

From:	Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services Corporate Director – Finance
To:	Governance and Audit Committee – 3 November 2026
Subject:	Treasury Management Mid-Year Update
Classification:	Unrestricted
Future Pathway of report	County Council

Summary: This report provides an overview of Treasury Management activity to the end of September 2026. Listed below are some of the key highlights to aid the Committee in their review:

- a) The Council continued to take a prudent and disciplined approach to treasury management, providing assurance that liquidity, security, and interest rate risks remained well managed, with all prudential indicators met during the period.
- b) The Council maintained a balanced funding strategy by using internal resources where appropriate while maximising returns on cash balances, helping to manage borrowing costs effectively and sustainably.
- c) External borrowing stood at £593.2m at the end of September 2026, a reduction of £17.1m over the half-year. This reflects active debt management, including the repayment of a £20m LOBO loan, the prudent use of temporary Local Authority borrowing to support liquidity needs, and the maturity of £4.1m of loans without replacement, providing assurance that borrowing levels continue to be actively monitored and managed.
- d) Investments totalled £359.3m at the end of September 2026, an increase of £49.5m since March 2026. The higher balance reflects temporary loans of £7m and increased working capital holdings, providing a strong liquidity position to support the Council's operational and financial requirements.
- e) The Council's cash flow investments continue to be held across a diversified mix of short and medium-term instruments. The ongoing transition towards a more liquid portfolio, alongside a reduction in overall investment risk, provides assurance that funds remain well positioned to meet future cash flow needs while maintaining a prudent risk profile.
- f) During the half-year, the Council achieved a £2.8m saving against the interest cost budget. This was driven by proactive debt management, including the early repayment of debt, and stronger investment income, although lower interest income due to lower cash balances has offset the savings.

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

1. Introduction

- 1.1 This report covers Treasury Management activity to the end of September 2026 and developments in 2026-27 up to the date of this report.
- 1.2 The Council's Treasury Management Strategy for 2026-27 was approved by the County Council on 12 February 2026.
- 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 summary of economic commentary has been provided by the Council's retained treasury advisor, MUFG Corporate Markets.
- 2.2 Economic growth remained resilient during the first half of 2026/27. GDP grew by 0.5% in the quarter to June 2026, followed by a 0.4% monthly increase in July, supported by services, industrial production, and construction.
- 2.3 The outlook is weakening. Higher energy prices, increased borrowing costs, subdued consumer demand, and uncertainty ahead of the Autumn Budget are expected to slow growth. September's composite PMI remained expansionary at 52.0 but was below August's level.
- 2.4 Inflationary pressures increased, largely because of higher fuel and energy prices. CPI inflation rose to 3.1% in August and is forecast to peak at approximately 4.3% in January 2027.
- 2.5 Bank Rate remained at 3.75%, but the Bank of England indicated that a rate increase could follow in November or December if Middle East tensions persist and inflation continues to rise.
- 2.6 Consumer spending was relatively robust, with retail sales increasing by 0.5% in August and standing 2.4% above the previous year. However, household incomes are expected to come under greater pressure as inflation rises.

- 2.7 Public finances deteriorated. Government borrowing exceeded Office for Budget Responsibility forecasts in both May and August, reflecting higher expenditure, inflation-linked debt interest costs, and weaker-than-expected tax receipts.
- 2.8 Gilt markets were volatile. The 10-year gilt yield moved between approximately 4.7% and 5.43%, ending September at 5.43%, driven particularly by geopolitical developments.

3. Local context

- 3.1 The treasury management position on 31 March 2026 and the change over the 6 months to 30 September 2026 is shown in the following table.

	31-Mar-26	2026-27	30-Sep-26	30-Sep-26
	Balance £m	Movement £m	Balance £m	Average Rate %
Long-term borrowing	610.3	-17.1	593.2	4.3
Total borrowing	610.3	-17.1	593.2	4.3
Long-term investments	275.7	-37.3	238.4	4.8
Short-term investments	0.0	4.7	4.7	3.7
Cash and cash equivalents	34.1	82.1	116.2	3.9
Total investments	309.8	49.5	359.3	4.5
Net borrowing	300.5	-66.6	233.9	

4. Borrowing Strategy during the period

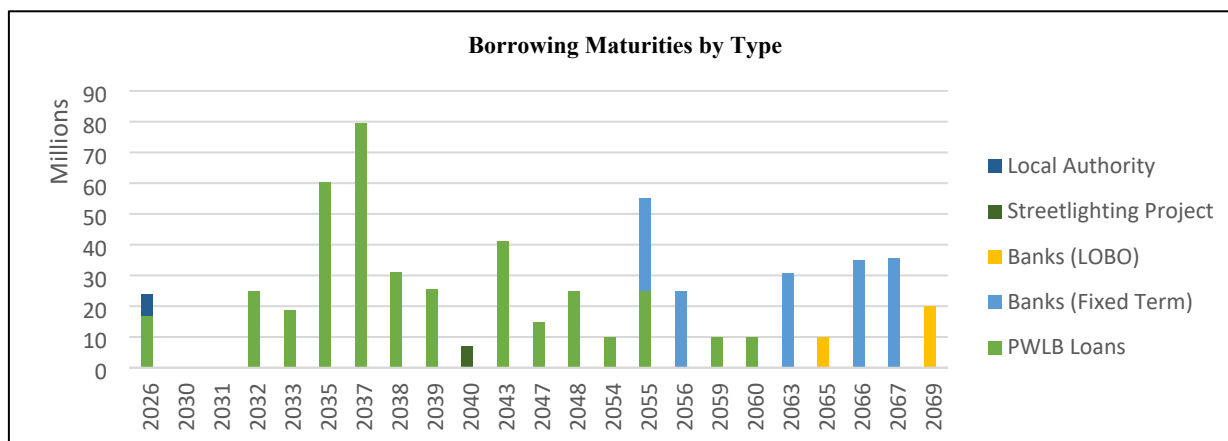
- 4.1 The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.
- 4.2 At 30 September 2026, the Council held £593.2m of loans as part of its strategy for funding previous capital programmes. Following the exercise of £60m of LOBO loan options in March and April by the LOBO counterparties, the loans were repaid without penalty in line with the contractual agreements. Temporary Local Authority borrowing of £25m was undertaken to support liquidity requirements in the half-year (of which £18m has been repaid) and £4.1m of existing loans were allowed to mature/ be repaid without replacement.
- 4.3 Interest rates showed upward movements over the first half of the financial year. Short term rates increased by 0.02% - 0.36%, whilst long term rates increased by 0.38% - 0.48% between the beginning of April and end of September 2026. The PWLB 10-year maturity certainty rate stood at 6.21% at 30 September 2026, 20 years at 6.61% and 30 years at 6.64%.
- 4.4 The Council continues to hold £30m 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 The Council's currently held LOBO loans include £20m and £10m with next option dates 16 February 2027 and 20 April 2027, respectively.

- 4.5 The Council's borrowing activity in the 6 months to 30 September 2026 is in the table below and a detailed schedule of borrowings as at 30 September 2026 is in Appendix 1:

	31-Mar-26	2026-27	30-Sep-26	30-Sep-26	30-Sep-26
	Balance	Movement	Balance	Average Rate	Value Weighted Average Life
	(£m)	(£m)	(£m)	(%)	(yrs)
PWLB Loan	396.8	-3.9	393.0	4.2%	14.1
Banks (Fixed Term)	156.1	0.0	156.1	4.5%	35.6
Banks (LOBO)	50.0	-20.0	30.0	4.2%	41.1
Streetlighting project	7.4	-0.3	7.1	2.9%	14.0
Local Authority	0.0	7.0	7.0	4.3%	0.1
Total borrowing	610.3	-17.1	593.2	4.3%	21.0

- 4.6 The maturity profile of the Council's outstanding debt at 30 September 2026 was as follows:



5. Treasury investment activity

- 5.1 The Council holds significant invested funds representing income received in advance of expenditure plus balances and reserves held. During the period to September 2026, the Council's investment balance ranged between £291.0m and £578.1m due to timing differences between income and expenditure.
- 5.2 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.
- 5.3 Bank Rate was maintained at 3.75% from the beginning of the year to the end of September 2026. Short-dated cash rates, which had ranged between 3.71% - 4.13%

at the beginning of April, rose by around 0.13% for overnight maturities and 0.17% for 3-month maturities.

- 5.4 The Council continues to hold 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.
- 5.5 At 30 September 2026, the Council had outstanding loans totalling £22.2m to the No Use Empty loans programme achieving a return of 3.9% which is available to fund general services. With a decrease of £46.2m in covered bonds in the 6 months, the total bond portfolio as at 30 September 2026 was £27.7m. These instruments are negotiable and have the benefit of collateral cover.
- 5.6 The Council's investments during the 6 months to the end of September 2026 are summarised in the table below and a detailed schedule of investments as at 30 September 2026 is in Appendix 1.

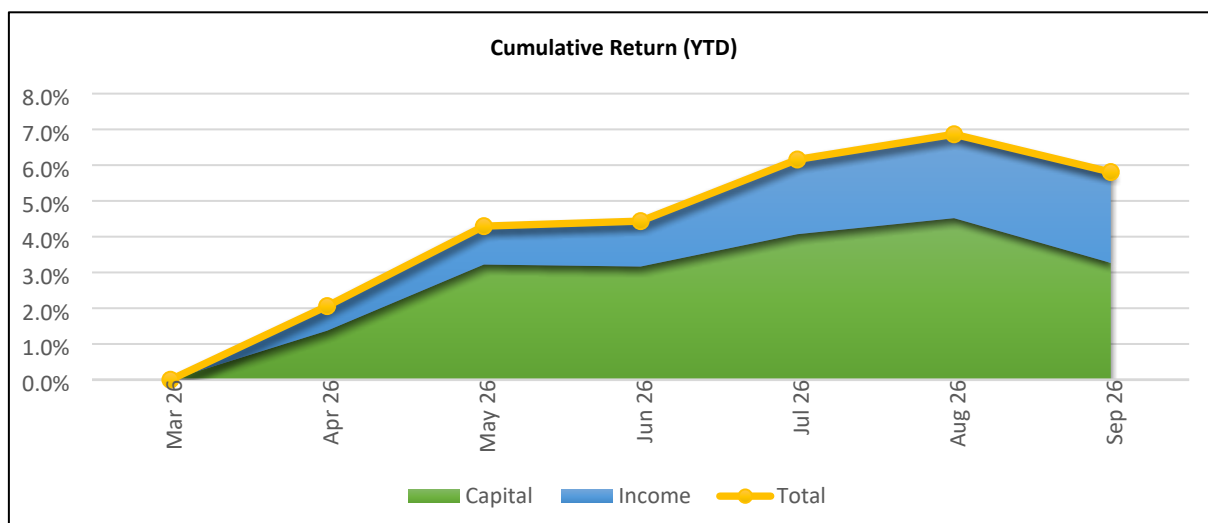
	31-Mar-26	2026-27	30-Sep-26	30-Sep-26	30-Sep-26
	Balance	Movement	Balance	Rate of Return	Average Credit Rating
	(£m)	(£m)	(£m)	(%)	
Money Market Funds	27.5	82.1	109.6	3.9	AAA
Call Deposits (Banks)	6.6	-0.0	6.6	3.4	A+
Treasury Bills (UK Government)	0.0	0.0	0.0	0.0	
DMADF Deposits (DMO)	0.0	4.7	4.7	3.7	AA-
Covered Bonds	73.9	-46.2	27.7	4.3	AAA
No Use Empty Loans	19.3	2.9	22.2	3.9	
Equity	2.1	0.0	2.1		
Internally Managed Cash	129.4	43.6	173.0	3.9	AA+
Strategic Pooled Funds	186.6	-0.3*	186.3	5.1	
Total	309.8	49.5	359.3	4.5	

*includes sale of Pooled Funds of £6.2m and net increase in valuation of £5.9m

6. Externally managed investments

- 6.1 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.
- 6.2 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.
- 6.3 **Performance YTD** The value of our holdings increased to £186.3m at the end of September 2026, showing an unrealised gain of £5.9m (3.3%) over the period since the end of March 2026. The total return (comprised of both income and capital

returns) on the pooled fund investments over the 6 months since 31 March 2026 is £10.5m (5.8%), as shown in the table below.



6.4 The market value of the pooled fund investments as at 30 September 2026 compared to the position as at 31 March 2026 is shown in the table below.

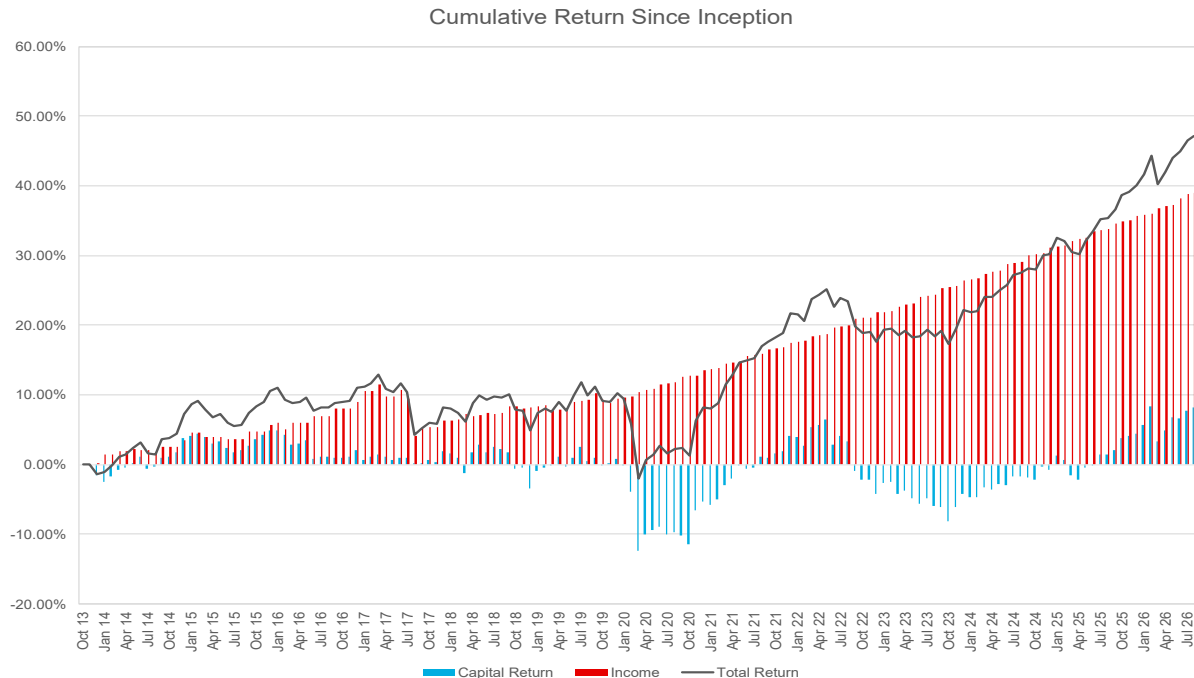
		31-Mar-26	2026-27	30-Sep-26	30-Sep-26	
Investment Fund	Book cost	Market Value	Movement	Market Value	6 months return	
					Income	Total
	£m	£m	£m	£m	%	%
CCLA Diversified Income Fund *	5.0	4.4	-4.57	0		
CCLA LAMIT Property Fund	60.0	55.3	-0.9	54.3	2.4	0.7
Pyrford Global Total Return Sterling Fund	5.0	5.8	0.0	5.8	1.7	1.7
Fidelity Global Multi Asset Income Fund	25.0	23.2	0.3	23.5	2.6	3.7
Ninety-One (Investec) Diversified Income Fund	10.0	9.2	0.0	9.2	2.5	2.3
Aegon (KAMES) Diversified Monthly Income Fund	20.0	20.1	1.0	21.1	3.2	8.1
M&G Global Dividend Fund	10.0	18.5	1.5	20.1	2.0	10.3
Schroders Income Maximiser Fund	25.0	23.5	1.5	25.0	3.7	9.9
Threadneedle Global Equity Fund	10.0	14.5	2.0	16.5	1.3	15.2
Threadneedle UK Equity Income Fund L**	10.0	12.0	-1.3	10.8	2.3	7.6
Total Externally Managed Investments	180.0	186.5	-0.47	186.3	2.5	5.8

*Full redemption of units in CCLA Diversified income fund in July 2026 with proceeds of £4.57m realised loss of £431.7k

** part redemption from CT UK Equity in July 2026 with proceeds of £1.833m realised gain of £409k

6.5 **Performance since inception:** KCC initially invested in pooled funds in 2013. By the end of September 2026 they had achieved a total income return of £69.6m, 40.1%,

with an increase in the capital value of the portfolio of £12.8m, 7.3%. 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.



6.6 Forward Plan : Whilst pooled funds have provided a valuable source of return during the prolonged low interest rate environment that followed the Global Financial Crisis (GFC), their role within the Council's investment portfolio should be reassessed in light of their current risk-return profile relative to other investment options that can generate attractive returns with lower levels of risk.

6.7 In Spring 2026, the Council undertook a comprehensive review of its pooled fund holdings, considering the rationale for retaining these investments, the appropriate level of allocation within the overall portfolio, and the outlook for the underlying asset classes represented within the funds.

6.8 The review concluded that:

- The outlook for all underlying asset classes remains positive, and pooled funds are expected to continue outperforming traditional money market instruments on both an income and total return basis over the medium term.
- An allocation of approximately 33% of the Council's total investment portfolio to pooled funds represents an appropriate balance between capturing long-term growth opportunities and maintaining adequate portfolio liquidity.

- Based on projected cash balances, achieving this allocation would require the value of pooled fund holdings to be reduced by around 50%.
- Any reduction should be implemented gradually over a three-year period to avoid attempting to time market movements and to smooth the transition. This timeframe also aligns with the expiry of the IFRS statutory override.

6.9 This review forms the basis of the Council's planned programme of pooled fund redemptions over the 2026/27 to 2028/29 period.

6.10 In line with the recommendations arising from the review, the Council has already established a programme of pooled fund redemptions for the 2026/27 financial year. CCLA Diversified Income Fund units have been fully redeemed in July 2027

6.11 Three redemption trades have been lodged for the CCLA LAMIT Property Fund for equally value be executed in October, December and February.

Part redemption of units from the Columbia Threadneedle UK Equity Fund was completed in July.

6.12 However, in light of the attractive yields currently available on fixed income investments and the continued volatility within pooled fund markets, the Council will further review its planned approach to pooled fund redemptions. This will ensure that the investment strategy remains aligned with the Council's treasury management objectives of prioritising security, liquidity, and return, in that order.

7. Actual and forecast outturn (Half-Year)

7.1 At the half-year point, the projected total saving on debt costs for 2026/27 is approximately £2.783m. This comprises interest savings from the early repayment of £40m Dexia LOBO loans in March and £20m FMS Wertmanagement LOBO loan in April, as these borrowing interest costs had been budgeted for the full financial year.

7.2 The forecast revenue interest is currently £4.734m below the budget target. This is due to several negatively impacting factors; lower cash balances available for investment following the repayment of £60m of loan principal, additional revenue interest cost of short-term borrowing required for cashflow, higher actual third-party balances for interest apportionment than forecast at budget setting, delayed receipt of DSG deficit grant, and other accelerated expenditure.

8. Compliance

8.1 The 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.

9. Treasury Management Indicators

- 9.1 The Council measures and manages its exposures to treasury management risks using the indicators as detailed in the schedule in Appendix 2.

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22 October 2026

Appendices

Appendix 1 – Borrowings and Investments as at 30 September 2026

Appendix 2 – Treasury Management Indicators

Appendix 3 – Glossary of Terms