Treasury Management Update

2025/26

Telford & Wrekin Council

A list of abbreviations used in this report can be found at page 8

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Treasury Management Update 2025/26

Purpose

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2025/26. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2025/26 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year,
- a mid-year, (minimum), treasury update report, and
- an annual review following the end of the year describing the activity compared to the strategy.

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council. Member training on treasury management issues was provided on 29 January 2025 (the presentation slides were circulated to Committee members prior to this meeting) in order to support members' scrutiny role.

Executive Summary

During 2025/26, the Council will need to comply with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential and treasury indicators	31.3.25 Actual (£'000)	2025/26 Original (£'000)	31.3.26 Projection at 31.5.25 (£'000)
Capital expenditure • Total	87,173	151,563	138,561
Capital Financing Requirement: • Total • Less Other Long Term Liabilities • **Loans CFR**	604,910 (41,170) **563,740**	670,577 (38,457) **632,120**	666,981 (38,457) **628,524**
Gross Borrowing • External Debt	434,903	502,877	501,439
Investments • Longer than 1 year • Under 1 year • **Total**	0 22,062 **22,062**	0 15,000 **15,000**	0 15,000 **15,000**
Net borrowing • Total	412,841	487,877	486,439

Actual figures at 31 May 2025 are as follows:

Prudential and treasury indicators	31.5.25 Actual (£'000)
Gross Borrowing • External Debt	426,710
Investments • Longer than 1 year • Under 1 year • Total	0 19,843 **19,843**
Net borrowing • Total	406,867

Other prudential and treasury indicators are to be found in the main body of this report. The Director of Finance, People and IDT confirms that borrowing has only been undertaken for a capital purpose and that the statutory borrowing limit, (the authorised limit), has not been breached.

Introduction and Background

This report summarises the following:-

- Capital activity during the year to 31st May 2025;
- Impact of this activity on the Council's underlying indebtedness, (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

1. 2025/26 Treasury Strategy

The Treasury Strategy for 2025/26 was approved by Full Council on 27 February 2025, following recommendation for approval by this committee on 29 January 2025. The strategy is to continue to keep investments as short term, where possible, to reduce the need to borrow thus reducing investment exposure and maximising overall returns to the revenue account. We will review investment opportunities if they arise and also review borrowing opportunities as we progress through the year and look to take advantage of advantageous interest rates where appropriate. The Medium-Term Financial Strategy 2025/26 – 2028/29, approved by Full Council on 27 February 2025, will see the Council continue to invest in significant regeneration projects including the growth fund (Property Investment Programme), building homes through NuPlace Ltd, the Council's wholly owned company and deliver highways infrastructure.

In order to comply with MiFID II the Council will maintain a minimum investment balance of £10m.

2. Interest Rates

There were two Monetary Policy Committee (MPC) meetings this quarter. In May, the Committee cut the Bank Rate from 4.50% to 4.25%, while in June rate was left unchanged. In June's vote, three members of the Committee voted for an immediate cut to 4.00%, citing loosening labour market conditions. The other six members were more cautious, as they highlighted the need to monitor for "signs of weak demand", "supply-side constraints" and higher "inflation expectations", mainly from food prices rising. By repeating the well-used phrase "gradual and careful", the MPC continued to suggest that rates will be reduced further.

At the start of June, amid escalating tensions between Israel and Iran, oil prices surged to over $75 per barrel. However, following a ceasefire agreement near the end of the month, oil prices eased back to levels prior to the conflict. Given the drop back in energy prices and the relatively muted reaction to fears of a ceasefire violation, along with a large drop in the services PMI output prices balance, our central view is that once inflation begins to trend downwards in the final months of 2025, Bank Rate reductions can begin again from November (pause in August as inflation remains close to its peak), falling to a low of 3.5% in May 2026. However, if the conflict in the Middle East were to result in higher energy prices and/or domestic inflationary pressures grow stronger, there is a risk the Bank of England may skip cutting rates further.

The Council has appointed MUFG Corporate Markets as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The latest forecast was provided on 10th February:

MUFG Corporate Markets Interest Rate View 10.02.25													
	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28
BANK RATE	4.50	4.25	4.25	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.50	4.30	4.30	4.00	3.80	3.80	3.50	3.50	3.50	3.50	3.50	3.50	3.50
6 month ave earnings	4.40	4.20	4.20	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.50	3.50	3.50
12 month ave earnings	4.40	4.20	4.20	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.50	3.50	3.60
5 yr PWLB	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.40	4.30	4.20	4.20	4.10	4.00
10 yr PWLB	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.70	4.60	4.50	4.50	4.40	4.40
25 yr PWLB	5.80	5.70	5.60	5.50	5.40	5.30	5.20	5.10	5.00	5.00	4.90	4.90	4.80
50 yr PWLB	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.70	4.60	4.60	4.50

- Money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.
- The MUFG Corporate Markets forecast for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

The forecast has proved robust over the period since February, setting out a central view that short and long-dated interest rates will start to fall once it is evident that the Bank of England has been successful in squeezing excess inflation out of the economy, despite a backdrop of stubborn inflationary factors. Nonetheless, the longer dated part of the forecast also reflects the increased level of Government borrowing over the term of the current Parliament and the weakness in the public finances, with the Government struggling to deliver on the efficiencies detailed in the 30th of October Budget.

Moreover, there is still on-going debate as to when, and if, the Government's policies will lead to a material uptick in growth given their reliance on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

Overall, our central view is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. We forecast the next reduction in Bank Rate to be made in November and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (February, May, August and November). Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data releases in the coming months.

International factors could also impact the prospect for longer dated gilt yield falls. In the US the 'One Big Beautiful Bill Act' successfully made its way through the House of Representatives in July and given that it will signal a continued large budget deficit position in the US finances, any uptick in Treasury yields will likely impact other developed economies markets too. There will also be a keen focus on whether US-driven tariff policies result in upward pressures on inflation.

3. Prudential Regime

This Council agreed its required Prudential Indicators at Full Council on 27 February 2025.

For 2025/26, the Council set an Operational Limit for external debt (this is the limit beyond which external debt is not normally expected to exceed) of £645.0m and an Authorised limit (this is a key prudential indicator and represents a control on the maximum level of borrowing) of £665.0m. Both the actual external debt at 31 May 2025, £426.7m, and the project external debt at 31 March 2026, £501.4m, are within the Operational Boundary and Authorisation Limit.

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its Capital Financing Requirement (CFR) forecast, with total external debt being lower than the Loans CFR. The projected Loans CFR at 31 March 2026 is £628.5m. Both the actual external debt at 31 May 2025 and the project external debt at 31 March 2026 are below the Loans CFR.

The Council has operated within the Treasury Limits and Prudential Indicators set.

4. Borrowing

With the forecast for interest rates set to reduce through the second half of 2025/26, and continue to reduce in 2026/27, the Borrowing Strategy for 2025/26 is to use internal resources where available or to borrow through the use of short-term loans, up to one year and take longer term loans if appropriate. By doing so the Council is able to reduce net borrowing costs and reduce overall treasury risk.

Treasury Borrowing

As at 31 May 2025 –

- £30.0m of outstanding temporary loans had been repaid on maturity and £14.0m of new temporary loans had been raised.
- 2 new PWLB loans had been raised totalling £15.0m and £2.9m of loans had been repaid. In total £40.0m of PWLB Loans are due to mature during the year.

The loans drawn were:

Lender	Date Raised	Principal	Type	Interest Rate*	Duration
PWLB	14/04/2025	£10.0m	Fixed Interest Rate – EIP	4.71%	5 years
PWLB	14/04/2025	£10.0m	Fixed Interest Rate – Maturity	4.71%	2.5 years

5. Treasury Investments

The Treasury Investment Strategy for the year is to gain maximum benefit at minimum risk which is measured by monitoring the value-weighted credit score of the investment portfolio. This is calculated by applying a score to each investment (AAA (the most secure)=1, AA+=2 etc) and taking the arithmetic average, weighted by the size of each investment. The maximum target rate is 6, which is equivalent to a credit rating of 'A' or higher.

For the period to 31 May 2025 some £2,207m worth of investments have been made, in total at an average of £39.8m per day, across the Debt Management Office (DMO), Lloyds Bank and Money Market Funds, at an average daily interest rate of 4.37%.

The Council holds investments in money market funds which gives increased diversification of counter-party risk and slightly higher yield whilst retaining a high degree of liquidity. These investments are held in one diversified fund.

The Council can place up to £15.0m with any Counterparty, except for H.M. Treasury's DMO facility which is Government backed and therefore considered to be very secure. At 31 May 2025 the greatest exposure with a single counterparty was £12.3m (61.5% of the portfolio) with the DMO and the Council has complied with the £15m limit with other counterparties.

INVESTMENT PORTFOLIO	31.5.25 Actual £000	31.5.25 Actual %
Treasury investments		
Banks (Lloyds Bank)	2,723	13.6
Debt Management Office (H.M. Treasury)	12,300	61.5
Money Market Funds	4,980	24.9
Total managed in house	**20,003**	**100.0**
Total managed externally	0	0
TOTAL TREASURY INVESTMENTS	**20,003**	**100.0**
Credit risk indicator	2025/26 Limit	31.5.25 Actual
Portfolio average credit score	6 or lower	1.54

6. Projected Performance 2025/26

Senior Finance Officers are closely monitoring the Treasury position, particularly with the likelihood of the interest rates cuts and the timing of these. The financial monitoring report to be presented to Cabinet on 17 July 2025 includes a nil variance to budget from treasury management activities. Updates will be provided in future financial monitoring reports taken to Cabinet.

ABBREVIATIONS USED IN THIS REPORT

CE: Capital Economics – is the economics consultancy that provides MUFG Corporate Markets Treasury Limited with independent economic forecasts, briefings and research.

CFR: capital financing requirement - the council's annual underlying borrowing need to finance capital expenditure and a measure of the council's total outstanding indebtedness.

CIPFA: Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

CPI: consumer price index – the official measure of inflation adopted as a common standard by countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

ECB: European Central Bank - the central bank for the Eurozone

EIP: Equal Instalments of Principal – form of PWLB Loan

EU: European Union

EZ: Eurozone -those countries in the EU which use the euro as their currency.

Fed: the Federal Reserve System, often referred to simply as "the Fed," is the central bank of the United States. It was created by the Congress to provide the nation with a stable monetary and financial system.

FOMC: the Federal Open Market Committee – this is the branch of the Federal Reserve Board which determines monetary policy in the USA by setting interest rates and determining quantitative easing policy. It is composed of 12 members--the seven members of the Board of Governors and five of the 12 Reserve Bank presidents.

GDP: gross domestic product – a measure of the growth and total size of the economy.

G7: the group of seven countries that form an informal bloc of industrialised democracies--the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom--that meets annually to discuss issues such as global economic governance, international security, and energy policy.

Gilts: gilts are bonds issued by the UK Government to borrow money on the financial markets. Interest paid by the Government on gilts is called a coupon and is at a rate that is fixed for the duration until maturity of the gilt, (unless a gilt is index linked to inflation); while the coupon rate is fixed, the yields will change inversely to the price of gilts i.e. a rise in the price of a gilt will mean that its yield will fall.

HRA: housing revenue account.

IMF: International Monetary Fund - the lender of last resort for national governments which get into financial difficulties.

LOBO: Lender's Option Borrower's Option – a long-term loan where the lender has the option to propose an increase in the interest rate on pre-determined dates. The borrower then has the option to either accept the new rate or repay the loan without penalty. LOBOs increase the borrowers interest rate risk, and the loan should therefore attract a lower rate of interest initially.

MHCLG: the Ministry of Housing, Communities and Local Government – the Government department that directs local authorities in England

MPC: the Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing.

MRP: minimum revenue provision - a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

PFI: Private Finance Initiative – capital expenditure financed by the private sector i.e. not by direct borrowing by a local authority.

PWLB: Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

QE/QT: quantitative easing – is an unconventional form of monetary policy where a central bank creates new money electronically to buy financial assets, such as government bonds, (but may also include corporate bonds). This process aims to stimulate economic growth through increased private sector spending in the economy and also aims to return inflation to target. These purchases increase the supply of liquidity to the economy; this policy is employed when lowering interest rates has failed to stimulate economic growth to an acceptable level and to lift inflation to target. Once QE has achieved its objectives of stimulating growth and inflation, QE will be reversed by selling the bonds the central bank had previously purchased, or by not replacing debt that it held which matures. The aim of this reversal is to ensure that inflation does not exceed its target once the economy recovers from a sustained period of depressed growth and inflation. Economic growth, and increases in inflation, may threaten to gather too much momentum if action is not taken to 'cool' the economy.

RPI: the Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation – Consumer Price Index. The main differences between RPI and CPI is in the way that housing costs are treated and that the former is an arithmetical mean whereas the latter is a geometric mean. RPI is often higher than CPI for these reasons.

SONIA: the Sterling Overnight Index Average. Generally, a replacement set of indices (for LIBID) for those benchmarking their investments. The benchmarking options include using a forward-looking (term) set of reference rates and/or a backward-looking set of reference rates that reflect the investment yield curve at the time an investment decision was taken.

TMSS: the annual treasury management strategy statement reports that all local authorities are required to submit for approval by the full council before the start of each financial year.

VRP: a voluntary revenue provision to repay debt, in the annual budget, which is additional to the annual MRP charge, (see above definition).