REDDITCH BOROUGH COUNCIL

Executive Committee 24th November 2026

Q2 Treasury Management Strategy Report 2026/27

Relevant Portfolio Holder	Councillor Warhurst – Portfolio Holder for Finance and Governance
Portfolio Holder Consulted	Yes
Relevant Head of Service	Debra Goodall
Report Authors	Assistant Director of Finance and Customer Services Debra.Goodall@bromsgroveandredditch.gov.uk
Wards Affected	All Wards
Ward Councillor(s) consulted	No
Relevant Strategic Purpose(s)	All
Key Decision	
If you have any questions about this report, please contact the report author in advance of the meeting.	

1. SUMMARY

The purpose of this report is to set out a 6 month update on the Council's Capital and Treasury Management Strategies, including all prudential indicators.

2. RECOMMENDATIONS

The Executive are asked to:

- **Note the Council's Treasury performance for Q2 of the financial year 26/27.**
- **Note the position in relation to the Council's Prudential indicators.**

3. BACKGROUND

Introduction

3.1 The Authority has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve, as a minimum, treasury management semi-annual and annual outturn reports.

3.2 This quarterly report provides an additional update and includes the requirement in the 2021 Code of quarterly reporting of the treasury management prudential indicators. The non-treasury prudential indicators are incorporated in the Authority's normal quarterly revenue report.

External Context

3.3 **Economic background:** The key story remained 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. Although energy prices had shown signs of moderating towards the end of (calendar) Q2, the continuing conflict pushed oil and gas up 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 (BoE) July Monetary Policy Report (MPR).

3.4 Given the inflationary impact of the previous energy shock from the Russia/Ukraine war, central bank policymakers remained alert to higher energy prices feeding into wider price and wage-setting behaviour ('second-round effects'). In the UK, higher fuel and energy prices were evident in headline inflation, but there was limited evidence of material second-round effects. At the same time, underlying wage pressures continued to moderate, and the labour market remained relatively loose.

3.5 The BoE's Monetary Policy Committee (MPC) maintained Bank Rate at 3.75% throughout the period. In April the MPC voted by 8-1 to leave rates unchanged, with one member wanting a 0.25% increase. The voting subsequently became more hawkish, moving to 7-2 in June and 6-3 in both July and September, with all dissenters preferring to increase Bank Rate to 4.00%. The change in voting patterns reflected increasing policymaker concern over the persistence of the energy shock and the risk that higher headline inflation could become embedded in domestic prices and wages.

3.6 At the September MPC meeting, the Committee judged the inflation risks were further to the upside compared to its July MPR. Energy prices had risen again and borrowing costs were materially higher than before the US/Iran conflict. Despite expecting inflation would rise further in the near-term, most members believed that a soft labour market, spare capacity and restrictive monetary conditions would reduce inflation over time. Moreover, the data showed there was still little evidence of material second-round effects, although the MPC emphasised that the risk of these effects would increase the longer elevated and volatile energy prices persisted.

3.7 UK headline consumer price inflation (CPI) initially declined, suggesting the initial energy shock was not spreading into a wider range of goods and services. However, later in the period inflation picked up again, with CPI rising from 2.6% in June to 3.1% in August due largely to higher transport costs. Core CPI was 2.6% in July and August, suggesting the divergence between that and headline inflation was due to energy rather than a broad increase in underlying inflation.

3.8 UK economic activity was somewhat stronger than initially anticipated over the period. GDP expanded by 0.6% in the first quarter of the calendar year and 0.5% in the second quarter, slightly stronger than the initial estimate of 0.4%. Monthly activity was more volatile, with a contraction of -0.1% in April, followed by gains of 0%, 0.3% and 0.4% in May, June and July respectively.

3.9 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. Job vacancies also continued to decline, to 702,000 in the three months to July. Earnings growth moderated, with regular earnings at 3.5% in the three months to July and total earnings at 3.9%, suggesting weaker labour demand was continuing to restrain domestic wage pressures.

3.10 Arlingclose, the authority's treasury adviser, expects Bank Rate will stay at 3.75%. Higher energy prices due to the ongoing conflict(s) and uncertainty around the government's upcoming Budget have increased the near-term upside risks. Moreover, stronger inflation projections, which accompanied the September MPC decision, shifted market expectations for Bank Rate higher. In addition, despite little evidence of second-round effects to date, the changing tone of the MPC minutes suggests it may not need something seismic to tip the Committee to increase Bank Rate.

3.11 The US Federal Reserve held the Fed Funds target range at 3.50%-3.75% through to July. Inflation pressures rose during the summer, pushing headline CPI to 3.4% in August, with higher petrol prices accounting for much of the increase. This led the Fed to raise its target range to 3.75%-4.00% in September. The move reflected increased concern over inflation at a time when US economic activity and labour-market conditions were relatively resilient.

3.12 Following a 0.25% increase in June, the European Central Bank raised its three key policy rates by a further 0.25% in September, taking the deposit facility rate to 2.50%. Inflation increased from 2.9% in July to 3.2% in August, and an initial estimate suggested a further rise to 3.8% in September, with energy prices the principal driver. The ECB emphasised the uncertainty around the duration of the energy shock and the risk prolonged higher inflation could feed into wider price-setting.

3.13 **Financial markets:** After the sharp deterioration early in the period, financial market sentiment improved somewhat as there were ongoing hopes that the US/Iran war would be resolved. However, towards the end of the period, signs of any potential resolution appeared premature and oil prices rose alongside inflation and bond yields while equity market volatility increased as investors weighed conflict-related as well as AI-related concerns.

3.14 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.

3.15 Some relatively market-friendly announcements were made by Andy Burham in his speech at the Labour Party conference, but it will be the Budget at the end of October that will hopefully provide some clarity on what the UK's fiscal position might look like going forward.

3.16 Over the period, the 10-year UK benchmark gilt yield started at 4.86% and ended at a high of 5.43%. The 20-year gilt yield starting at 5.45% and finished at 5.93%, another high for the period. The Sterling Overnight Rate (SONIA) averaged 3.73% over the period to 30th September.

3.17 **Credit review:** Arlingclose maintained its advised recommended maximum unsecured duration limit on the majority of the banks on its counterparty list at 6 months. The other banks remain on 100 days.

3.18 During the period, Fitch upgraded numerous banks due to a rating methodology change, as well as the reference obligations used for Issuer Default Ratings and introduced more differentiated notching between deposits, senior preferred, senior unsecured and senior non-preferred debt ratings.

3.19 Later in the period, Moody's changed the outlook on HSBC to Positive from Stable, while also affirming its long-term deposit rating. This follows a similar action from S&P on HSBC's outlook a few months prior to this.

3.20 After spiking in April following escalation in the Iran war, credit default swap prices on UK banks declined during most of the period but started to pick up again in September. They ended the period well below levels that may give cause for concern but remain under constant monitoring.

3.21 European banks' CDS prices followed a similar pattern to the UK, while Canadian bank CDS prices rose early in the period and then remained at similar levels, while Australian and Singaporean banks tended to trend downwards.

3.22 Overall, at the end of the period CDS prices for all banks on Arlingclose's counterparty list remained within limits deemed satisfactory for maintaining credit advice at current durations.

3.23 Financial market volatility is expected to remain a feature, at least in the near term and, credit default swap levels will continue to be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remain under constant review.

Local Context

3.24 On 30th September 2026, the Authority had £24.92m net borrowing arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.26 Actual £m	**30.9.26 Actual £m**
General Fund & Regeneration CFR	32.26	33.22
HRA CFR	137.60	138.20
Total CFR	**169.86**	**171.42**
External borrowing**	109.93	103.93
Internal borrowing	**59.93**	**67.49**
Less: Usable reserves	-30.11	-25.80
Less: Working capital	-4.90	-4.90
Net borrowing	**24.92**	**36.79**

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt
** shows only loans to which the Authority is committed and excludes optional refinancing

3.25 The treasury management position at 30th September and the change over the quarter is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.26 Balance £m	Movement £m	30.9.26 Balance £m	30.9.26 Rate %
Long-term borrowing				
- PWLB	98.93	0	98.93	3.35%
- LOBOs				
- Other	11.00	-6.00	5.00	4.71%
Short-term borrowing				
Total borrowing	109.93	0	103.93	4.03%
Long-term investments				
Short-term investments	0.00	6.35	6.35	3.24%
Cash and cash equivalents				
Total investments				
Net borrowing	**109.93**	**11.35**	**97.58**	

Borrowing Strategy and Activity

3.26 As outlined in the treasury strategy, the Authority's chief objective when borrowing has been to strike an appropriate risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

3.27 Gilt yields have been volatile, reflecting expectations of tighter monetary policy compared to previous expectations due to the war. Long-term gilt yields are very high, with investors lacking confidence in UK fiscal plans.

3.28 The PWLB certainty rate for 10-year maturity loans was 5.62% at the beginning of the period and 6.17% at the end. Rates for 20-year maturity loans moved from 6.13% to 6.61% during the period, and 50-year maturity loans from 6.01% to 6.37%. The cost of short-term borrowing from other local authorities has been above Bank Rate during the period at 3.8% to 5.5%: costs have risen throughout the period. This is primarily due to many local authorities avoiding more expensive long term rates and relying more heavily on the short

term market. Low cash levels and the non-receipt of SEND grants are also likely to have contributed to a high borrowing demand.

3.29 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes. The Authority has no new plans to borrow to invest primarily for financial return.

3.30 **Loans Portfolio:** On 30th September, the Authority held £103.93m of loans, with a repayment movement of £6m from 31st March 2026 as per table 3 below, as part of its strategy for funding previous and current years' capital programmes.

Table 3: Borrowing Position

	31.3.26 Balance £m	Net Movement £m	30.9.26 Balance £m	30.9.26 Weighted Average Rate %	30.9.26 Weighted Average Maturity (years)
Public Works Loan Board	98,93		98,93	3.35%	23
Banks (LOBO)					
Banks (fixed term)	5.00		5.00	4.71%	25
Local authorities (long-term)					
Local authorities (short-term)	6.00	-6.00	0.00		
Total borrowing	**109.93**	**-6.00**	**103.93**		

Treasury Investment Activity

3.31 The CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (revised in 2021) defines treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

3.32 The Authority does not hold any invested funds, representing income received in advance of expenditure plus balances and reserves held. During the period, the Authority's investment balances ranged between £2.0 and £21.1 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.26 Balance £m	Net Movement £m	30.9.26 Balance £m	30.9.26 Income Return %	30.9.26 Weighted Average Maturity days
Banks & building societies (unsecured) Banks & building societies (secured deposits) Covered bonds (secured) Government Local authorities and other govt entities Corporate bonds and loans	0.00	0.00	0.00	0.0%	0
Money Market Funds	0.00	6.35	6.35	3.24%	22
Total investments	**0.00**	**6.35**	**6.35**		

3.33 Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

3.34 As demonstrated by the liability benchmark in this report, the Authority expects to be a long-term investor and treasury investments therefore include both short-term low risk instruments to manage day-to-day cash flows and longer-term instruments where limited additional risk is accepted in return for higher investment income to support local public services.

3.35 Bank Rate remained at 3.75% throughout the period with short term interest rates largely

being around this level. The rates on DMADF deposits have been constant at 3.24%.

Non-Treasury Investments

3.36 The definition of investments in the Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

3.37 Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) and Welsh Government also includes within the definition of investments all such assets held partially or wholly for financial return.

Treasury Performance

3.38 The Authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 5 below.

Table 5: Performance

	Actual £m	Budget £m	Over/ under
PWLB Maturity Loan 1	15.00		
PWLB Maturity Loan 2	25.00		
PWLB Maturity Loan 3	40.00		
PWLB Maturity Loan 4	18.93		
Barclays Loan	5.00		
Total borrowing	**103.93**	**175.00**	**-71.07**
Short-term Investments	6.35	10.00	-3.65
Total treasury investments	**6.35**	**10.00**	-3.65

MRP Regulations

3.39 On 10th April 2024 amended legislation and revised statutory guidance were published on Minimum Revenue Provision (MRP). The majority of the changes take effect from the 2025/26 financial year, although there is a requirement that for capital loans given on or after 7th May 2024 sufficient MRP must be charged so that the outstanding Capital Financing Requirement (CFR) in respect of the loan is no higher than the principal outstanding less the Expected Credit Loss (ECL) charge for that loan.

3.40 The regulations also require that local authorities cannot exclude any amount of their CFR from their MRP calculation unless by an exception set out in law. Capital receipts cannot be used to directly replace, in whole or part, the prudent charge to revenue for MRP (there are specific exceptions for capital loans and leased assets).

Compliance

3.41 The Director of Resources and Section 151 officer reports that all treasury management activities undertaken during the quarter complied fully with the principles in the Treasury Management Code and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 6 below.

Table 6: Investment Limits

	2026/27 Maximum	**30.9.26 Actual**	**2026/27 Limit**	**Complied?** Yes/No
Any single organisation, except the UK Government	**£4m each**			
UK Central Government	**Unlimited**			
Unsecured investments with banks and building societies	**£2.5m in total**			
Loans to unrated corporates	**£1m in total**			
Money Market Funds	**£20m in total**	**6.35m**		**Yes**
Foreign countries	**£5m per country**			
Real Estate Investment Trusts	**£2.5m in total**			

3.42 Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 7 below.

Table 7: Debt and the Authorised Limit and Operational Boundary

	2026/27 Maximum	30.9.26 Actual	2026/27 Operational Boundary	2026/27 Authorised Limit	Complied? Yes/No
Borrowing	175.00	103.93	170.00	180.00	Yes
PFI and Finance Leases	1.50	0	1.50	1.50	Yes
Total debt	**176.50**	**103.93**	**171.50**	**181.50**	

3.43 Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure

Treasury Management Prudential Indicators

3.44 As required by the 2021 CIPFA Treasury Management Code, the Authority monitors and measures the following treasury management prudential indicators.

Liability Benchmark

3.45 This indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £2m required to manage day-to-day cash flow.

	31.3.26 Actual	31.3.27 Forecast	31.3.28 Forecast	31.3.29 Forecast
Loans CFR	169.86	171.42	173.28	176.54
Less: Balance sheet resources	-35.01	-30.70	-28.84	-26.90
Net loans requirement	**134.85**	**140.72**	**144.44**	**149.64**
Plus: Liquidity allowance	0.20	0.20	0.20	0.20
Liability benchmark	**135.05**	**140.92**	**144.64**	**149.84**
Existing borrowing	**103.93**	**103.93**	**103.93**	**103.93**

3.46 Following on from the medium-term forecast above, the long-term liability benchmark makes assumptions regarding future capital expenditure and associated borrowing, with minimum revenue provision on new capital expenditure based on a 40-year asset life. Income, expenditure and reserves are assumed to increase by inflation of 2.0% per annum.

Maturity Structure of Borrowing

3.47 This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	Upper Limit	Lower Limit	30.9.26 Actual	Complied?
Under 12 months	50%	0%	0%	Yes
12 months and within 24 months	50%	0%	0%	Yes
24 months and within 5 years	50%	0%	0%	Yes
5 years and within 10 years	50%	0%	0%	Yes
10 years and above	100%	0%	0%	Yes

3.48 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.

Long-term Treasury Management Investments

3.49 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 prudential limits on the long-term treasury management limits are:

	2026/27	2027/28	2028/29	No fixed date
Limit on principal invested beyond year end	£0.5m	Nil	Nil	Nil
Actual principal invested beyond year end	Nil	Nil	Nil	Nil
Complied?	Yes	Yes	Yes	Yes

3.50 Long-term investments with no fixed maturity date include strategic pooled funds, real estate investment trusts and directly held equity but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Additional indicators

Security**:**

3.51 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. Unrated investments are assigned a score based on their perceived risk.

	2026/27 Target	30.9.26 Actual	Complied?
Portfolio average credit rating	A	UK Govt	Yes

Liquidity**:**

3.52 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 three-month period, without additional borrowing.

	2026/27 Target	30.9.26 Actual	Complied?
Total cash available within 3 months	Nil	Nil	Yes

Total sum borrowed in past 3 months without prior notice	Nil	Nil	Yes

Interest Rate Exposures:

3.53 This indicator is set to control the Authority's exposure to interest rate risk.

Interest rate risk indicator	**2026/27 Target**	**30.9.26 Actual**	**Complied?**
Upper limit on one-year revenue impact of a 1% rise in interest rates	500,000	0	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	500,000	0	Yes

3.54 For context, the changes in interest rates during the quarter were:

	01/04/26	30/09/26
Bank Rate	3.75%	3.75%
1-year PWLB certainty rate, maturity loans	4.94%	5.29%
5-year PWLB certainty rate, maturity loans	5.18%	5.80%
10-year PWLB certainty rate, maturity loans	5.64%	6.17%
20-year PWLB certainty rate, maturity loans	6.15%	6.61%
50-year PWLB certainty rate, maturity loans	6.01%	6.37%

3.55 The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at new market rates.

4. IMPLICATIONS

Legal Implications

4.1 A number of statutes governing the provision of services covered by this report contain express powers or duties to charge for services. Where an express power to charge does not exist the Council has the power under Section 111 of the Local Government Act 1972 to charge where the activity is incidental or conducive to or calculated to facilitate the Councils statutory function.

Service / Operational Implications

4.2 Monitoring is undertaken to ensure that income targets are achieved, with Treasury Management activities taking place on a daily basis.

Customer / Equalities and Diversity Implications

4.3 The only impact of treasury transactions is in respect of ethical investment linked to the Councils investment counterparties. Presently the Council has a limited counterparty list based on financial risk to the Authority.

5. RISK MANAGEMENT

5.1 There is always significant risk in relation to treasury transactions, this is why Councils appoint Treasury advisors, which in the case of Redditch is Arlingclose. In addition, there is the requirement in this area to provide an Annual Strategy report containing indicators/limits that must be met. Many of the Council's Corporate Risks have an indirect link to the council's financial position. The mitigations to these risks are set out in the Risk Report, of which the Quarter 2 Report will be reported to Audit, Governance and Standards Committee on 3 November 2026: COR026 - Risk of Cash Flow Strain

6. APPENDICES

None

7. BACKGROUND PAPERS

MTFP 2026/27 – February 2026 which contains this years Capital Strategy, Treasury Management Strategy and MRP Policy.

AUTHOR OF REPORT

Name: Debra Goodall – Assistant Director of Finance and Customer Services (Deputy S151)

REDDITCH BOROUGH COUNCIL

Executive Committee **24th November 2026**

E Mail: Debra.Goodall@bromsgroveandredditchbc.gov.uk