current 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 key borrowing control 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 2026-27 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.

	2026/27 Outturn Original Estimate £m	Mid-year Position 30/09/2026 £m	Revised 2026/27 Final Position £m
Borrowing	226.4	187.7	205.6
Other Long Term liabilities	7.0	6.5	7.0
Total debt	233.4	194.2	212.6
CFR (year end position)	292.2	248.7 (est)	270.5 (est)

The structure of our debt portfolio as at 30.09.2026 is shown below

Type of Loan	Amount	% of Portfolio
PWLB Fixed	£100.7m	54%
LOBO	£1.0m	1%
Market Fixed	£36.0m	19%
Short-term Fixed	£50.0m	26%
Variable Rate	£0.0m	0%
Total	£187.7m	

*Figures are rounded so may not aggregate to total shown



Key Messages:

Affordability and the "cost of carry" remained strong influences on the Authority's borrowing strategy. As interest rates rose, we arranged £73.5m 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 funding below current long-term rates and with the ability to exit loans within a reasonable timeframe.

At current projections, future borrowing will be more expensive than current portfolio average rates

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.

- It is anticipated that further borrowing will be undertaken during the 2026-27 financial year, and beyond.

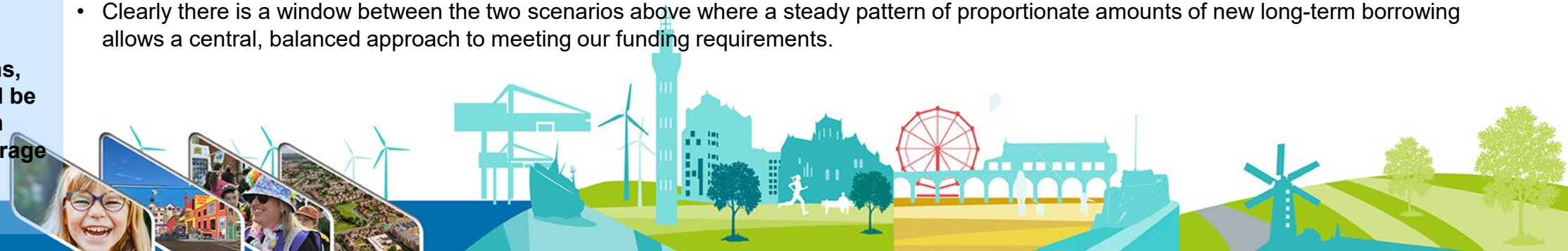
- The policy of delaying new borrowing by utilising spare cash balances and securing short-term loans from other local authorities, has served well in recent years. However, rates have now moved structurally higher, and we are conscious that the Authority has a significant long-term borrowing requirement to finance its capital spend and so, for the remainder of the financial year we will look to meet cash flow requirements through new borrowing but limit the impact by maintaining lower balances. All types of borrowing will be kept under review, with a default view that a 'mix' of short (where possible) and long-term transactions to reduce our dependence on renewal rates now makes sense from a risk management perspective.

- 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 persistent 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 inflation shocks or Sterling weakness, then the portfolio position would be re-appraised. Our starting point in such circumstances would be to be selective on 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 a steady pattern of proportionate amounts of new long-term borrowing allows a central, balanced approach to meeting our funding requirements.



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.

Signs that long-term rates may have been approaching a peak in 2025-26 evaporated and rates moved higher again in the first half of 2026-27. By period end rates were close to 30 year highs. This has led us to review our strategy of deferring all long-term borrowing.

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 November 2024 Local Loans (Increase of Limit) Order raised the statutory PWLB lending limit to £135bn, which is also the maximum ceiling currently permitted by the National Loans Act 1968 as amended by the Finance Act 2020. Any further increase would require primary legislation which means action by PWLB would be needed well in advance of approaching the limit in order to maintain their status as 'lender of last resort'. This may include raising its margin.

The past six months has seen ongoing pressure exerted on medium and longer dated gilt yields. The yield on the key 10-year gilt rose from 4.4% in late February just prior to attacks on Iran commencing to 5.2% in May as markets sought to assess medium-term impacts. Rates then eased back as ceasefires came and went, before rising again to above 5.4% by period end. NB These are gilt rates and the margins above have to be applied to get to the rate at which NELC can borrow funds. The change in rates is consistent across both though. This added demand to the short-term LA lending market already under stress from increased call for sub-1 year funds to bridge gaps to SEND deficit payments. Spreads widened and were occasionally at levels above PWLB.

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. Any forward starting short-term loans arranged were secured to meet a portion of the anticipated requirement over the next year, at rates below prevailing PWLB.



Key Messages:

Several loans were agreed during 2026-27 to support the Council's Capital Plans and refresh maturing loans.

No debt rescheduling was arranged during the period.

Rates are currently expected to rise slightly and remain elevated over the next 2 years.

Borrowing Strategy (continued 3)

Borrowing – the following loans were arranged during the period:

Counterparty	Start Date	Maturity Date	Amount	Rate
Middlesbrough Council	28/04/2026	29/06/2026	£10m	4.05%
Lincolnshire County Council	30/04/2026	30/10/2026	£7m	4.50%
Liverpool City Combined Authority	30/04/2026	15/12/2026	£10m	4.15%
West of England Combined Authority	01/06/2026	31/03/2027	£5m	4.10%
Wealden District Council	04/06/2026	04/12/2026	£5m	4.15%
Middlesbrough Council	29/06/2026	17/11/2026	£5m	3.96%
London Borough of Redbridge	06/07/2026	30/09/2026	£5m	4.10%
Middlesbrough Council	31/07/2026	23/09/2026	£5m	4.05%
Thames Valley Police and Crime Commissioner	31/07/2026	30/09/2026	£5m	4.05%
North Warwickshire Borough Council	21/08/2026	20/11/2026	£1.5m	3.95%
PWLB	18/09/2026	17/09/2028	£5m	5.40%
Middlesbrough Council	23/09/2026	25/11/2026	£5m	4.15%
PWLB	30/09/2026	29/09/2028	£5m	5.42%

Two themes were prevalent during the period.

- liquidity in the Local Authority lending market started tight and only got worse from there. This was due to a number of factors but key among them was the demand for borrowing created by SEND deficits up and down the country.
- With our own SEND deficit position to manage, as soon as signs of a s 90% support payment began to be signalled for Q3 we stacked a corresponding amount of temporary loans into December. These will be allowed to run off as soon as possible after the funds are received.

Debt rescheduling

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



Key Messages:

The Authority has held significant invested funds, representing income received in advance of expenditure plus 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 on course to generate £1m of income from its treasury investments during 2026-27.

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 2026-27 total investment balances ranged between £13.1m and £41.0 million. The average balance maintained was £29m with a weighted average maturity of 8 days. All these figures are lower than 2025/26 as we looked to avoid adding new debt for as long as possible. During the period our target rate of SONIA was 3.73%. We matched the benchmark (achieving an average return of 3.73%).

Our investments generated £0.538m of income during the first half of 2026-27 and are on target to generate around £1m of income for the Authority in the full year to 31 March 2027.

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 2026-27 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. Bank balance sheets have, thus far, coped well with global rates moving rapidly from zero to 5% in recent years. Such resilience 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 (contd)

Investments	Balance on 31/03/2026 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 30/09/2026 £m	Avg Rate/Yield (%) and Avg Life (years)
UK Government:					
- DMADF	7.1	259.1	(257.4)	8.8	3.72% 8 days
- Treasury Bills/Gilts	0.0	4.0	(4.0)	0.0	3.91% 46days
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	0.5	23.9	(23.5)	0.9	3.23% 3 days
- rated below A-	-				
Tradable Investments with Financial institutions Corporates (CDs) rated A- or higher	0.0	1.0	(1.0)	0.0	3.98% 39 days
Money Market Funds	4.9	45.3	(44.1)	6.1	3.79% at Call
TOTAL INVESTMENTS	12.5	333.3	(330.0)	15.8	3.73% 8 days
Increase/ (Decrease) in Investments £m				3.3	

*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 against 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).

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
31/03/2026	2.91	AA
30/06/2026	2.80	AA
30/09/2026	2.96	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 stable and low during the period as it became clearer that the impact of the structural shift to higher global rates 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 of tenors that suited our liquidity requirements haven'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. We did own one Nordic Investment Bank AAA-rated bond to maturity.
- 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. 2)

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 £132m (estimated) vs £22m at NELC
- Invest for longer periods. 498 days on average vs only 7 days at NELC
- Take more risk than us collectively.
- Deliver higher return than us. 3.81% vs 3.71 at NELC% but this needs to be viewed against the higher duration carried above.

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 £6m.

Also important to note that the benchmarking group pays a lower average rate of 3.8% on its aggregated £31Bn of debt vs 4.0% at NELC.

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 2026-27, which were set in February 2026 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:

	2026-27	2027-28	2028-29
Upper limit on fixed interest rate exposure	£330m	£340m	£340m
Actual/Forecast	£138m	£200m (est)	£213m (est)
Upper limit on variable interest rate exposure	£80m	£80m	£80m
Actual/Forecast	£61m	£45m (est)	£45m (est)

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%	35%
12 months and within 24 months	30%	0%	8%
24 months and within 5 years	30%	0%	9%
5 years and within 10 years	30%	0%	5%
10 years and within 20 years	30%	0%	8%
20 years and within 30 years	50%	0%	20%
Over 30 years	75%	10%	16%

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.



Prudential Indicators (The Liability Benchmark.)

Key Messages:

A minimum cash balance of £6m will be maintained to ensure forecast liquidity needs are met.

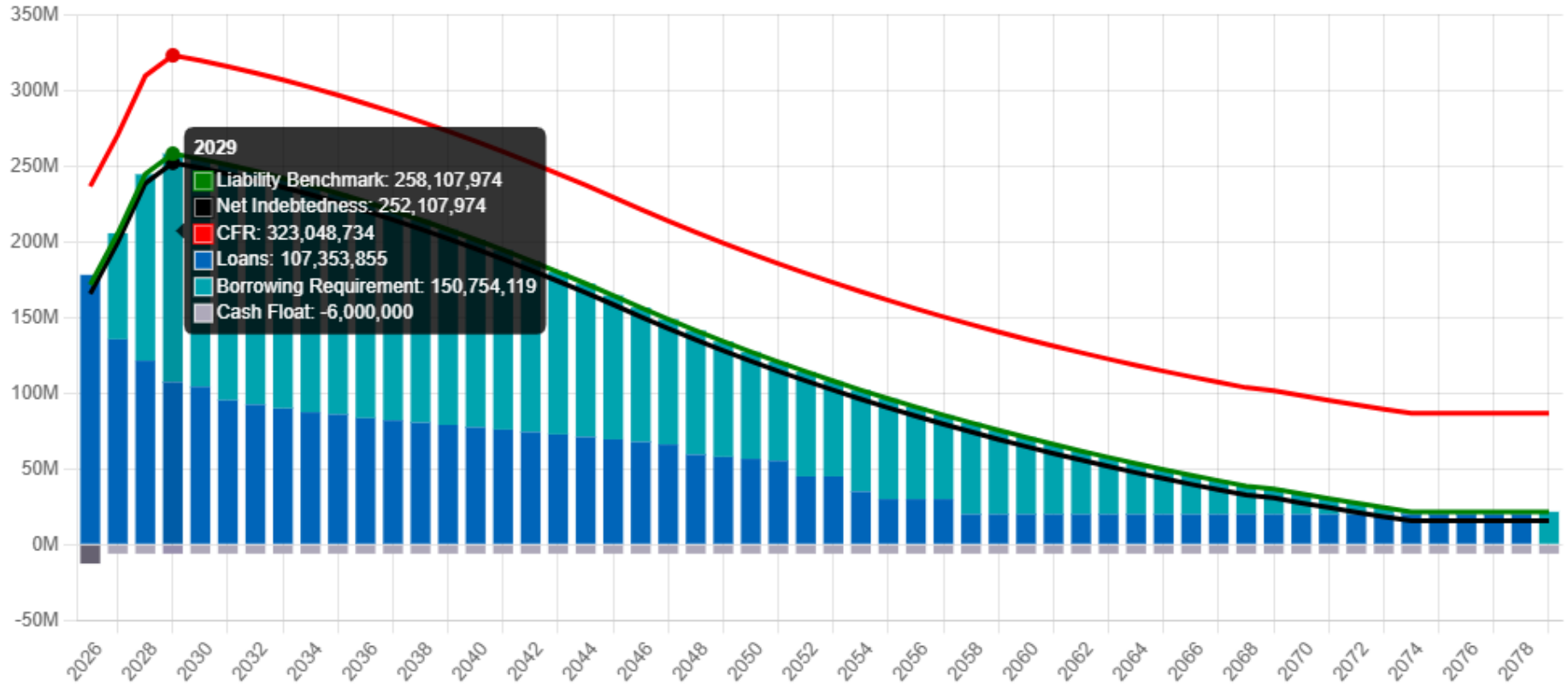
The gap between the blue columns and green line in the Liability Benchmark chart shown here depicts the additional borrowing need the Authority currently projects – a peak requirement of £151m new loans by the end of 2028-29 – including replacement of maturing debt.

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 prudency, with revisions made where necessary.

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 2026-27 a minimum cash level of £6m 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:

	2026/27	2027/28	2028/29
Limit on principal invested beyond 366 days	£1m	£1m	£1m
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	£6m	£13m



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 £226m at the end of 2026-27 when the TMSS was set in Feb 2026. Half-way through the year this outturn is now projected to be £206m due to changes in anticipated delivery of the Capital Programme.

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

Compliance with Prudential Indicators (contd. 2)

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	2026/27 £m	2027/28 £m	2028/29 £m
Borrowing	270	280	290
Other long-term liabilities	20	20	20
Boundary for Total Debt	290	300	310

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 2026-27 the Council has maintained gross borrowing within its authorised limit.

Authorised Limit	2026/27 £m	2027/28 £m	2028/29 £m
Borrowing Limit	310	330	340
Other long-term liabilities	25	25	25
Total Debt Limit	335	355	365
Projected Peak Debt levels	206	245	258

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 2026-27, which were set in February 2026 as part of the Authority's Treasury Management Strategy Statement.

Changes to the 2026-27 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 indicators on the following pages that must be approved and monitored each year.

Estimates of Capital Expenditure

The Authority's planned capital expenditure and financing as at 30.9.2026 may be summarised as follows.

*Figures may not agree exactly to totals due to rounding

Capital Expenditure and Financing	2026-27 Original £m	2026-27 Changes £m	2026-27 Draft Outturn £m	2027-28 Estimate £m	2028-29 Estimate £m
Total Expenditure	130.9	-19.9	111.0	85.0	47.9
Capital Receipts	3.4	-	3.4	3.9	3.2
External Grants	68.8	-4.0	64.8	31.3	19.4
Other External Funding (S106 etc)	0.1	-0.1	0.0	0.0	0.0
Borrowing	58.7	-15.8	42.9	49.8	25.3
Total Financing	130.9	-19.9	111.0	85.0	47.9



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, and his predecessor, have long-considered 10% to be a prudent limit given the many competing pressures the Authority faces.

Ratio of Financing Costs to Net Revenue Stream	2026-27 Original Estimate %	2026-27 Revised Estimate %	2027-28 Estimate %	2028-29 Estimate %
General Fund	8.47	7.76	9.74	10.51

Whilst the final year of the forecast currently shows this indicator being exceeded, there are a range of factors that can 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 movements and inflation. CIPFA require that any future borrowing must be in accordance with prudential borrowing principles. In other words, borrowing must always be affordable, sustainable and prudent. The position will therefore be kept under close review and action taken as necessary to ensure continuing compliance. Since capital projects can have long lead-in times, this may require remedial action to be taken well before the indicator is reached, although some capacity is already retained within the current capital investment programme to allow spend to be massaged, without removing schemes, in the first instance.

