Meeting:	Executive
Meeting date:	4 November 2025
Report of:	Debbie Mitchell Director of Finance
Portfolio of:	Councillor Katie Lomas Executive Member for Finance, Performance, Major Projects, Human Rights, Equality and Inclusion

Decision Report: Treasury Management 2025/26 Mid-Year report and review of Prudential Indicators

Subject of Report

1. The purpose of this report is to provide a regular update to Executive on treasury management activity for the first half of the 2025/26 financial year and to provide the latest update of the prudential indicators which are included at Annex A to this report.

Benefits and Challenges

2. Treasury Management is the effective management of the Council's cash flow. Doing this effectively protects the Council from risks and ensures the ability to meet spending commitments as they fall due.

Policy Basis for Decision

3. The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021 requires that full Council be updated with, review and approve, as a minimum three reports annually. These reports are the Treasury Management Strategy Statement setting out policy for the forthcoming year, a mid-year review report, and an annual report detailing the treasury activities and performance for the previous year. Quarterly reports are also required to provide an update on treasury

management activities and can be assigned to a designated committee or member as deemed appropriate.

4. This report is the Treasury Management quarterly report detailing the activities undertaken so far, performance, and monitoring of the Prudential Indicators. It provides an update on activity for the period 1st April 2025 to 30th September 2025. This report ensures this Council is implementing best practice in accordance with the Code.

Financial Strategy Implications

5. The Treasury Management function is responsible for the effective management of the Council's investments, cash flows, banking, and money market transactions. It also considers the effective control of the risks associated with those activities and ensures optimum performance within those risk parameters.

Recommendation and Reasons

6. Executive is asked to note:
    - The 2025/26 Treasury Management activity for the period ending 30 September 2025.
    - The Prudential Indicators outlined in Annex A (updated where applicable) and note the compliance with all indicators.

   Reason: To ensure the continued effective operation and performance of the Council's Treasury Management function and ensure that all Council treasury activity is prudent, affordable and sustainable and complies with policies set.

7. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the first quarter of the 2025/26 financial year, the Council has operated within the Treasury and Prudential Indicators set out in the Council's Treasury Management Strategy Statement for 2025/26.

8. There are no policy changes to the Treasury Management Strategy Statement 2025/26 for members to agree and approve; the details in this report update the Treasury Management position and Prudential Indicators in the light of the updated economic position and budgetary changes already approved.

Background

9. This Mid-Year treasury management report has been prepared in compliance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, and covers the following:
    - A brief economic update for the first half of the 2025/26 financial year.
    - A review of the Treasury Management Strategy Statement and Annual Investment Strategy.
    - A review of the treasury position as at 30 September 2025.
    - A review of the Council's investment portfolio.
    - A review of the Council's borrowing strategy.
    - A review of compliance with the Treasury and Prudential Limits.
    - An update to the prudential indicators (set out at Annex A).

Economic Update

10. The first half of the 2025/26 financial year saw:
    - The Bank of England base rate lowered by 50 basis points overall in the period; from 4.5% to 4.25% on 8th May 2025, maintained at 4.25% on 19th June 2025, lowered from 4.25% to 4.00% on 7th August 2025, and maintained at 4.00% on 18th September 2025.
    - Twelve-month CPI inflation was 3.8% in August 2025, following 3.8% in July 2025 and 3.6% in June 2025. These two increases coming after CPI inflation fell to 3.4% in May 2025, from 3.5% in April 2025.
    - Core CPI inflation was 3.6% in August 2025, continuing its downward trend having been at 3.8% in April 2025.
    - Services consumer price inflation fell to 4.7% in August 2025 from 5.0% in July 2025 and compared to 4.7% in May 2025 and June 2025.
    - UK GDP is estimated to have risen by 0.3% in the second quarter of 2025, covering April 2025 to June 2025.

Interest Rate Forecast

11. Current interest rates and the future direction of both long term and short term interest rates have a major influence on the overall treasury management strategy and affects both investment and borrowing decisions.

12. Table 1 is Link Groups Interest Rate forecast for both the bank base rate and long-term Public Works Loans Board (PWLB) Certainty borrowing rates (gilt yields plus 80 bps). This forecast was as at 11 August 2025.

	Bank rate %	PWLB borrowing rates % (including certainty rate adjustment)			
		5 year	10 year	25 year	50 year
Sep 2025	4.00	4.80	5.30	6.10	5.80
Dec 2025	4.00	4.70	5.20	5.90	5.60
Mar 2026	3.75	4.50	5.00	5.70	5.40
Jun 2026	3.75	4.40	4.90	5.70	5.40
Sep 2026	3.50	4.30	4.80	5.50	5.30
Dec 2026	3.50	4.30	4.80	5.50	5.30
Mar 2027	3.50	4.30	4.80	5.50	5.30
Jun 2027	3.50	4.20	4.70	5.40	5.20
Sep 2027	3.25	4.20	4.70	5.40	5.20
Dec 2027	3.25	4.20	4.70	5.30	5.10
Mar 2028	3.25	4.20	4.70	5.30	5.10
Jun 2028	3.25	4.10	4.60	5.30	5.00
Sep 2028	3.25	4.10	4.60	5.20	5.00

Table 1 – Link's interest rate forecast at 11 August 2025

13. Market expectations in September 2025 are that Bank Rate is unlikely to be cut again until 2026, with the timing of cuts affected by inflation, government policies and global events that may impact the UK economy. CPI inflation is expected to remain at broadly similar levels throughout the remainder of 2025 before moving downwards in early 2026. In its latest meeting minutes dated 18 September 2025, the Bank of England signalled *'A gradual and careful approach to the further withdrawal of monetary policy restraint… timing and pace of future reductions in the restrictiveness of policy will depend on the extent to which underlying disinflationary pressures continue to ease.'*

Treasury Management Strategy Statement 2025/26

14. Full Council approved the Treasury Management Strategy Statement for 2024/25 on 27 February 2025. Details can be viewed here (item 64) https://democracy.york.gov.uk/ieListDocuments.aspx?CId=331&MId=15004&Ver=4 and here https://democracy.york.gov.uk/(S(iezd4m45k3tmf22josjfte55))/ieIssueDetails.aspx?IId=72853&Opt=3

15. There are no investment policy changes and the details in this report do not amend the Statement.

Overall Treasury position at 30 September 2025

16. Table 2 shows the Councils net Treasury debt and investment position for the period ending 30 September 2025, shown with the financial year end 2024/25 position.

	Principal 30/09/25	Average Rate 30/09/25	Principal 31/03/25	Average Rate 31/03/25
External Debt				
General Fund Borrowing	£182.59m	3.42%	£190.59m	3.49%
Housing Revenue Account (HRA) Borrowing	£140.86m	3.32%	£140.86m	3.33%
Total Borrowing	£323.45m	3.37%	£331.45m	3.42%
Other Long-term Liabilities inc. PFI	£46.74m		£46.74m	
Total External Debt	£370.19m		£378.19m	
Investments				
Investment balance	£6.35m	4.23%	£10.09m	4.89%
Net Treasury Position				
Debt less Investments	£363.84m		£368.10m	

Table 2 Summary of Treasury position as 30 September 2025

Investment Portfolio

17. The Treasury Management Strategy Statement includes the Council's Annual Investment Strategy outlining the Council's investment priorities as follows:
    - Security of capital
    - Liquidity
    - Yield

    Environmental, Social & Governance (ESG) criteria, will be considered as a fourth criteria after the fulfilment of the three core investment priorities.

18. The Council's investment policy is governed by MHCLG guidance and sets out the approach for choosing investment counterparties based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.). The Council will also consider environmental, social and governance factors when placing investments after the core investment priorities of security, liquidity and yield have been assessed.

19. The Council continues to aim to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity and the Councils risk appetite. The Council had no liquidity difficulties during the first half of the 2025/26 financial year.

20. Investment returns the Council earns on its surplus cash is dependent on the level of cash held for investment purposes, cash backed reserves and cash flow requirements which is due to the timing of precept payments, receipt of grants, receipt of developer contributions, borrowing for capital purposes, payments to its suppliers of goods and services and spend progress on the Capital Programme. Cash balances are therefore only available on a temporary basis depending on cash flow movement.

21. The average level of cash balances available for investment purposes in the first half of the year up to 30 September 2025 was £25.89m (£32.02m for the period 1st April 2024 to 30 September 2024). The average rate of return earned on cash balances in the first half of the year up to 30th September 2025 was 4.23% (5.07% for the period 1st April 2024 to 30th September 2024).

22. Table 3 shows the current fixed term investments at 30th September 2025.

Institution Type	Principal Balance 30/09/25	Average Balance 01/04/25-30/09/25	Average Rate 01/04/25-30/09/25	Principal Balance 31/03/25	Average Balance 01/04/24-31/03/25	Average Rate 01/04/24-31/03/25
Fixed Term Deposits	£0.00m	£0.00m	0.00%	£0.00m	£0.00m	0.00%
Call / Notice	£0.00m	£0.00m	0.00%	£0.00m	£0.00m	0.00%
Money Market Funds	£6.00m	£25.45m	4.29%	£9.00m	£28.62m	4.95%
Cash in bank	£0.35m	£0.44m	0.00%	£1.88m	£0.50m	0.00%
Total Investments	£6.35m	£25.89m	4.23%	£10.88m	£29.12m	4.89%

Table 3 Investment Portfolio by type at 30th September 2025

23. Figure 1 shows the investments portfolio split by cash in bank, deposits in short term call accounts, fixed term investments and Money Market Funds. Money Market Funds used have an AAAm credit rating and the cash bank account is AA- credit rating.

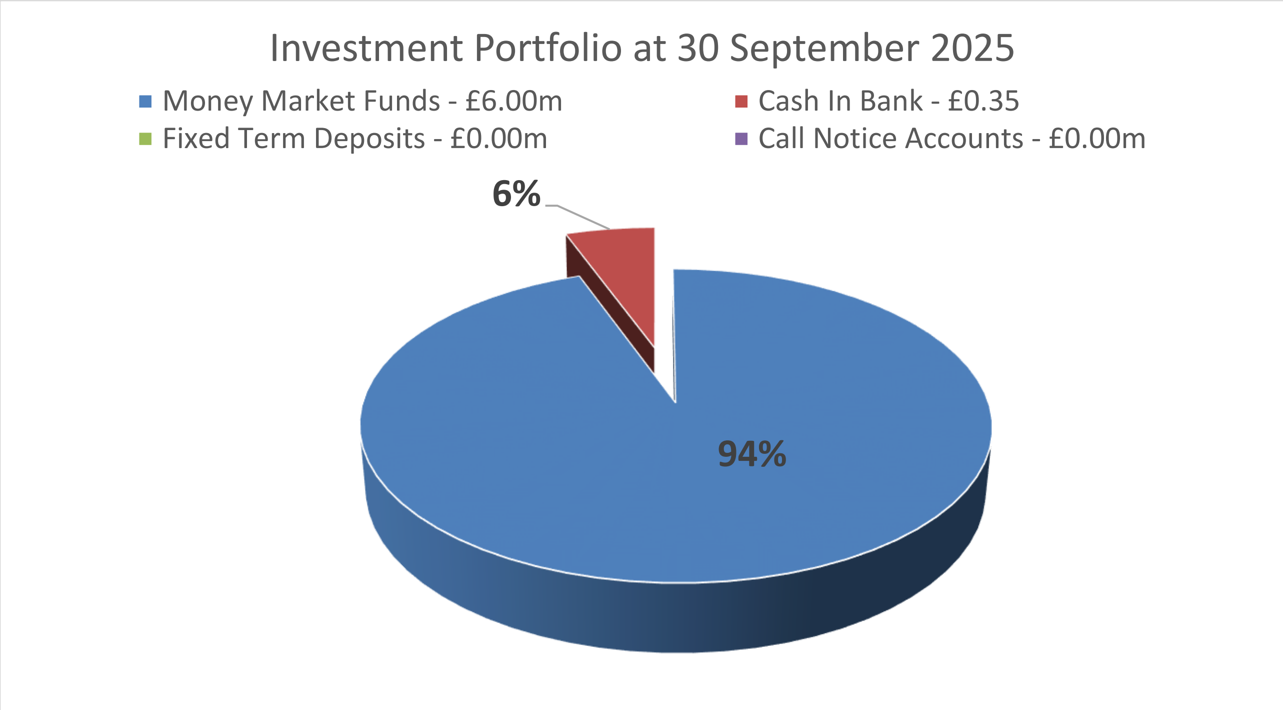

Figure 1 Investment Portfolio by type at 30 September 2025

24. The Council uses a benchmark indicator to assess the Councils investment performance, and this is the average Sterling Overnight Index Average (SONIA). SONIA is based on actual transactions reflecting the average of the interest rates that banks pay to borrow sterling overnight.

25. The Council's average rate of return for the quarter ending 30th September 2025 in table 3.

	2025/26 (Mid Year)	**2024/25 (Mid Year)**	**2024/25 (Full year)**
Average CYC Rate of Return	4.23%	5.07%	4.89%
Benchmarks			
Average Overnight SONIA	4.19%	5.12%	4.90%

Table 3: CYCs investment rate of return performance vs. SONIA benchmark

26. The average rate of return achieved for invested cash during the first half of 2025/26 has remained around the average overnight SONIA rate. The Council has kept all cash invested in highly liquid Money Market Funds. While providing instant access to cash, these funds contain a portfolio of investments on different maturity durations and yields. In a decreasing interest rate environment, there is often a slight time lag between the decrease seen on the Money Market Fund return compared to the SONIA rate.

27. Figure 2 shows the average SONIA rates for a number of investment durations compared with the Bank of England base rate and the Council's rate of return achieved in the first half of 2025/26. It shows that the Councils average rate of return is tracking broadly in line with, both Bank base rate and overnight SONIA rate. This is expected as cash has been held in liquid Money Market Funds.

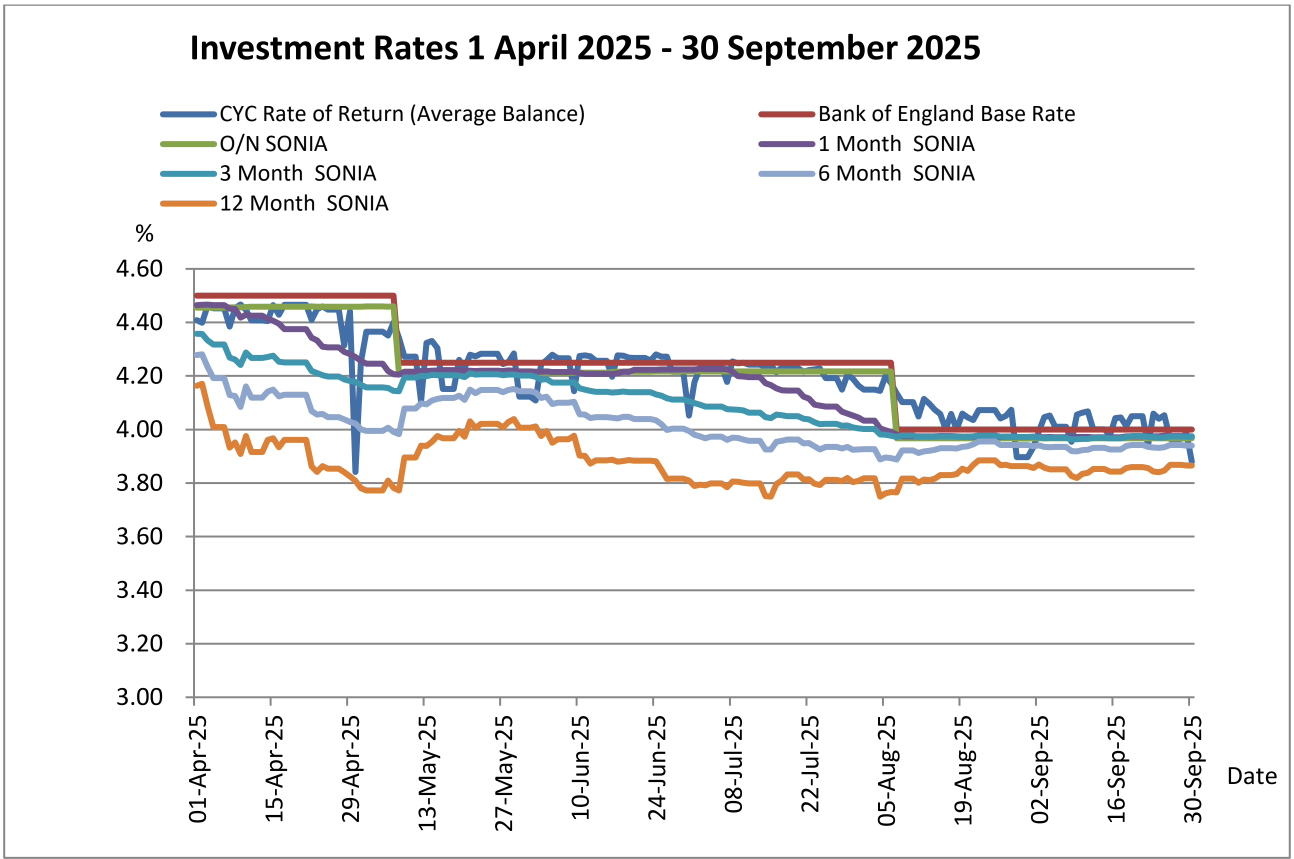

Figure 2 CYC Investments vs Bank of England base rate and SONIA up to 30 September 2025

28. The Council is using its cash balances to delay taking on long-term borrowing. The overall effect of using cash balances to support the Council's under borrowed CFR position is that as cash balances are used there is less cash available for longer term investment. Opportunities that arise for notice and fixed investments which could generate higher yields are considered in terms of the Councils short to medium term cash flow requirement and it's under borrowed CFR position.

29. In the current falling interest rate environment short and medium fixed term deals are currently below the rates the Council is achieving on its liquid Money Market Fund investments; this is on the expectation that bank rate falls in line with Market predictions. While the opportunity to fix could contribute to a higher rate of return overall should interest rates fall in line with Market predictions, the Council, by running a lower average cash balance position, does not consider it prudent at this point in time to place fixed term investments. This position is kept under review.

Borrowing requirement and debt at 30 September 2025

30. The Council undertakes long-term borrowing in accordance with the investment requirements of the capital programme and all borrowing is therefore secured for the purpose of its asset base.

31. Under regulation, the Council can borrow in advance of need and Markets are therefore constantly monitored and analysed to ensure that advantage is taken of favourable rates and the increased borrowing requirement is not as dependant on interest rates in any one year.

32. The level of borrowing taken by the Council is determined by the Capital Financing Requirement (the Councils underlying need to borrow for capital expenditure purposes). Borrowing needs to be affordable, sustainable and prudent.

33. On the reverse side, the Council's level of borrowing can also be below the Capital Financing Requirement. This would mean that instead of increasing the Council's level of borrowing, surplus funds held for investment purposes would be utilised.

34. Table 5 shows the Council's underlying need to borrow to finance capital expenditure and is termed the Capital Financing Requirement (CFR).

	31 March 2026 Mid Year Forecast (30.09.25)	31 March 2026 Budget Forecast (TMSS 25/26)	31 March 2025 Outturn Actual (31.03.25)
CFR General Fund	£383.47m	£391.41m	£323.78m
CFR HRA	£136.77m	£137.20m	£139.91m
CFR Other Long-term Liabilities	£45.40m	£41.93m	£46.74m
Total CFR	£565.64m	£570.54m	£510.43m

Table 5 Capital Financing Requirement Forecast 30 September 2025

35. The borrowing strategy takes into account the borrowing requirement, the current economic and market environments and is also influenced by the interest rate forecasts.

36. During the first half of 2025/26, the Council has maintained its under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt, and cash supporting the Council's reserves, balances and cash flow has continued to be used as an interim measure to fund the capital programme. The under-

borrowed position can be seen on the Councils Liability Benchmark graph as shown by the gap between the loans outstanding and CFR.

37. While this strategy is still prudent in 2025/26, long-term borrowing rates have remained elevated across the curve (see Table 9). Where debt is required to refinance maturing debt and finance the capital programme the Treasury team will look at temporary and short-term borrowing with maturity dates up to 5 years if internal borrowing cannot be maintained. Where there are opportunities to draw down long term debt at more favourable rates, through either PWLB or market borrowing, these will be considered in order to try to minimise the longer-term impact of debt costs.

Borrowing Portfolio

38. The Councils long-term borrowing started the year at a level of £331.45m. The current borrowing portfolio position as at 30 September 2025 is £318.45m.

	30 September 2025			31 March 2025		
Institution Type	**No. of Loans**	**Principal**	**Average Rate**	**No. of Loans**	**Principal**	**Average Rate**
Public Works Loan Board PWLB – Money borrowed from the Debt Management Office (HM Treasury)	55	£316.10m	3.39%	56	£324.10m	3.44%
Market Loans LOBO Loans – Lender Option Borrower Option	1	£5.00m	3.88%	1	£5.00m	3.88%
West Yorkshire Combined Authority WYCA – Zero interest loans the purpose of which are to help to fund York Central infrastructure projects.	4	£2.35m	0.00%	4	£2.35m	0.00%
Total Borrowing (GF & HRA)	**60**	**£323.45m**	**3.37%**	**61**	**£331.45m**	**3.42%**

Table 6 Current borrowing position 30 September 2025

39. During the first half of 2025/26 financial one new loan has been drawn down, details of which are in Table 7 below.

Lender	Issue Date	Repayment Date	Amount	Rate	Duration (years)
PWLB	19/09/2025	19/09/2026	£5.00m	4.53%	1.00
			£5.00m		

Table 7 New loans drawn down up to 30 September 2025

40. During the first half of 2025/26 financial year two existing loans have matured, details of which are in Table 8 below.

Lender	Issue Date	Repayment Date	Amount	Rate	Duration (years)
PWLB	30/04/2024	30/04/2025	£10.00m	5.39%	1.00
PWLB	12/08/2010	05/05/2025	£3.00m	4.01%	14.73
			£13.00m		

Table 8 Matured loans up to 30 September 2025

41. There are 10 scheduled repayments of long-term borrowing that will occur this financial year totalling £63.30m. These are detailed in Table 9 below.

Lender	Issue Date	Repayment Date	Amount	Rate	Duration (years)
PWLB	30/04/2024	30/04/2025	£10.00m	5.39%	1.00
PWLB	12/08/2010	05/05/2025	£3.00m	4.01%	14.73
PWLB	03/04/2001	05/11/2025	£1.00m	4.750%	24.59
PWLB	26/02/2025	26/02/2026	£10.00m	4.890%	1.00
PWLB	28/02/2025	28/02/2026	£10.00m	4.880%	1.00
PWLB	21/03/2025	21/03/2026	£10.00m	4.840%	1.00
PWLB	28/03/2025	28/03/2026	£5.00m	4.890%	1.00
PWLB	28/03/2025	28/03/2026	£4.80m	4.490%	1.00
PWLB	28/03/2012	31/03/2026	£4.50m	2.970%	14.01
PWLB	28/03/2012	31/03/2026	£5.00m	2.970%	14.01
			£63.30m		

Table 9 Scheduled maturing loans in 2024/25

42. Within its loan portfolio, the Council has one LOBO loan for £5.00m. Under the terms of the loan agreement, on the 1st October 2025 the lender has option to change the interest rate on the loan and the Council can either choose to accept this new rate or repay the loan in full without penalty. During September 2025, the Council was notified by the lender that it would exercise its right to change the interest rate on the loan and the interest rate would increase. The Council decided not to accept the new interest rate offered and in line with the terms of the loan gave notice to the lender that it would repay

the loan in full on the 1 October 2025. From 1 October 2025 the LOBO loan will no longer be part of the Councils loan portfolio.

43. No loan rescheduling was done during the first quarter of the 2025/26 financial year.

44. The Councils £323.45m of fixed interest rate debt, is split between £140.86m for HRA and £182.59m for General Fund as shown in Figure 3.

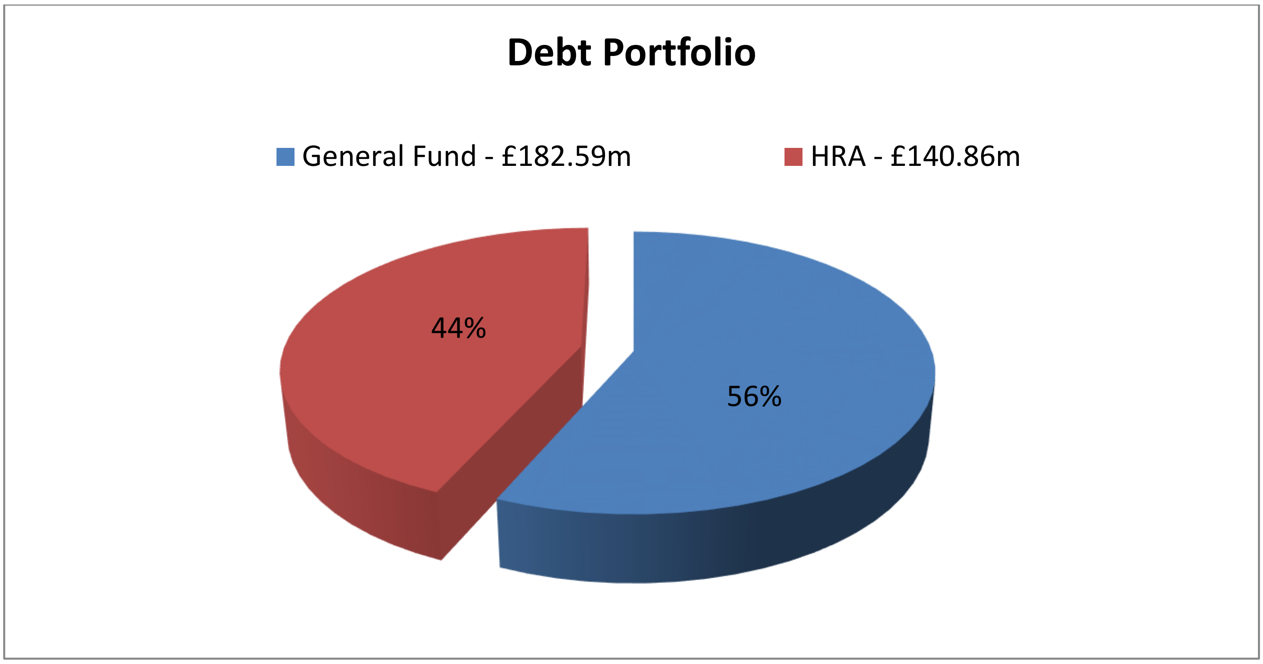

Figure 3 General Fund and HRA debt at 30 September 2025

45. Figure 4 illustrates the 2025/26 maturity profile of the Council's debt portfolio at 30 September 2025. The maturity profile, aside from a total of £55.30m in 2025/26 shows that there is no large concentration of loan maturity in any one year, thereby spreading the interest rate risk dependency.

46. Of the £55.30m total in 2025/26; £39.80m of the £50.30m maturing debt relates to refinanced 2023/24 debt with 1 year maturities, and £5.00m relates to the Councils LOBO loan as the lender has a call option available to it. During September 2025 the lender gave notice to the Council that it would exercise its call option with the Council agreeing to repay the loan (see paragraph 42).

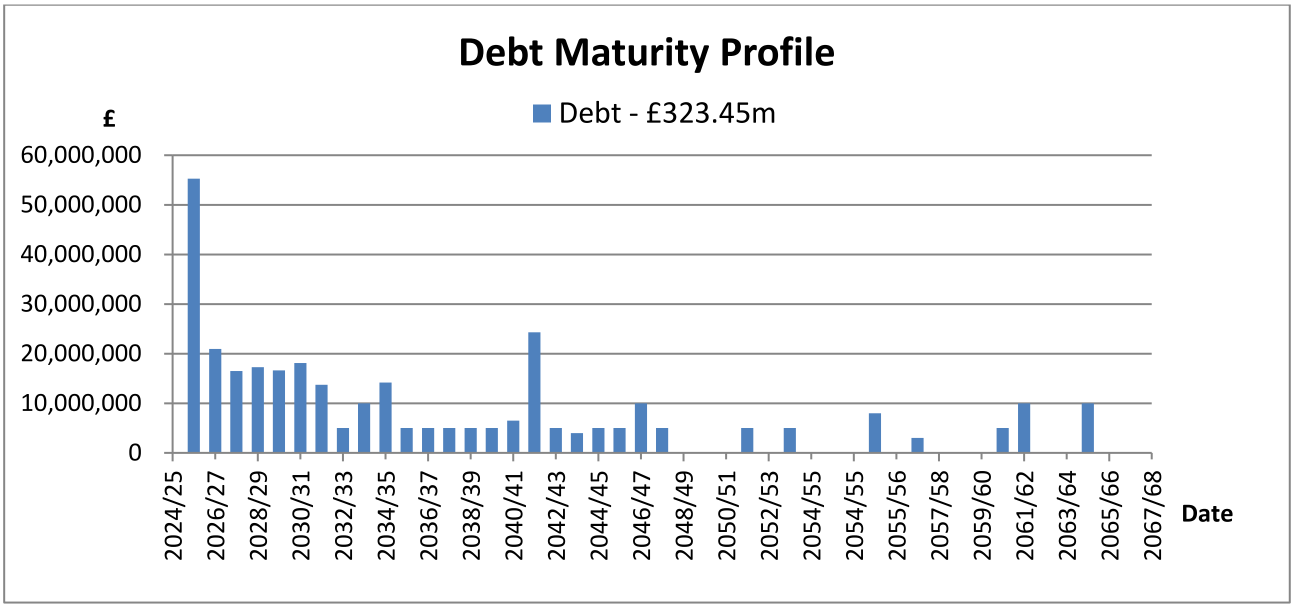

Figure 4 – Debt Maturity Profile at 30 September 2025

47. The timing of when that debt is drawn down depends on the progress of the capital programme. Where greater value can be obtained in borrowing for shorter maturity periods the Council will assess its risk appetite in conjunction with budgetary pressures to minimise total interest costs. Temporary borrowing, including inter authority borrowing, is another borrowing option. Longer-term borrowing could also be undertaken for the purpose of certainty, where that is desirable, or for smoothing the maturity profile of debt repayments.

48. Table 10 shows PWLB Certainty borrowing rates available for selected loan durations between 1 April 2025 and 30 September 2025 at the highest, lowest and average rates.

	PWLB Certainty borrowing rates by duration of loan				
	1 Year	**5 Year**	**10 Year**	**25 Year**	**50 Year**
High	4.84%	4.99%	5.62%	6.41%	6.14%
Low	4.36%	4.62%	5.17%	5.78%	5.46%
Average	4.55%	4.82%	5.40%	6.11%	5.83%

Table 10 – PWLB Borrowing Rates 1 April 2025 to 30 September 2025

Compliance with Treasury policy Prudential Indicators

49. The Prudential Indicators for 2025/26 included in the Treasury Management Strategy Statement (TMSS) are based on the requirements of the Council's capital programme and approved at Budget Council on 27th February 2025 (item 64) and can be viewed here: https://democracy.york.gov.uk/ieListDocuments.aspx?CId=331&MId=15004&Ver=4

50. It is a statutory duty for the Council to determine and keep under review the “Affordable Borrowing Limits” included in the Prudential Indicators. During the first half of financial year 2025/26 the Council has operated within the treasury limits and Prudential Indicators set out in the TMSS for 2025/26.

51. An update of the Prudential Indicators is shown in Annex A.

Consultation Analysis

52. Treasury Management Strategy and activity is influenced by the capital investment and revenue spending decisions made by the Council. Both the revenue and capital budgets have been through a corporate process of consultation and consideration by the elected politicians.

Options Analysis and Evidential Basis

53. The Treasury Management quarterly report and Prudential Indicators details the treasury management portfolio at 30th September 2025 and is for the review of the Executive Member for Finance to show compliance with treasury policy and ensure the continued performance of the treasury management function.

Organisational Impact and Implications

54. The Treasury Management function aims to achieve the optimum return on investments commensurate with the proper levels of security, and to minimise the interest payable by the Council on its debt structure. It thereby contributes to all Council Plan priorities.

- ***Financial*** - The financial details of the Treasury Management quarterly report are contained in the body of the report.

- ***Human Resources (HR)*** - n/a

- ***Legal*** – Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance.

- ***Procurement*** - n/a
- ***Health and Wellbeing*** - n/a
- ***Environment and Climate action*** - n/a
- ***Affordability*** - The financial implications of the Treasury Management Strategy are in contained in the body of the report and set out in the Financial Strategy and Capital Strategy reports also on this agenda.
- ***Equalities and Human Rights*** - n/a
- ***Data Protection and Privacy*** - n/a
- ***Communications*** - n/a
- ***Economy*** - n/a.
- ***Specialist Implications Officers*** - n/a

Risks and Mitigations

55. The Treasury Management function is a high-risk area because of the volume and level of large money transactions. As a result, there are procedures set out for day-to-day Treasury Management operations that aim to reduce the risk associated with high volume high value transactions as set out as part within the Treasury Management Strategy Statement at the start of each financial year. As a result of this the Local Government Act 2003 (as amended), supporting regulations, the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice (the code) are all adhered to as required.

Wards Impacted

All

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Date:	13/10/2025

Background papers

- Treasury Management Strategy Statement and Prudential Indicators for 2025/26 to 2029/30 and Annexes A, B, C and D to that report. https://democracy.york.gov.uk/(S(iezd4m45k3tmf22josjfte55))/ieIssueDetails.aspx?IId=72853&Opt=3

Annexes

- Annex A – Prudential Indicators 2025/26 Mid-Year (30.09.25)

Glossary of Abbreviations used in the report

CIPFA	Chartered Institute of Public Finance & Accountancy
CFR	Capital Financing Requirement
CPI	Consumer Prices Index
CYC	City of York Council
GDP	Gross Domestic Product
GF	General Fund
HRA	Housing Revenue Account
MHCLG	Ministry of Housing, Communities and Local Government
MPC	Monetary Policy Committee
MRP	Minimum Revenue Provision
PWLB	Public Works Loan Board
SONIA	Sterling Overnight Index Average
TMSS	Treasury Management Strategy Statement