

From:	Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services Interim Corporate Director – Finance
To:	Governance and Audit Committee – 26 November 2025
Subject:	Treasury Management Mid-Year Update
Classification:	Unrestricted
Future Pathway of report	County Council

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**Summary:** This report provides an overview of Treasury Management activity to the end of September 2025.

**Recommendation:** The Committee is asked to endorse this report and recommend that it is submitted to County Council.

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## 1. Introduction

- 1.1 This report covers Treasury Management activity up to the end of September 2025 and developments in 2025-26 up to the date of this report.
- 1.2 The Council's Treasury Management Strategy for 2025-26 was approved by the County Council on 13 February 2025.
- 1.3 The Council has both borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy. This report covers treasury activity and the associated monitoring and control of risk.
- 1.4 Treasury risk management at the Council is conducted within the framework of CIPFA's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
- 1.5 The Council has nominated the Governance & Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

## 2. External context

- 2.1 **Economic Update:** The following economic commentary has been provided by the Council's treasury advisor. It does not necessarily reflect the views of officers or the

County Council as a whole and some of it is quite technical in nature. However, it should be helpful in providing some context for considering borrowing and short-term investment strategies.

2.2 “The first half of 2025/26 (April to September) saw:

- 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.
- The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% to 4.8% in July.
- 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%.

2.3 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. Despite the underlying reasons for the drop, it 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. The weak overseas environment is also likely to have contributed to the 1.3% m/m fall in manufacturing output in July. That was the second large fall in three months and left the 3m/3m rate at a 20-month low of -1.1%. The 0.1% m/m rise in services output kept its 3m/3m rate at 0.4%, supported by stronger output in the health and arts/entertainment sectors. 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%.

2.4 Sticking with future economic sentiment, the composite Purchasing Manager Index<sup>1</sup> for the UK fell from 53.5 in August to 51.0 in September. The decline was mostly driven by a fall in the services PMI, which declined from 54.2 to 51.9. The manufacturing PMI output balance also fell, from 49.3 to 45.4. That was due to both weak overseas demand (the new exports orders balance fell for the fourth month in a row) and the cyber-attack-induced shutdown at Jaguar Land Rover since 1 September reducing car production across the automotive supply chain. The PMIs suggest tepid growth is the best that can be expected when the Q3 GDP numbers are released.

2.5 Turning to retail sales, and the 0.5% m/m rise in volumes in August was the third such rise in a row and was driven by gains in all the major categories except fuel sales, which fell by 2.0% m/m. Sales may have been supported by the warmer-than-

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<sup>1</sup> This is a UK set of economic indicators based on business surveys, that summarises whether market conditions are expanding, staying the same, or contracting, as viewed by purchasing managers.

usual weather. If sales were just flat in September, then in Q3 sales volumes would be up 0.7% q/q compared to the 0.2% q/q gain in Q2.

- 2.6 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). Over the first five months of the financial year, current receipts have fallen short by a total of £6.1bn (partly due to lower-than-expected self-assessment income tax) and current expenditure has overshoot by a total of £3.7bn (partly due to social benefits and departmental spending). Furthermore, what very much matters now is the OBR forecasts and their impact on the current budget in 2029/30, which is when the Chancellor's fiscal mandate bites. 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.
- 2.7 The weakening in the jobs market looked clear in the spring. May's 109,000 m/m fall in the PAYE measure of employment was the largest decline (barring the pandemic) since the data began and the seventh in as many months. The monthly change was revised lower in five of the previous seven months too, with April's 33,000 fall revised down to a 55,000 drop. More recently, however, the monthly change was revised higher in seven of the previous nine months by a total of 22,000. So instead of falling by 165,000 in total since October, payroll employment is now thought to have declined by a smaller 153,000. Even so, payroll employment has still fallen in nine of the ten months since the Chancellor announced the rises in National Insurance Contributions (NICs) for employers and the minimum wage in the October Budget. The number of job vacancies in the three months to August stood at 728,000. Vacancies have now fallen by approximately 47% since its peak in April 2022. All this suggests the labour market continues to loosen, albeit at a declining pace.
- 2.8 A looser labour market is driving softer wage pressures. The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% in April to 4.8% in July. The rate for the private sector slipped from 5.5% to 4.7%, putting it on track to be in line with the Bank of England's Q3 forecast (4.6% for September).
- 2.9 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.

- 2.10 *An ever-present issue throughout the past six months has been the pressure being exerted on medium and longer dated gilt yields. The yield on the 10-year gilt moved sideways in the second quarter of 2025, rising from 4.4% in early April to 4.8% in mid-April following wider global bond market volatility stemming from the “Liberation Day” tariff announcement, and then easing back as trade tensions began to de-escalate. By the end of April, the 10-year gilt yield had returned to 4.4%. In May, concerns about stickier inflation and shifting expectations about the path for interest rates led to another rise, with the 10-year gilt yield fluctuating between 4.6% and 4.75% for most of May. Thereafter, as trade tensions continued to ease and markets increasingly began to price in looser monetary policy, the 10-year yield edged lower, and ended Q2 at 4.50%.*
- 2.11 *More recently, the yield on the 10-year gilt rose from 4.46% to 4.60% in early July as rolled-back spending cuts and uncertainty over Chancellor Reeves’ future raised fiscal concerns. Although the spike proved short lived, it highlighted the UK’s fragile fiscal position. In an era of high debt, high interest rates and low GDP growth, the markets are now more sensitive to fiscal risks than before the pandemic. During August, long-dated gilts underwent a particularly pronounced sell-off, climbing 22 basis points and reaching a 27-year high of 5.6% by the end of the month. While yields have since eased back, the market sell-off was driven by investor concerns over growing supply-demand imbalances, stemming from unease over the lack of fiscal consolidation and reduced demand from traditional long-dated bond purchasers like pension funds. For 10-year gilts, by late September, sticky inflation, resilient activity data and a hawkish Bank of England have kept yields elevated over 4.70%.*
- 2.12 *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. Strong corporate earnings and progress in trade talks (US-EU, UK-India) lifted share prices and the index hit a record 9,321 in mid-August, driven by hopes of peace in Ukraine and dovish signals from Fed Chair Powell. September proved more volatile and the FTSE 100 closed Q3 at 9,350, 7% higher than at the end of Q1 and 14% higher since the start of 2025. Future performance will likely be impacted by the extent to which investors’ global risk appetite remains intact, Fed rate cuts, resilience in the US economy, and AI optimism. A weaker pound will also boost the index as it inflates overseas earnings.*

### **3. Local context**

- 3.1 The treasury management position on 31 March 2025 and the change over the 6 months to 30 September 2025 is shown in the following table.

	31-Mar-25	2025-26	30-Sep-25	30-Sep-25
	Balance £m	Movement £m	Balance £m	Average Rate %
Long-term borrowing	732.6	-68.1	664.5	4.3
<b>Total borrowing</b>	<b>732.6</b>	<b>-68.1</b>	<b>664.5</b>	<b>4.3</b>
Long-term investments	304.1	6.0	310.2	4.7
Short-term investments	37.9	7.3	45.1	4.0
Cash and cash equivalents	133.0	-5.1	127.9	4.1
<b>Total investments</b>	<b>475.0</b>	<b>8.2</b>	<b>483.2</b>	<b>4.4</b>
<b>Net borrowing</b>	<b>257.6</b>	<b>-76.3</b>	<b>181.3</b>	

#### 4. Borrowing update

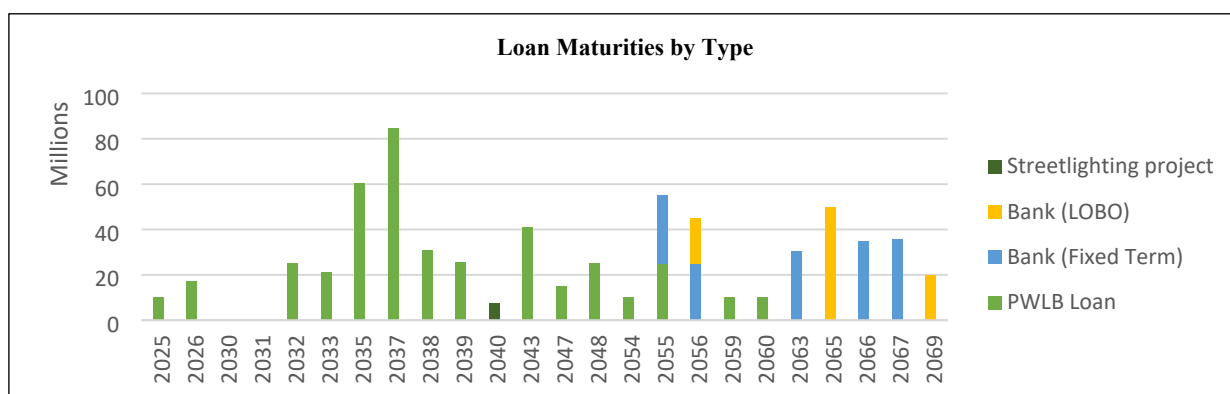
- 4.1 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, 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.

#### 5. Borrowing Strategy during the period

- 5.1 The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.
- 5.2 At 30 September 2025, the Council held £664.5m of loans as part of its strategy for funding previous capital programmes. No net new borrowing was undertaken in the half-year and £68.1m of existing loans were allowed to mature/ be repaid without replacement.
- 5.3 Interest rates showed mixed movements over the first half of the financial year. Short term rates decreased by 0.46% - 0.50%, whilst long term rates increased by 0.15% - 0.25% between the beginning of April and end of September 2025. The PWLB 10-year maturity certainty rate stood at 5.57% at 30 September 2025, 20 years at 6.14% and 30 years at 6.25%.
- 5.4 The Council continues to hold LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. Rising interest rates increases the likelihood of a lender exercising their option although no banks exercised their option during the period.
- 5.5 The Council's borrowing activity in the 6 months to 30 September 2025 is as follows:

	31/03/2025	2025-26	30/09/2025	30/09/2025	30/09/2025
	Balance	Movement	Balance	Average Rate	Value Weighted Average Life
	£m	£m	£m	%	yrs
PWLB Loans	428.5	-17.9	410.7	4.3%	14.7
Banks (LOBO)	90.0	0.0	90.0	4.1%	38.4
Banks (Fixed Term)	206.1	-50.0	156.1	4.5%	36.6
Streetlighting project	7.9	-0.3	7.7	2.9%	15.0
<b>Total borrowing</b>	<b>732.6</b>	<b>-68.1</b>	<b>664.5</b>	<b>4.3%</b>	<b>23.0</b>

5.6 The maturity profile of the Council's outstanding debt at 30 September 2025 was as follows:



## 6. Treasury investment activity

- 6.1 CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that represents balances that need to be invested until the cash is required for use in the course of business.
- 6.2 The Council holds significant invested funds representing income received in advance of expenditure plus balances and reserves held. During the period, the Council's investment balance ranged between £457.7m and £705m due to timing differences between income and expenditure.
- 6.3 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 6.4 Bank Rate decreased from 4.5% at the beginning of the year to 4% at the end of September 2025. Short-dated cash rates, which had ranged between 4.39% - 4.50% at the beginning of April, dropped by around 0.44% for overnight/7-day maturities and 0.33% for 3/6-month maturities.

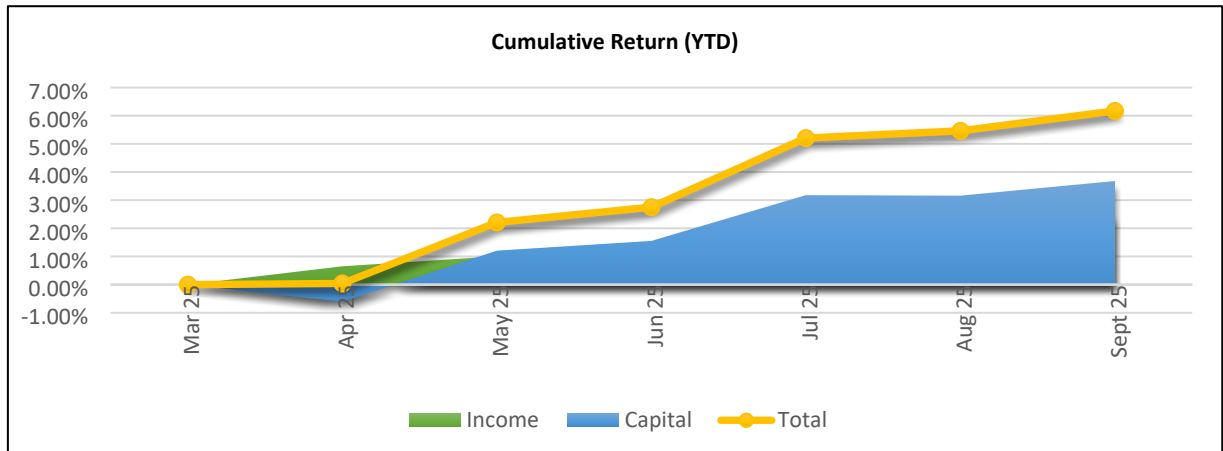
- 6.5 The Council continues to hold significant cash balances in money market funds as well as in bank call accounts which have same day availability. This liquid cash is diversified over several counterparties and money market funds to manage both credit and liquidity risks.
- 6.6 During the 6 months to 30 September 2025, the Council advanced £5.3m in new loans to the No Use Empty loans programme, while £5.8m of existing loans were repaid. At 30 September 2025, the Council had outstanding loans totalling £21.5m to the programme now achieving a return of 3.7% which is available to fund general services. With increase nor decrease in covered bonds in the 6 months, the total bond portfolio remains at £103.3m. These instruments are negotiable and have the benefit of collateral cover.
- 6.7 The Council's investments during the 6 months to the end of September 2025 are summarised in the table below and a detailed schedule of investments as at 30 September 2025 is in Appendix 1.

	31-Mar-25	2025-26	30-Sep-25	30-Sep-25	30-Sep-25
	Balance	Movement	Balance	Rate of Return	Average Credit Rating
	£m	£m	£m	%	
Call Deposits (Banks)	10.0	-1.0	9.0	3.7	A+
Money Market Funds	133.0	-5.1	127.9	4.1	AAA
Covered Bonds	103.3	-0.0	103.3	4.4	AAA
DMADF Deposits (DMO)	27.9	-21.2	6.7	4.0	AA-
Treasury Bills (UK Government)	0.0	29.5	29.5	4.1	AA-
No Use Empty Loans	22.0	-0.5	21.5	3.7	
Equity	1.3	0.0	1.3		
<b>Internally Managed Cash</b>	<b>297.5</b>	<b>1.6</b>	<b>299.1</b>	<b>4.1</b>	<b>AA+</b>
<b>Strategic Pooled Funds</b>	<b>177.5</b>	<b>6.5</b>	<b>184.1</b>	<b>5.0</b>	
<b>Total</b>	<b>475.0</b>	<b>8.2</b>	<b>483.2</b>	<b>4.4</b>	

## 7. Externally managed investments

- 7.1 The Council is invested in equity, multi-asset and property funds. Because the pooled funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives are regularly reviewed.
- 7.2 Although expected returns are higher over the long term than comparable short-term cash instruments, returns on pooled fund investments can be volatile from one year to the next, and therefore the Council only holds long term (strategic) cash balances in the strategic pooled funds' portfolio.
- 7.3 **Performance YTD** The value of our holdings increased to £184.1m at the end of September 2025, showing an unrealised gain of £6.5m (3.7%) over the period since

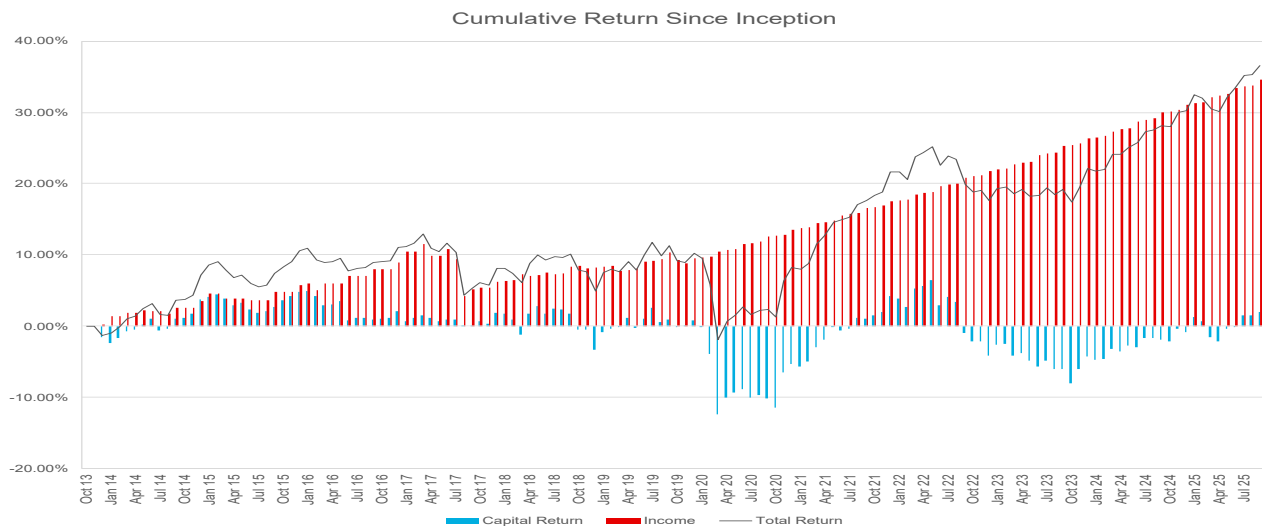
the end of March 2025. The total return (comprised of both income and capital returns) on the pooled fund investments over the 6 months since 31 March 2025 is £11m (6.2%), as shown in the table below.



7.4 The market value of the pooled fund investments as at 30 September 2025 compared to the position as at 31 March 2025 is shown in the table below.

		31-Mar-25	2025-26	30-Sep-25	30-Sep-25	
Investment Fund	Book cost	Market Value	Movement	Market Value	6 months return	
					Income	Total
	£m	£m	£m	£m	%	%
CCLA LAMIT Property Fund	60.0	55.3	0.1	55.4	2.3	2.5
CCLA Diversified Income Fund	5.0	4.7	-0.0	4.7	1.8	1.2
Pyrford Global Total Return Sterling Fund	5.0	5.5	0.1	5.6	1.6	4.2
Fidelity Global Multi Asset Income Fund	25.0	22.4	0.3	22.6	2.6	3.9
Ninety-One (Investec) Diversified Income Fund	10.0	9.1	0.2	9.3	2.4	4.7
Aegon (KAMES) Diversified Monthly Income Fund	20.0	18.6	1.0	19.6	3.2	8.7
M&G Global Dividend Fund	10.0	16.3	1.3	17.6	2.0	10.1
Schroders Income Maximiser Fund	25.0	21.9	1.5	23.4	3.80	10.7
Threadneedle Global Equity Fund	10.0	12.8	1.1	13.8	1.5	9.9
Threadneedle UK Equity Income Fund L	10.0	11.2	0.9	12.1	1.9	9.9
<b>Total Externally Managed Investments</b>	<b>180.0</b>	<b>177.5</b>	<b>6.5</b>	<b>184.1</b>	<b>2.5</b>	<b>6.2</b>

**7.5 Performance since inception:** KCC initially invested in pooled funds in 2013. By the end of September 2025 they had achieved a total income return of £62.5m, 34.6%, with an increase in the capital value of the portfolio of £4m, 2.2%. Total returns since inception have been far in excess of the returns available from cash and these instruments are an effective way of managing the Council's longer term cash balances. The following chart tracks the returns earned on the pooled funds over the period from inception.



**7.6 IFRS 9 Statutory Override:** Under the current accounting requirements governing local authorities, movements in the fair value of pooled fund investments are removed from the general fund and recognised on the Council's balance sheet. This effectively ensures the impact of volatility in the capital value of such investments does not affect the annual revenue outturn. However, the relevant accounting provision (known as the "IFRS 9 statutory override") is temporary in nature and is due to expire on 31 March 2029 (for legacy investments only) and therefore (in the absence of any future regulatory changes), the Council will begin to recognise movements in the fair value of pooled fund investments from 2029/30, including the cumulative position to date (whilst any new investments would be subject to compliance immediately). Given the uncertainty surrounding the impact of the expiry of the override, the Council recognises this risk on the Budget Risk Register.

## 8. Actual and forecast outturn (Half-Year)

**8.1** Forecast net debt costs are lower than budget; early redemption of £50m loan principal in September reduces borrowing interest costs, and yields from short-term and variable long-term cash investments have remained higher than originally forecast. However, the reduced cash available for investment as a consequence of the early debt repayments negatively impacts the forecast interest return (but by less than the savings on borrowing).

## 9. Compliance

- 9.1 The Interim Corporate Director – Finance reports that all treasury management activities undertaken during the quarter complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

## 10. Treasury Management Indicators

- 10.1 The Council measures and manages its exposures to treasury management risks using the following indicators:

- 10.2 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its internally managed 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.

Credit risk indicator	Actual 30/09/2025	Minimum
Portfolio average credit rating	AA+	AA-

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

Liquidity risk indicator	Actual 30/09/2025	Minimum
Total cash available within 3 months	£193.1m	£100m

- 10.4 **Interest rate exposures:** This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Actual 30/09/2025	Upper Limit
One-year revenue impact of a 1% <u>rise</u> in interest rates	£1.9m	£10m
One-year revenue impact of a 1% <u>fall</u> in interest rates	-£1.9m	-£10m

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

	Actual 30/09/2025	Upper limit	Lower limit
Under 12 months	1.5%	100%	0%

12 months and within 5 years	2.6%	50%	0%
5 years and within 10 years	16.1%	50%	0%
10 years and within 20 years	28.6%	50%	0%
20 years and within 40 years	36.2%	50%	0%
40 years and longer	15.1%	50%	0%

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.

- 10.6 **Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

<b>Price risk indicator</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>No Fixed Date</b>
Limit on principal invested beyond year end	£150m	£100m	£50m	£250m
Actual as at 30 September 2025	£74m	£17.3m	£10.3m	£206.9m

## 11. Recommendation

Members are asked to endorse this report and recommend that it is submitted to Council.

## Appendices

Appendix 1 – Investments as at 30 September 2025  
Appendix 2 – Glossary of Terms

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**10 November 2025**

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