

Meeting:	Executive
Meeting date:	9 September 2026
Report of:	Debbie Mitchell, Director of Finance
Portfolio of:	Councillor Katie Lomas, Executive Member for Finance, Performance, Major Projects, Human Rights, Equality and Inclusion

Treasury Management 2026/27 Quarter 1 report and review of Prudential Indicators

Subject of Report

1. The purpose of this report is to provide a regular update to the Executive Member for Finance on treasury management activity for the first quarter of the 2026/27 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 1 April 2026 to 30

June 2026. 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:
 - a) The 2026/27 Treasury Management activity up to the first quarter date ending 30 June 2026.
 - b) 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 2026/27 financial year, the Council has operated within the Treasury and Prudential Indicators set out in the Council's Treasury Management Strategy Statement for 2026/27.
8. There are no policy changes to the Treasury Management Strategy Statement 2026/27 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 quarterly 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 quarter of the 2026/27 financial year.

- A review of the Treasury Management Strategy Statement and Annual Investment Strategy.
- A review of the treasury position as at 30th June 2026.
- 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 quarter of the 2026/27 financial year saw:

- The Bank of England base rate maintained at 3.75% on 30 April 2026 and 18 June 2026. At the next decision meeting outside this quarter on 30 July 2026, the rate was also maintained at 3.75%.
- A 0.1% m/m fall in real GDP in April 2026.
- CPI inflation at 2.8% in May 2026, with a rise in core CPI inflation from 2.5% to 2.6%.
- The 3myy rate of average earnings growth excluding bonuses at 3.4% in April 2026.
- Services output contracted by 0.2% m/m in April 2026.
- The 10-year gilt yield fluctuate between 5.18% and 4.69%, ending the quarter at 4.76%.
- Public sector net borrowing of £23.3bn in May 2026 was above the OBR's forecast of £17.7bn and £5.4bn above May's figure last year.

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 MUFG Corporate Markets (CYC Treasury Advisors) 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 released on 3rd August 2026.

	Bank rate %	PWLB borrowing rates % (including certainty rate adjustment)			
		5 year	10 year	25 year	50 year
Sep 2026	3.75	5.20	5.70	6.30	6.10
Dec 2026	3.75	5.00	5.50	6.00	5.80
Mar 2027	3.75	4.80	5.30	5.80	5.60
Jun 2027	3.75	4.70	5.20	5.70	5.20
Sep 2027	3.50	4.50	5.00	5.40	5.20

Dec 2027	3.50	4.30	4.80	5.30	5.10
Mar 2028	3.25	4.20	4.70	5.20	5.00
Jun 2028	3.25	4.10	4.60	5.20	5.00
Sep 2028	3.25	4.10	4.60	5.20	5.00
Dec 2028	3.25	4.10	4.60	5.20	5.00
Mar 2029	3.25	4.20	4.70	5.20	5.00
Jun 2029	3.25	4.20	4.70	5.20	5.00
Sep 2029	3.25	4.20	4.70	5.30	5.10

Table 1 – MUFG Corporate Markets interest rate forecast 3rd August 2026

13. At the start of the second quarter of 2026/27, Market consensus is that Bank Rate may increase by 25 basis points to 4% later in 2026, or early in 2027, if the Bank of England's Monetary Policy Committee deems it prudent to protect against any secondary round effects of inflation. MUFG Corporate Markets believes that Bank Rate will remain unchanged at 3.75% for the remainder of 2026, and that the next movement will be downwards if the CPI measure of inflation gets no higher than a peak of c3.5% before trending lower towards the 2% inflation target rate.

Treasury Management Strategy Statement 2025/26

14. Full Council approved the Treasury Management Strategy Statement for 2026/27 on 12 February 2026. Details can be viewed here (item 72) <https://democracy.york.gov.uk/ieListDocuments.aspx?CId=331&MId=14610> and here (item 195) <https://democracy.york.gov.uk/%28S%28aw2b23jofoyuejfc1asnl055%29%29/ieListDocuments.aspx?CId=733&MId=15178>
15. There are no investment policy changes and the details in this report do not amend the Statement.

Overall Treasury position at 30 June 2026

16. Table 2 shows the Councils net Treasury debt and investment position for the quarter end as at the 30 June 2026, shown with the financial year end 2025/26 position.

	Principal	Average Rate	Principal	Average Rate
	30/06/26	30/06/26	31/03/26	31/03/26
External Debt				

General Fund Borrowing	£209.74m	3.54%	£217.74m	3.57%
Housing Revenue Account (HRA) Borrowing	£133.21m	3.37%	£133.21m	3.38%
Total Borrowing	£342.95m	3.48%	£350.95m	3.42%
Other Long-term Liabilities inc. PFI	£49.35m		£49.35m	
Total External Debt	£392.30m		£400.30m	
Investments				
Investment balance	£21.62m	3.77%	£4.38m	4.03%
Net Treasury Position				
Debt less Investments	£370.68m		£395.92m	

Table 2 Summary of Treasury position as 30 June 2026

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 and 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 Council's risk appetite. The Council had no liquidity difficulties during the first quarter of the 2026/27 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 quarter up to 30th June 2026 was £26.94m (£26.08m for quarter ending 30 June 2025). The average rate of return earned on cash balances in this period was 3.77% (4.31% for quarter ending 30 June 2025).
22. Table 3 shows the current fixed term investments at 30 June 2026.

Institution Type	Principal Balance	Average Balance	Average Rate	Principal Balance	Average Balance	Average Rate
	30/06/26	01/04/26-30/06/26	01/04/26-30/06/26	31/03/26	01/04/25-31/03/26	01/04/25-31/03/26
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	£21.30m	£25.60m	3.85%	£3.90m	£27.29m	4.11%
Cash in bank	£0.32m	£0.48m	0.00%	£0.48m	£0.53m	0.00%
Total Investments	£21.62m	£26.08m	3.77%	£4.38m	£27.82m	4.03%

Table 3 Investment Portfolio by type at 30 June 2026

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.

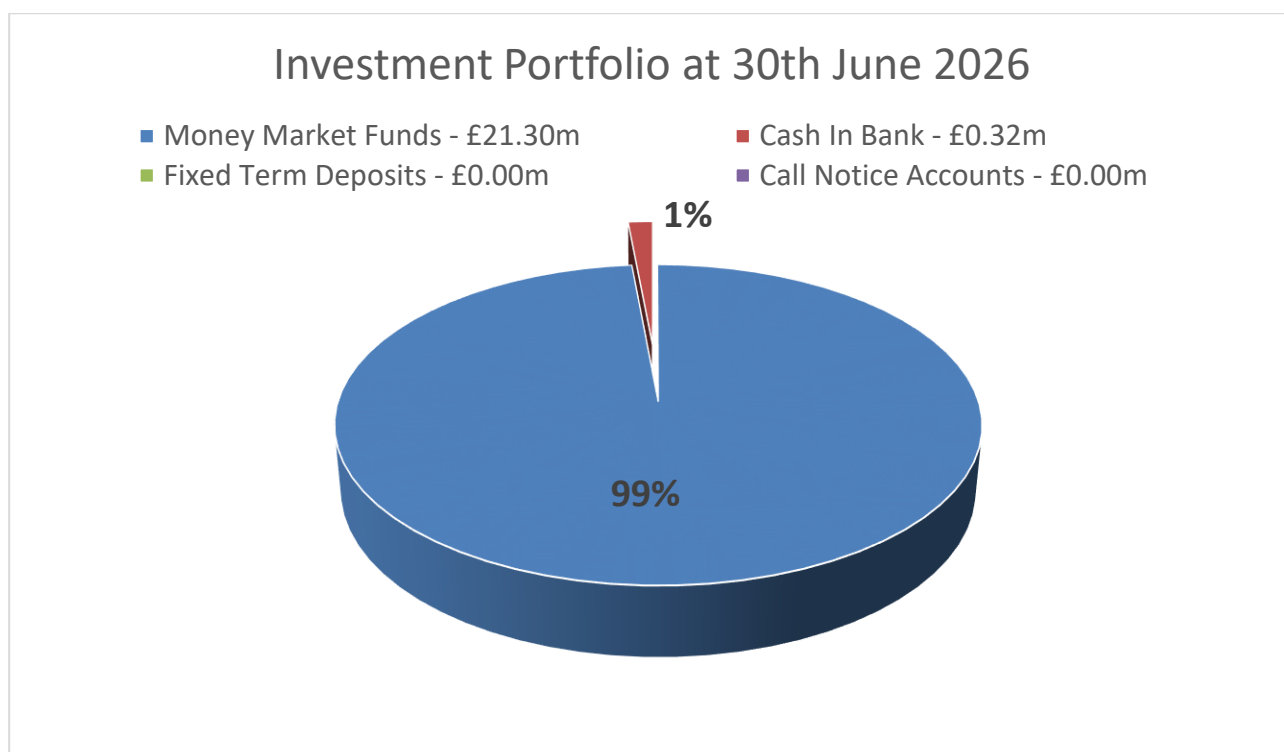


Figure 1 Investment Portfolio by type at 30 June 2026

24. The Council uses a benchmark indicator to assess the Council's 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 30 June 2026 in table 3.

	2026/27 (Quarter 1)	2025/26 (Quarter 1)	2025/26 (Full year)
Average CYC Rate of Return	3.77%	4.31%	4.03%
<u>Benchmarks</u>			
Average Overnight SONIA	3.73%	4.31%	4.01%

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

26. The average rate of return achieved for invested cash during the first quarter of 2026/27 has remained slightly above the average overnight SONIA rate due to the Council keeping cash in highly liquid Money Market Funds which provide instant access to cash.

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 quarter of 2026/27. It shows that the Council's 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.

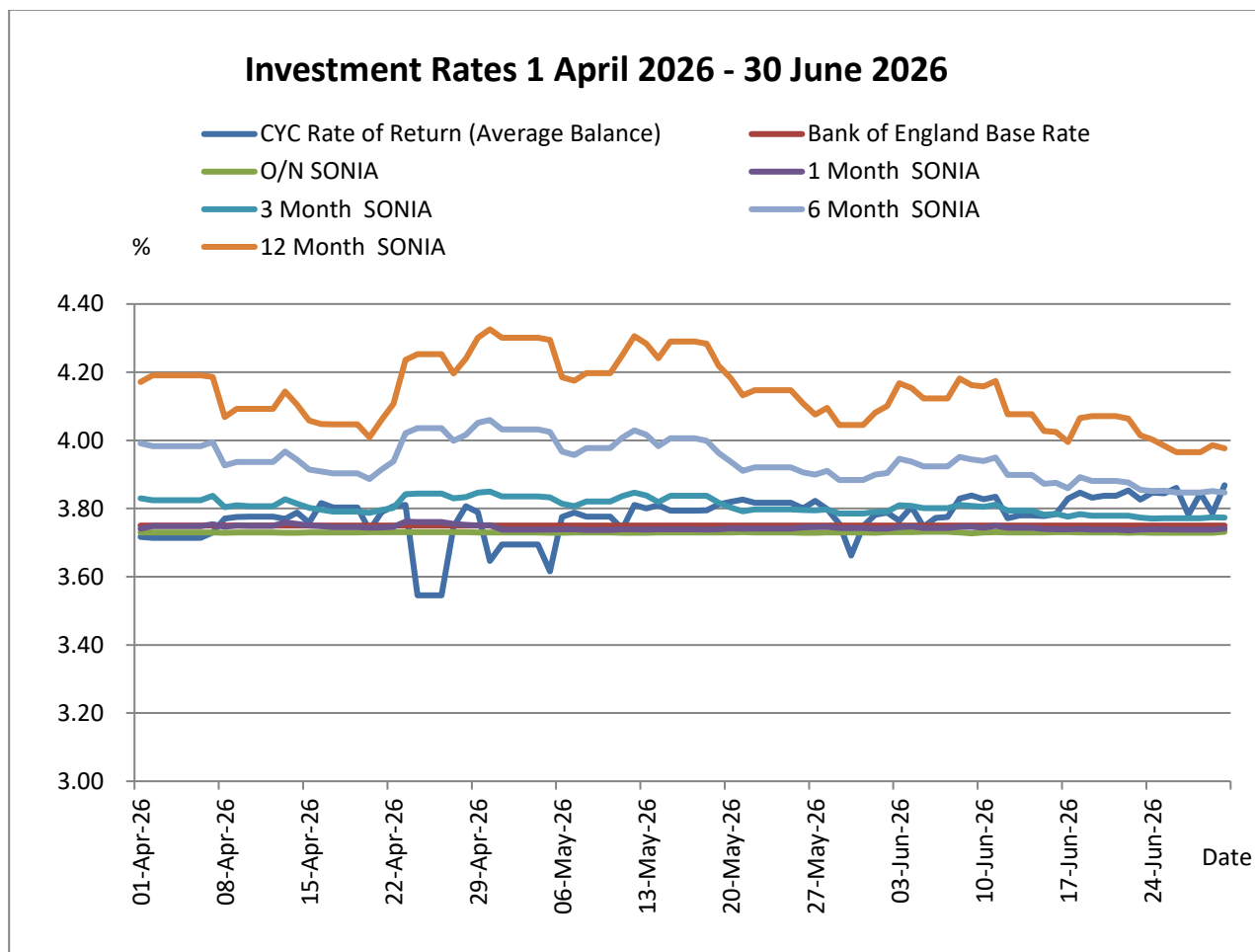


Figure 2 CYC Investments vs Bank of England base rate and SONIA up to 30 June 2026

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 and cash balances are held in more liquid funds meaning lower interest returns.
29. Opportunities that arise for notice and fixed investments which could generate higher yields are considered in terms of the Council's short to medium term cash flow requirement and it's under borrowed CFR position.
30. In the current interest rate environment medium and long-term fixed rate interest deals are currently above the rates the Council is achieving on its investments in liquid Money Market Funds, this is on the expectation that

base rate may increase before further cuts are made in line with Market predictions. While the opportunity to fix could contribute to a higher rate of return overall should interest rates follow Market predictions, the Council, by running a lower average cash balance position, does not consider it prudent at this point to enter into medium and longer fixed term deals. This position is kept under review.

Borrowing requirement and debt at 30 June 2026

31. 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.
32. 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.
33. 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.
34. 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.
35. Table 5 shows the Council's underlying need to borrow to finance capital expenditure and is termed the Capital Financing Requirement (CFR).

	31 March 2027 Qtr. 1 Forecast (30.06.26)	31 March 2027 Budget Forecast (TMSS 26/27)	31 March 2026 Outturn Actual (31.03.26)
CFR General Fund	£352.21m	£405.92m	£331.95m
CFR HRA	£132.00m	£130.20m	£133.53m
CFR Other Long-term Liabilities	£47.89m	£44.09m	£49.35m
Total CFR	£532.10m	£580.21m	£514.83m

Table 5 Capital Financing Requirement Forecast 30 June 2026

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

37. During the first quarter of 2026/27, 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.
38. While this strategy is still prudent in 2026/27 as long-term borrowing rates have remained elevated across the curve (see Table 9). Where debt is required to finance the capital programme the Treasury team will look at temporary and short-term borrowing options 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

39. The Councils long-term borrowing started the year at a level of £350.95m. The current borrowing portfolio position as at 30th June 2026 is £342.95m.

	30 June 2026			31 March 2026		
Institution Type	No. of Loans	Principal	Average Rate	No. of Loans	Principal	Average Rate
<u>Public Works Loan Board</u> PWLB – Money borrowed from the Debt Management Office (HM Treasury)	61	£340.60m	3.50%	61	£340.60m	3.50%
<u>West Yorkshire Combined Authority</u> 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%
<u>Local Authority Loans</u> Money borrowed from other Local Authorities	0	£0.00m	0.00%	1	£8.00m	4.25%

Total Borrowing (GF & HRA)	65	£342.95m	3.48%	66	£350.95m	3.42%
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Table 6 Current borrowing position 30 June 2026

40. During the first quarter of 2026/27 financial year no new loans have been taken.
41. During the first quarter of 2026/27 financial year one existing loan has matured.

Lender	Issue Date	Repayment Date	Amount	Rate	Duration (years)
Local Authority	30/03/2026	15/06/2026	£8.00m	4.25%	0.21
			£8.00m		

Table 7 Expired loans up to 30 June 2026

42. There are 10 scheduled repayments of long-term borrowing that will occur this financial year totalling £63.30m. These are detailed in Table 8 below.

Lender	Issue Date	Repayment Date	Amount	Rate	Duration (years)
Local Authority	30/03/2026	15/06/2026	£8.00m	4.250%	0.21
PWLB	19/09/2025	19/09/2026	£5.00m	4.530%	1.00
PWLB	04/02/2003	31/10/2026	£3.00m	4.500%	23.74
PWLB	08/10/2025	08/10/2026	£5.00m	4.560%	1.00
PWLB	20/02/2026	20/02/2027	£5.00m	4.310%	1.00
WYCA	23/03/2017	28/02/2027	£1.22m	0.000%	9.94
WYCA	01/09/2017	28/02/2027	£0.62m	0.000%	9.49
WYCA	02/02/2018	28/02/2027	£0.10m	0.000%	9.07
WYCA	13/04/2018	28/02/2027	£0.41m	0.000%	8.88
PWLB	16/03/2026	16/03/2027	£10.00m	4.800%	1.00
PWLB	31/03/2026	31/03/2027	£4.80m	4.640%	1.00
PWLB	28/03/2012	31/03/2027	£5.00m	3.050%	15.01
PWLB	28/03/2012	31/03/2027	£5.60m	3.050%	15.01
			£53.75m		

Table 8 All maturing loans in 2025/26

43. No loan rescheduling was done during the first quarter of the 2026/27 financial year.

44. The Council's £342.95m of fixed interest rate debt, is split between £133.21m for HRA and £209.74m for General Fund as shown in Figure 3.

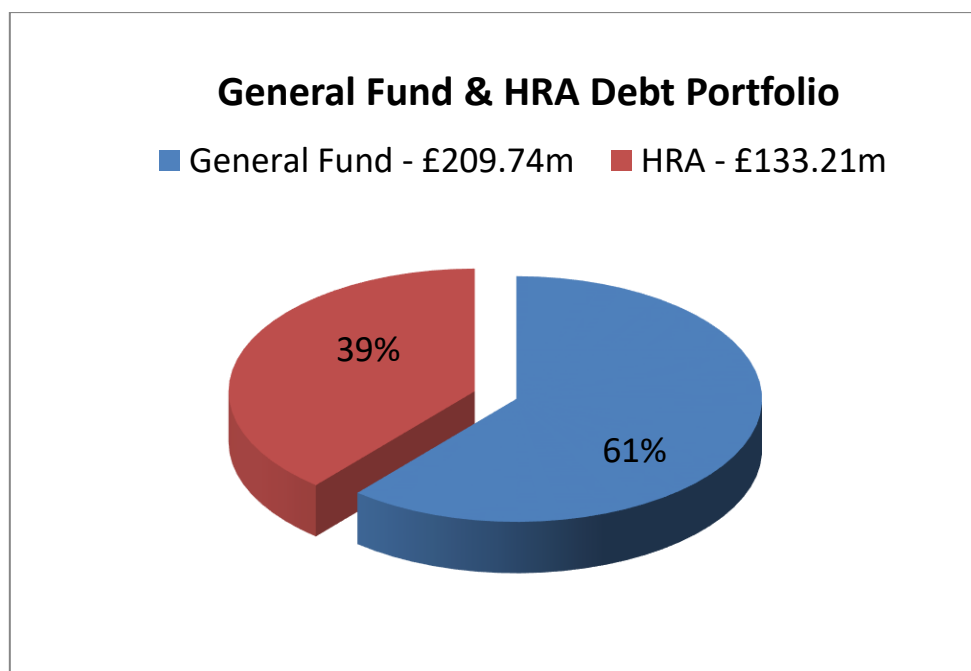


Figure 3 General Fund and HRA debt at 30 June 2026

45. Figure 4 illustrates the 2026/27 maturity profile of the Council's debt portfolio at 30 June 2026.

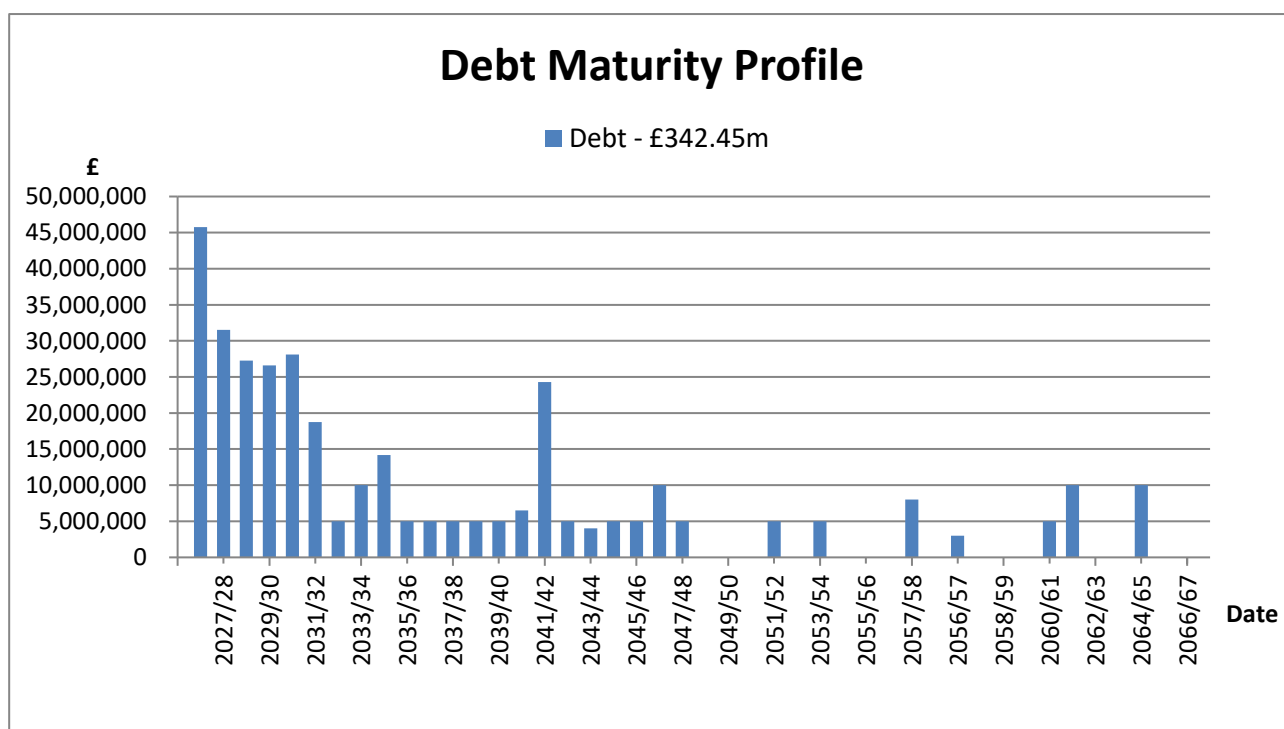


Figure 4 – Debt Maturity Profile at 30 June 2026

46. The maturity profile shows a higher concentration of loan maturities out to 6 years before a more even spread of yearly maturities in future years.

47. The current maturity profile is based on the borrowing decisions taken during financial year 2025/26 (see the Treasury Management 2025/26 Outturn report) to draw down new debt in the 1 – 6 year maturity periods and move away from drawing down new debt and refinancing 1 year maturing loans on 1 year maturities, thereby helping to reduce refinancing risk and interest rate risk dependency in the immediate year following debt drawdown.
48. Short dated 1 year borrowing has formed the majority of loans taken in the last few years but means a growing number of loans to refinance in the year following the debt drawdown, therefore, to smooth the short-term debt maturity profile new debt in the 1 – 6 year maturity period was taken in 2025/26 as those maturity periods offered the best interest rate value against a backdrop of borrowing rates for longer term debt continuing to remain elevated.
49. Since the outbreak of conflict in the Middle East in March 2026, borrowing rates have sharply increased and have not yet fallen back to levels seen in the immediate period before the conflict. Borrowing rates across the board are currently higher than they were at this time last year (see Table 9). This will impact future borrowing decisions and borrowing costs to the Council.
50. 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.
51. Table 9 shows PWLB Certainty borrowing rates available for selected loan durations between 1st April 2025 and 30th June 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	5.17%	5.49%	5.98%	6.57%	6.35%
Low	4.75%	5.04%	5.50%	6.09%	5.89%
Average	4.92%	5.23%	5.71%	6.31%	6.11%

Table 9 – PWLB Borrowing Rates 1 April 2026 to 30 June 2026

Compliance with Treasury policy Prudential Indicators

52. The Prudential Indicators for 2026/27 included in the Treasury Management Strategy Statement (TMSS) are based on the requirements of the Council's capital programme and approved at Full Council on 12th February 2026. Details can be viewed here (item 72)
<https://democracy.york.gov.uk/ieListDocuments.aspx?CId=331&MId=14610>
and here (item 195)
<https://democracy.york.gov.uk/%28S%28aw2b23jofoyuejfc1asnI055%29%29/ieListDocuments.aspx?CId=733&MId=15178>
53. 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 quarter of financial year 2026/27 the Council has operated within the treasury limits and Prudential Indicators set out in the TMSS for 2026/27.
54. An update of the Prudential Indicators is shown in Annex A.

Consultation Analysis

55. 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

56. The Treasury Management quarterly report and Prudential Indicators details the treasury management portfolio at 30 June 2026 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

57. 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 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

58. 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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Background papers

- Treasury Management Strategy Statement and Prudential Indicators for 2026/27 to 2029/30 and Annexes A, B, C and D to that report can be viewed here (item 195)
<https://democracy.york.gov.uk/%28S%28aw2b23jofoyuejfc1asnl055%29%29/ieListDocuments.aspx?CId=733&MIId=15178>

Annexes

- Annex A – Prudential Indicators 2026/27 Quarter 1 (30 June 26)

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
OBR	Office for Budget Responsibility
PWLB	Public Works Loan Board
SONIA	Sterling Overnight Index Average
TMSS	Treasury Management Strategy Statement