

TREASURY MANAGEMENT INTERIM REPORT 2025/26

INTRODUCTION

1. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Local Authorities has been adopted by the Authority. The Code requires that Treasury Management activities are subject to reports to Members. This report represents the interim report for 2025/26.
2. For each financial year the Authority sets a balanced budget so that cash income raised during the year is sufficient to meet all of its cash expenditure commitments. One of the key functions of the Authority's treasury management activity is to ensure that these cash flows are effectively managed, so that cash is available when it is needed. Surplus cash is invested having regard to risk, liquidity and yield.
3. A further key function of the treasury management activity is to ensure that the Authority has sufficient funds to pay for its capital and other investment plans. These capital plans, which are set out in the Capital Programme, identify the borrowing needs of the Authority over a longer time horizon than the current year. In managing its longer-term cash flow requirements for capital expenditure, the Authority will take out loans or alternatively use its cash flow surpluses in lieu of external borrowing. This latter practice is referred to as "internal borrowing". In managing its loans, it may at times be advantageous for the Authority to repay or restructure its borrowings to optimise interest payments or achieve a balanced debt portfolio.
4. Having regard to these activities, the Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

"The management of the Authority's 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."
5. As treasury management decisions involve borrowing and investing substantial sums of money, the Authority is exposed to potentially large financial risks, including the loss of invested funds and the revenue effect of changing interest rates. The identification, control and monitoring of risk are therefore integral elements of treasury management activity.
6. The strategy for the year was identified in the Treasury Management Strategy Statement 2025/26 and was contained within the Budget and Financial Plan report approved by the Authority at its meeting on 27th February, 2025. The strategy covered the following areas:
 - (a) prospects for interest rates;
 - (b) capital borrowing and debt rescheduling;
 - (c) annual investment strategy;
 - (d) external debt prudential indicators;
 - (e) treasury management prudential indicators.
 - (f) performance indicators;
 - (g) treasury management advisers

7. The Treasury Management Interim Report considers actual treasury management performance up to September 2025.

EXECUTIVE SUMMARY of the key points on performance so far include:

- The Authority envisaged that new long-term borrowing of £5.000m would be required in 2025/26. No new borrowing has been arranged in the first half of 2025/26.
- Financial Investments at 30th September 2025 stood at £66.2m, with associated income of £1.252m earned in the first half of the year.
- The Bank of England (BoE) base rate has decreased from 4.25% at the start of the financial year, to its current level announced on 6th August 2025 of 4.00%.
- Longer term Public Works Loan Board (PWLB) have increased during the first half of the year, increasing by 0.35% from 5.62% at the start of the year to 5.97% at 30th September 2025.
- Treasury Management activity for 2025/26 has been carried out in compliance with the relevant codes and statutes and within the borrowing and treasury management limits approved by the Authority as part of the budget setting process.

PROSPECTS FOR INTEREST RATES

8. The Bank of England (BoE) voted on the 1/8/25 to cut the bank rate by 0.25% to 4%. This was the fifth cut in interest rates from the Bank of England after rates had been held at a 16-year high level of 5.25% for 12 months. The current anticipation is that the bank will continue to cut rates over the course of the next year, but perhaps with not the same regularity as was seen when interest rates increased.
9. The prospect of falling interest rates might provide some stimulus to the economy, however, with inflationary pressures remaining and considerable uncertainty in the global economy there remains risk to the economic outlook. The subsequent meeting of the Monetary Policy Committee was held 18th September and rates were maintained at 4%. The next meeting is scheduled for 6th November.
10. The Consumer Price Index (CPI) measure of inflation rose by 3.8% in the 12 months to August 2025, unchanged from July. While the current CPI measure remains above the Bank of England's CPI target, the inflationary spike of recent times continues to be felt across the economy, with those increases factored into the base of the current CPI measure. The CPI measure is anticipated to stay above target in the second half of 2025/26, with food price inflation having a strong impact on the measure, with food price inflation outstripping rates in Europe.
11. With current elevated borrowing rates, it may be advisable not to borrow long-term unless the Authority wants certainty of rate and judges the cost to be affordable.
12. The PWLB certainty rate for borrowing is linked to Gilt yield plus a margin of 0.80%. Gilt yields and PWLB rates were on a trend throughout the first half of 2025/26 reflecting a steepening of the yield curve, meaning rates for short term borrowing were falling and longer-term borrowing rates were rising.

13. The table below shows the spread of interest rates during the first six months of the year:

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.36%	4.62%	5.17%	5.78%	5.45%
Date	04/08/25	02/05/25	04/04/25	04/04/25	04/04/25
High	4.84%	4.99%	5.62%	6.41%	6.12%
Date	02/04/25	21/05/25	03/09/25	03/09/25	03/09/25
30/9/25	4.58%	4.95%	5.53%	6.23%	5.97%
Average	4.55%	4.82%	5.40%	6.10%	5.81%

(figures include 20bps certainty rate discount)

14. Local authorities can borrow from the PWLB provided they can confirm they are not planning to purchase 'investment assets primarily for yield' in the current or next two financial years, with confirmation of the purpose of capital expenditure from the Section 151 Officer. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing.
15. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.
16. Competitive market alternatives may be available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders.
17. The Authority is not planning to purchase any investment assets primarily for yield within the next three years and so is able fully access the PWLB.

CAPITAL BORROWINGS AND DEBT RESCHEDULING

18. The borrowing requirement comprises the expected movements in the Capital Financing Requirement and reserves plus any maturing debt which will need to be re-financed. The Authority envisaged that new long-term borrowing of £5.000m would be required in 2025/26.
19. In the short-term, and at a time when long-term rates are relatively high, the Authority will continue to mitigate interest costs by use of internal resources ahead of further borrowing. Where borrowing is required, the Authority may initially choose to benefit from lower short-term rates available from the intra-authority market and consider taking longer-term PWLB debt when there is no further value to be obtained from the intra-

authority market. Against this background, Treasury Officers will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances.

20. Current PWLB lending terms have severely constrained the option to generate savings via debt rescheduling. Any rescheduling that takes place will be reported to members in monitoring reports.

ANNUAL INVESTMENT STRATEGY

21. The investment strategy for 2025/26 set out the priorities as the security of capital and liquidity of investments. Investments are made in accordance with Ministry of Housing, Communities & Local government Guidance and CIPFA Code of Practice. Investments are made in sterling with an institution on the counterparty list and a limit of £2m for investments with duration more than one year.
22. Investments have been made with various counterparties including UK and foreign banks with higher credit ratings, the larger Building Societies, “nationalised” banks and AAA rated money market funds. This diversity has enabled reasonable returns in the current interest rate environment in the first half of 2025/26. In the period 1st April to 30th September 2025 the average rate of return achieved on average principal available was 4.70%. This compares with an overnight SONIA (Sterling Overnight Index Average Rate) rate of 4.19%.
23. The credit ratings and individual limits for each institution within the categories of investments to be used by the Authority in 2025/26 are as follow:

UK Government (including gilts and the DMADF)	Unlimited
UK Local Authorities (each)	Unlimited
Part Nationalised UK banks	£4m
Money Market Funds (AAA rated)	£3m
Enhanced Money Market (Cash) Funds (AAA rated)	£3m
UK Banks and Building Societies (A- or higher rated)	£2m
Foreign banks registered in the UK (A or higher rated)	£2m

24. The Authority had investments of £66.200m as at 30th September 2025 (this included a £29.140m firefighters’ pension grant received in July that will be utilised in the year):

EXTERNAL DEBT PRUDENTIAL INDICATORS

25. The external debt indicators of prudence for 2025/26 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt:	£66 million
Operational boundary for external debt:	£61 million

26. Against these limits, the maximum amount of debt that was reached in the period April to September 2025 was £33.700m.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS

27. The treasury management indicators of prudence for 2025/26 required by the Prudential Code were set in the strategy as follows:

a) Interest Rate Exposures

Upper limit on fixed interest rate exposures: 100%
Upper limit on variable interest rate exposures: 50%

The maximum that was reached in the period April to September 2025 was as follows:

Upper limit on fixed interest rate exposures: 100%
Upper limit on variable interest rate exposures: 0%

b) Maturity Structure of Borrowing

Upper and lower limits for the maturity structure of borrowing were set and the maximum and minimum that was reached for each limit in the period April to September 2025 was as follows: -

Maturity Period	Upper Limit	Lower Limit	Maximum	Minimum
Under 12 months	50%	0%	0%	0%
12 months and within 24 months	50%	0%	0%	0%
24 months and within 5 years	50%	0%	0%	0%
5 years and within 10 years	50%	0%	0%	0%
10 years and above	100%	0%	100%	100%

c) Total principal sums invested for periods longer than 365 days

The limit for investments of longer than 365 days was set at £2.000m for 2025/26. No such investments were made in the first half of 2025/26.

PERFORMANCE INDICATORS

28. The Code of Practice on Treasury Management requires the Authority to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking.
29. The indicators for the treasury function are:

Borrowing – the indicator is the average rate of actual borrowing compared to the average available for the period of borrowing. However, there has been no borrowing in the period April to September 2025.

Investments – Internal returns compared to the SONIA rate. The return in the period April to September 202 was 0.51% above the benchmark.

TREASURY MANAGEMENT ADVISORS

30. The treasury management service is provided to the Authority by Liverpool City Council. The terms of the service are set out in an agreed Service Level Agreement. The Council

employs treasury management advisors appointed under a competitive procurement exercise who provide a range of services which include:

- Technical support on treasury matters, capital finance issues.
- Economic and interest rate analysis.
- Debt services which includes advice on the timing of borrowing.
- Debt rescheduling advice surrounding the existing portfolio.
- Generic investment advice on interest rates, timing and investment instruments.
- Credit ratings/market information service comprising the three main credit rating agencies.

31. Whilst Liverpool City Council and its advisors provide the treasury function, ultimate responsibility for any decision on treasury matters remains with the Authority.

CONCLUSION

32. Treasury Management activity in 2025/26 has been carried out in compliance with the relevant Codes and Statutes and within the borrowing and treasury management limits set by the Authority under the prudential code.