

REPORT TO: Audit & Governance Board

DATE: 19 November 2025

REPORTING OFFICER: Director – Finance

PORTFOLIO: Corporate Services

TITLE: Treasury Management 2025-26 Half Year Update

WARDS: Borough-wide

1.0 PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide an update regarding activities undertaken on the money market during the first half of the financial year to 30 September 2025, as required by the Treasury Management Policy.

2.0 RECOMMENDED: That the report be noted.

3.0 SUPPORTING INFORMATION

Economic Outlook

- 3.1 The following analysis of the economic situation has been provided by MUFG Asset Services, the Council's treasury management advisors.
- 3.2 During the six months ended 30 September 2025
- A 0.3% pick up in GDP for the period April to June 2025. More recently, 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%.
 - The Bank of England cut interest rates from 4.50% to 4.25% in May, and then to 4% in August.
 - The 10-year gilt yield fluctuated between 4.4% and 4.8%, ending the half year at 4.70%.
- 3.3 From a GDP perspective, the financial year got off to a bumpy start with the 0.3% m/m fall in real GDP in April as front-running of US tariffs in Q1 (when GDP grew 0.7% on the quarter) weighed on activity. This was still the first fall since October 2024 and the largest fall since October 2023. However, the economy surprised to the upside in May and June so that quarterly growth ended up 0.3% q/q. Nonetheless, the 0.0% m/m change in real GDP in July will have caused some concern, with the hikes in taxes for businesses that took place in April this year undoubtedly playing a part in restraining growth. Looking ahead, ongoing speculation about further tax rises in the Autumn Budget on 26 November will remain a drag on GDP growth for a while yet. GDP growth for 2025 is forecast by Capital Economics to be 1.3%.

- 3.4 With the November Budget edging nearer, the public finances position looks weak. Public net sector borrowing of £18.0bn in August means that after five months of the financial year, borrowing is already £11.4bn higher than the OBR forecast at the Spring Statement in March. The overshoot in the Chancellor's chosen fiscal mandate of the current budget is even greater with a cumulative deficit of £15.3bn. All this was due to both current receipts in August being lower than the OBR forecast (by £1.8bn) and current expenditure being higher (by £1.0bn). As a general guide, Capital Economics forecasts a deficit of about £18bn, meaning the Chancellor will have to raise £28bn, mostly through higher taxes, if she wants to keep her buffer against her rule of £10bn.
- 3.5 CPI inflation fell slightly from 3.5% in April to 3.4% in May, and services inflation dropped from 5.4% to 4.7%, whilst core inflation also softened from 3.8% to 3.5%. More recently, though, inflation pressures have resurfaced, although the recent upward march in CPI inflation did pause for breath in August, with CPI inflation staying at 3.8%. Core inflation eased once more too, from 3.8% to 3.6%, and services inflation dipped from 5.0% to 4.7%. So, we finish the half year in a similar position to where we started, although with food inflation rising to an 18-month high of 5.1% and households' expectations for inflation standing at a six year high, a further loosening in the labour market and weaker wage growth may be a requisite to UK inflation coming in below 2.0% by 2027.
- 3.6 The FTSE 100 fell sharply following the "Liberation Day" tariff announcement, dropping by more than 10% in the first week of April - from 8,634 on 1 April to 7,702 on 7 April. However, the de-escalation of the trade war coupled with strong corporate earnings led to a rapid rebound starting in late April. As a result, the FTSE 100 closed Q2 at 8,761, around 2% higher than its value at the end of Q1 and more than 7% above its level at the start of 2025. Since then, the FTSE 100 has enjoyed a further 4% rise in July, its strongest monthly gain since January and outperforming the S&P 500.

Interest Rate Forecast

- 3.7 The following forecast has been provided by MUFG Asset Services.

MUFG Corporate Markets Interest Rate View 11.08.25													
	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28
BANK RATE	4.00	4.00	3.75	3.75	3.50	3.50	3.50	3.50	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	4.00	4.00	3.80	3.80	3.50	3.50	3.50	3.50	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	4.00	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.30	3.30	3.40	3.40	3.40
12 month ave earnings	4.00	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.30	3.40	3.50	3.60	3.60
5 yr PWLB	4.80	4.70	4.50	4.40	4.30	4.30	4.30	4.20	4.20	4.20	4.20	4.10	4.10
10 yr PWLB	5.30	5.20	5.00	4.90	4.80	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60
25 yr PWLB	6.10	5.90	5.70	5.70	5.50	5.50	5.50	5.40	5.40	5.30	5.30	5.30	5.20
50 yr PWLB	5.80	5.60	5.40	5.40	5.30	5.30	5.30	5.20	5.20	5.10	5.10	5.00	5.00

Short Term Borrowing Rates

- 3.8 The bank base rate has dropped 4.25% on 8th May 2025, then again to 4% on 7th August 2025

	Mar	Apr	May	Jun	Jul	Aug	Sep
	%	%	%	%	%	%	%
Base Rate	4.50	4.50	4.25	4.25	4.25	4.00	4.00
Call Money (Market)	4.35	4.40	4.15	4.20	4.15	3.90	3.95
1 Month (Market)	4.45	4.30	4.20	4.25	4.10	4.00	3.95
3 Month (Market)	4.40	4.30	4.30	4.20	4.05	4.05	4.05

Longer Term Borrowing Rates

	Mar	Apr	May	Jun	Jul	Aug	Sep
	%	%	%	%	%	%	%
1 Year (PWLb)	4.82	4.53	4.68	4.50	4.44	4.51	4.58
10 Year (PWLb)	5.42	5.21	5.45	5.27	5.38	5.52	5.53
25 Year (PWLb)	5.98	5.90	6.12	5.97	6.11	6.29	6.23

- 3.9 Market rates are based on suggested rates provided by MUFG Asset Services. The PWLB rate shown is the Fixed Term Certainty Rate for a new loan with the principal repayable on maturity.

Borrowing and Investments

Turnover during the period

	No of deals	Turnover £m
Short Term Borrowing	8	50
Short Term Investments	10	72

Position at month-end

	Mar £m	Apr £m	May £m	Jun £m	Jul £m	Aug £m	Sep £m
Total Borrowing	232	242	232	232	222	232	252
Total Investments	(52)	(52)	(82)	(77)	(70)	(75)	(90)
Call Account Balance	(11)	(11)	(16)	(21)	(16)	(13)	(19)
Net Borrowing Position	169	179	134	134	136	144	143

Investment benchmarking

	Benchmark Return	Performance Apr - Sep	Investment Interest Earned
Benchmark	%	%	£000
7 day	4.18	3.97	362
1 month	4.18	4.25	34
3 months	4.19	4.58	241
6 months	4.22	5.08	175
9 months	4.21	4.92	654
12 months	4.21	-	-
Over 12 months	-	4.53	339
Property Fund	-	3.96	198
Total			2,004

- 3.10 The above table shows the Council has over-achieved on most benchmarks over the first six months of the year. This is mainly due to the figures above showing the interest earned over the last six months, whereas the benchmarks are based on new investments. As we are moving into a falling rate environment, this will cause a lag in the drop in interest rates received, especially for longer duration investments. The Council was also able to take advantage of the inflated rates payable by other Local Authorities during the end of the 2024/25 financial year due to limited funds being available in this market.

Note there are no benchmarks available for the Council's investment in the CCLA property fund, or for investments held over 12 months.

Budget Monitoring

Net Interest at 30th September 2025			
	Budget to Date	Actual to Date	Variance (o/spend)
	£000	£000	£000
Investments	(1,253)	(2,004)	751
Borrowings	2,129	1,770	359
Net Total	876	(234)	1,110

- 3.11 Due to having larger than expected investment balances over the first six months of the year, the Council has generated an additional £0.751m in interest over the budgeted figure of £2.0m. The borrowings costs are also £0.359m under budget due to less funds being needed due to increased cash balances generated in year.

New Long-Term Borrowing

- 3.12 The Council borrowed £30m from other local authorities during August and September 2025, each with a duration of 12 months at an average rate of 4.225%. PWLB 1 year rates were between 4.48% and 4.58% when the borrowing was taken, so this was the most cost effective way of borrowing the funds needed.

Policy Guidelines

- 3.13 The Treasury Management Strategy Statement (TMSS) for 2025/26, which includes the Annual Investment Strategy, was approved by Council on 5 March 2025. It sets out the Council's investment priorities as being:
- Security of capital
 - Liquidity
 - Yield
- 3.14 The Council will therefore aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate and the heightened credit concerns it is considered appropriate to keep the majority of investments short term and to ensure all investments are in line with Sector's credit rating methodology.

Treasury Management Indicators

- 3.15 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators were set out in the Treasury Management Strategy Statement and are reviewed in Appendix 1.
- 3.16 It should be noted that during the first six months of 2025/26 the Operational Boundary was breached. As can be seen on Appendix 1, at 30 September 2025 the Council's External Debt was £636.0m, and the Operational Boundary, set in February 2025 as part of the Treasury Management Strategy, was £613.1m.
- 3.17 The Operational Boundary is based on the expectations of the maximum debt level the Council will reach according to probable events and acts as a self-imposed limit to warn officers that borrowing levels are higher than expected. The boundary has been exceeded by £22.9m due to a technical accounting issue as detailed below. It should be noted that other than the technical adjustment below, actual borrowing levels have actually been less than originally forecast and agreed in the Treasury Management Strategy.

International Financial Reporting Standard 16 (IFRS16)

- 3.18 As part of the implementation of the accountancy standard IFRS16, the financial liability relating to PFI schemes was restated in 2024/25 and subsequent years. The new valuation of the liability is calculated using the indexed unitary charge payments made, whereas previously the liability was calculated using the unitary charge payments made when the PFI schemes were adopted. The main

change relates to the Mersey Gateway Bridge PFI scheme, whose liability increased by £46.0m as part of the 2024/25 Statement of Accounts.

Debt Rescheduling

3.19 No debt rescheduling was undertaken during the quarter.

4.0 POLICY IMPLICATIONS

4.1 None.

5.0 FINANCIAL IMPLICATIONS

5.1 The financial implications are as set out in the report.

6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

6.1 **Improving Health, Promoting Wellbeing and Supporting Greater Independence**

6.2 **Building a Strong, Sustainable Local Economy**

6.3 **Supporting Children, Young People and Families**

6.4 **Tackling Inequality and Helping Those Who Are Most In Need**

6.5 **Working Towards a Greener Future**

6.6 **Valuing and Appreciating Halton and Our Community**

There are no direct implications, however, the revenue budget and capital programme support the delivery and achievement of all the Council's priorities.

7.0 RISK ANALYSIS

7.1 The main risks with Treasury Management are security of investment and volatility of return. To combat this, the Council operates within a clearly defined Treasury Management Policy and annual borrowing and investment strategy, which sets out the control framework

8.0 EQUALITY AND DIVERSITY ISSUES

8.1 None.

9.0 CLIMATE CHANGE IMPLICATIONS

9.1 None

10.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

10.1 There are no background papers under the meaning of the Act.

Treasury and Prudential Indicators – 2025/26 – Quarter 2

	2024/25	2025/26	
Prudential Indicators	Full Year Actual £000	Original Estimate £000	Quarter 2 Estimate £000
Capital Expenditure	26,761	69,614	90,473
Net Financing Need for the Year <i>(Borrowing Requirement)</i>	7,311	48,717	39,108
Increase / (Decrease) in CFR <i>(Capital Financing Requirement)</i>	(2,412)	32,972	22,388
Ratio of Financing Costs to Net Revenue Stream <i>(Proportion of cost of borrowing to Council's net revenue)</i>	4.0%	7.8%	6.4%
External Debt <i>(Borrowing plus PFI and lease liabilities)</i>	620,700	593,099	635,975
Operational Boundary <i>(Limit of which external debit is not expected to exceed)</i>	588,274	613,099	613,099
Authorised Limit <i>(Limit beyond which external debit is prohibited)</i>	660,070	693,042	693,042

	Investment	2024/25	2025/26
Maximum Principal invested > 365 days	Limit £000	Actual £000	Actual £000
Principal Sums Invested over 365 days	40,000	25,000	25,000