Cheltenham Borough Council

Council – 15th December 2025

2025/26 Treasury Mid-term Report

Accountable member:

Cllr Peter Jeffries – Cabinet Member for Finance and Assets

Accountable officer:

Jon Whitlock – Head of Finance (Deputy Section 151 Officer)

Accountable scrutiny committee:

Treasury Management Panel

Ward(s) affected:

All

Key/Significant Decision:

No

Executive summary:

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the treasury management activities for the first six months of this financial year and highlights compliance with the Council's policies previously approved by members in March 2025. The Treasury Management Strategy for 2025/26 has been determined by the adoption of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the council to approve treasury management semi-annual and annual reports.

Recommendations: That Council:

notes the contents of this summary report of the treasury management activity during the first six months of 2025/26.

Implications

Financial implications

As detailed throughout this report.

Signed off by: Jon Whitlock, Head of Finance (Deputy s151 Officer), 01242 264354

Legal implications

None arising from the report recommendations.

Signed off by: One Legal legalservices@onelegal.org.uk

HR implications

None arising from the report recommendations.

Signed off by:

Environmental and climate change implications

The Council does have some exposure to investments in a pooled fund which has shares with oil and gas companies. This is detailed on page 7 of the report. As a responsible investor, the Council is committed to considering environmental, social, and governance (ESG) issues, and has a particular interest in taking action against climate change and pursuing activities that have a positive social impact.

Signed off by Climate Emergency Programme Officer, 01242 264297

Corporate policy framework implications

This report contributes to the following Corporate Plan Priorities:

- Securing our future
- Quality homes, safe and strong communities
- Taking care of your money

Signed off by: Richard Gibson, Head of Communities, Wellbeing and Partnerships, 01242 264280

1. Economic Background

1.1 The first quarter was dominated by the fallout from the US trade tariffs and their impact on equity and bond markets. The second quarter, still rife with uncertainty, saw equity markets making gains and a divergence in US and UK government bond yields, which had been moving relatively closely together.

1.2 From late June, amid a UK backdrop of economic uncertainty, concerns around the government's fiscal position and speculation around the autumn Budget, yields on medium and longer term gilts pushed higher, including the 30-year which hit its highest level for almost 30 years.

1.3 UK headline annual consumer price inflation (CPI) increased over the period, rising from 2.6% in March to 3.8% in August, still well above the Bank of England's 2% target. Core inflation also rose, from 3.4% to 3.6% over the same period, albeit the August reading was down 0.2% from 3.8% the previous month. Services inflation also fell from July to August, to 4.7% from 5.0%.

1.4 The UK economy expanded by 0.7% in the first quarter of the calendar year and by 0.3% in the second quarter. In the final version of the Q2 2025 GDP report, annual growth was revised upwards to 1.4% y/y. However, monthly figures showed zero growth in July, in line with expectations, indicating a sluggish start to Q3.

1.5 Labour market data continued to soften throughout the period, with the unemployment rate rising and earnings growth easing, but probably not to an extent that would make the more hawkish MPC members comfortable with further rate cuts. In addition, the employment rate rose while the economic inactivity rate and number of vacancies fell.

1.6 The BoE's Monetary Policy Committee (MPC) cut Bank Rate from 4.5% to 4.25% in May and to 4.0% in August after an unprecedented second round of voting. The final 5-4 vote was for a 25bps cut, with the minority wanting no change. In September, seven MPC members voted to hold rates while two preferred a 25bps cut. The Committee's views still differ on whether the upside risks from inflation expectations and wage setting outweigh downside risks from weaker demand and growth.

1.7 The August BoE Monetary Policy Report highlighted that after peaking in Q3 2025, inflation is projected to fall back to target by mid-2027, helped by increasing spare capacity in the economy and the ongoing effects from past tighter policy rates. GDP is expected to remain weak in the near-term while over the medium term outlook will be influenced by domestic and global developments.

1.8 Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would be cut further as the BoE focused on weak GDP growth more than higher inflation. One more cut is currently expected during 2025/26, taking Bank Rate to 3.75%. The risks to the forecast are balanced in the near-term but weighted to the downside further out as weak consumer sentiment and business confidence and investment continue to constrain growth. There is also considerable uncertainty around the autumn Budget and the impact this will have on the outlook.

1.9 Against a backdrop of uncertain US trade policy and pressure from President Trump, the US Federal Reserve held interest rates steady for most of the period, before cutting the Fed Funds Rate to 3.75%-4% in October. Fed policymakers also published their new economic projections at the same time. These pointed to a 0.50% lower Fed Funds Rate by the end of 2025 and 0.25% lower in 2026, alongside GDP growth of 1.6% in 2025, inflation of 3%, and an unemployment rate of 4.5%.

1.10 The European Central Bank cut rates in June, reducing its main refinancing rate from 2.25% to 2.0%, before keeping it on hold through to the end of the period. New ECB projections predicted inflation averaging 2.1% in 2025, before falling below target in 2026, alongside improving GDP growth, for which the risks are deemed more balanced and the disinflationary process over.

2. Credit review

2.1 Arlingclose, the council's treasury advisors, maintained its recommended maximum unsecured duration limit on the majority of the banks on its counterparty list at 6 months. The other banks remain on 100 days.

2.2 Financial market volatility is expected to remain a feature, at least in the near term and, credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Council's counterparty list recommended by Arlingclose remain under constant review.

3. Treasury Management Summary position as of 31st March 2025

3.1 On 31st March 2025, the Council had net borrowing of £179.399m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.25 Actual £m
General Fund CFR	118.812
HRA CFR	95.512
Total CFR	**214.324**
External borrowing	204.409
- General Fund borrowing	*113.316*
- HRA borrowing	*91.093*
Less : Internal borrowing	(9.915)
Less: Balance sheet resources	(19.375)
Net borrowing	**185.034**

4. Borrowing

4.1 As outlined in the treasury strategy, the Council's chief objective when borrowing has been to strike an appropriate risk balance between securing lower 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. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

4.2 After substantial rises in interest rates since 2021 central banks have now begun to reduce their policy rates, albeit slowly. Gilt yields however have increased over the period amid concerns about inflation, the UK government's fiscal position and general economic uncertainty.

4.3 The PWLB certainty rate for 10-year maturity loans was 5.38% at the beginning of the period and 5.53% at the end. Rates for 20-year maturity loans ranged from 5.71% to 6.30% during the period, and 50-year maturity loans from 5.46% to 6.14%. The cost of short-term borrowing from other local authorities has been similar to Base Rate during the period at 4.0% to 4.5%.

4.4 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Council. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes. The Council has no new plans to borrow to invest primarily for financial return.

4.5 The Council currently holds debt of £38.514m in commercial investments primarily for financial return that were purchased prior to the change in the CIPFA Prudential Code.

4.6 No long term borrowing has been taken out in this year due to the high rates on PWLB loans. The Council has been borrowing from the Local to Local Authority market, where rates have been much lower.

4.7 On the 30th of September the Council held £205.306m of loans, a increase of £897k compared to 31st March 2025. Outstanding loans on 30th September are summarised in table 2 below.

Table 2: Treasury Management Summary

	31.3.25 Balance £m	Movement £m	30.9.25 Balance £m	30.9.25 Rate %
Long-term Borrowing - GF	82.586	(5.655)	76.931	3.01
Long-term Borrowing - HRA	68.773	(1.398)	67.375	3.66
Temp Borrowing - GF	28.671	1.282	29.953	4.38
Temp Borrowing -HRA	24.379	6.668	31.047	4.38
Total borrowing	**204.409**	**0.897**	**205.306**	**3.69**
Long-term investments	19.375	(1.526)	17.849	5.71
Short-term investments	0.000	0.000	0.00	-
Cash and cash equivalents	0.000	8.495	8.495	4.09
Total investments	**19.375**	**6.969**	**26.344**	**4.81**
Net borrowing	**185.034**	**(6.072)**	**178.962**	

4.8 The balance as can be seen in Table 2 shows net borrowing has reduced by £7.754m as of 30th September 2025 compared with the balance held on 1st April 2025 due to the repayment of principal annuity loans of over £1m and a long term loan of £5m being repaid early as the lender had the option to increase the rate from 3.95% to over 7%. It was decided to repay the loan after seeking advice from Arlingclose first and to take out short term borrowing to cover this. Cash balances are higher due to a grant payment received in advance of expenditure.

4.9 Short-term borrowing costs have reduced in line with Base Rate and short-dated markets. At the start of the financial year, short term rates were close to 5%, but since then we have had two further rate cuts in May and in August 2025, the shorter term rates reverted to generally around 4.40%. Arlingclose predict one more interest rate cut, either before the end of December or in the new year to 3.75%. For the first half of this financial year the Council has borrowed an average of £55.419m at a rate of 4.56%.

4.9 The Housing Revenue Account (HRA) will re-imburse the General Fund for their share of the debt costs, which will see a re-alignment to the revised budget for 2025/26.

4.10 The outstanding loans on 30th September 2025 are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.25 Balance £m	2025/26 Movement £m	30.9.25 Balance £m	30.9.25 Rate %
PWLB- GF	79.761	(1.934)	77.827	3.01
PWLB- HRA	57.698	(0.12)	57.579	3.61
Banks (LOBO)- GF	1.519	(1.519)	0	-
Banks (LOBO) - HRA	3.481	(3.481)	0	-
Banks (fixed-term) -GF	2.704	0	2.704	3.85
Banks (fixed-term) -HRA	6.196	0	6.196	3.85
LA's (short-term) – GF	28.671	1.282	29.953	4.38
LA's (short-term) - HRA	24.379	6.668	31.047	4.38
Total borrowing	**204.409**	**0.897**	**205.306**	**3.70**

4.11 LOBO loans: The Council did hold £5m of 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. In May 2025, the lender did opt to increase the loan from 3.95% to over 7%. The Council decided to repay the full loan at no cost, and this has replaced this with short-term debt.

5. Investments

5.1 The CIPFA Treasury Management Code now defines treasury management investments as those investments which arise from the Council's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use during business.

5.2 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held and money borrowed in advance of need. During the six-month period the council's investment balance ranged between £16m and £31m due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.25 Balance £m	**Net Movement £m**	**30.9.25 Balance £m**	**30.9.25 Rate of Return %**
Money Market Funds/ Call Accounts	0	8.495	8.495	4.09
Pooled Funds	7.000	-	7.000	5.24
Other investments	10.693	0.232	10.849	5.39
Total Investments	**17.693**	**4.580**	**26.344**	**4.91**

5.3 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 treasury investments before seeking the optimum 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.

5.4 After a sustained period of high interest rates, central banks began to reverse course towards second half of 2024. The Bank of England delivered its first rate cut of the financial year in May of 2025 and cut it by a further 0.25% in August, taking the Base Rate to 4%.

5.5 Global trade tensions easing, resilient profits, optimism on artificial intelligence, interest rate cuts, rising gold prices, and other factors contributed to equity markets generally performing strongly across the half year despite economic uncertainties. The likes of the S&P 500 in the US and FTSE 100 in the UK hit all-time highs during the period.

5.6 Fixed income (bond) markets remained volatile as investors weighed political risks alongside concerns over fiscal sustainability. While not matching the strength of equities, corporate bonds generally achieved positive returns. However major longer-dated government bonds saw a rise in yields over the period (meaning prices fell), particularly in the UK where concerns over fiscal issues and sticky inflation saw 30-year gilt yields reaching highs not seen since the late 1990s.

5.7 The gradual improvement in UK commercial property continued. Capital values recorded marginal gains, while total returns were driven largely by rental income.

5.8 Overall, while volatility was elevated throughout, most mainstream asset classes provided positive returns to investors over the first half of the 2025/26 financial year, with equities leading the way and fixed income and property also making a positive contribution.

5.9 £7m of the Council's investments are held in externally managed strategic pooled equity, multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds have generated an average total return of 5.18% for the first 6 months of this financial year which is used to support services in year. Because the Council's externally managed 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. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rate.

5.10 Further to consultations in April 2023 and December 2024 MHCLG wrote to finance directors in England in February 2025 regarding the statutory override on accounting for gains and losses in pooled investment funds. On the assumption that when published regulations follow this policy announcement, the statutory override will be extended up until the 1st April 2029 for investments already in place before 1st April 2024. The override will not apply to any new investments taken out on or after 1st April 2024. The Council may need to set aside a reserve to mitigate the impact of the statutory override not being extended and unrealised losses on pooled investment funds are required to be recognised.

Table 5: Pooled Funds

FUND NAME	Initial Investment	1 April 2025 Fund Value	30th Sept 25 Fund Value	Dividends paid out in 2025/26 as at 30 Sept	Gain / (Loss) for 2025/26	% Returns For 2025/26	Gain / (Loss) to Initial Principal
	£	£	£	£	£	%	£
CCLA Property Fund	3,000,000	2,649,166	2,696,920	60,295	47,754	4.95	(303,080)
Schroders Income Maximiser Fund *	2,000,000	1,640,687	1,780,246	79,392	139,559	7.91	(219,754)
CCLA BW Cautious Fund	2,000,000	1,870,964	1,858,142	22,969	(12,822)	4.20	(141,858)
Total	**7,000,000**	**6,160,817**	**6,335,308**	**162,656**	**174,491**	**5.24**	**(664,692)**

* The Schroders Income Maximiser Fund has purchased shares within the oil and gas industry, which accounts 2.96% of the total amount invested in the fund (3.04% Sept 2024). This equates to £59,200 of the original £2m invested into the fund by this council (£60,800 Sept 2024). The Fund Manager is looking to ease out of investing within the oil and gas industries which has reduced from 14% in September 2021. The dividend returns are currently returning close to 8% for the first half of this financial year. There are no plans at present to sell this investment as the fund is valued below

the initial investment, which would need to be funded by revenue. As opportunities to support the climate ambitions of the Council arise, they will be considered. However, the treasury management function is controlled by statute and by professional guidelines and the first priorities of treasury must remain security, liquidity, and yield.

6. Economic Outlook for the rest of 2025/2026

Table 7: Interest rate forecast

	Current	Dec 25	Mar 26	Jun 26	Sep 26	Dec 26	Mar 27	Jun 27	Sep 27	Dec 27	Mar 28	Jun 28	Sep 28
Official Bank Rate													
Upside Risk	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central Case	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Downside Risk	0.00	-0.25	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

6.1 Inflation remained at 3.8% in September, but the expectation was for the CPI rate to peak around 4% this month and remain elevated into next year. The rise is largely the result of higher food and regulated prices, and labour costs. Services inflation remains elevated but has eased recently. Inflation expectations have picked up, but this is likely largely the result of the noticeable rise in food prices.

6.2 Spare capacity has opened up in the labour market and wage growth is slowly moderating, which should place further downward pressure on services inflation.

6.3 Underlying GDP growth remains subdued. While 2025 has been relatively strong, this was partly due to one-off factors.

6.4 Business investment is lacklustre and private sector output is constrained by weaker domestic demand and spending. Ongoing uncertainty over the global outlook is still discouraging capital investment, particularly in the manufacturing sector.

6.5 As the government struggles to meet fiscal rules amid a seeming lack of market confidence, fiscal consolidation is likely in the next Budget. This may place downward pressure on consumption and therefore economic growth.

6.6 Our view remains that the risks to growth are weighted to the downside. While upside risks to inflation remain over the short-term, these wane into the second half of 2026. The MPC's stance, however, suggests the chance of a Q4 reduction in Bank Rate has declined.

7. Compliance

7.1 The Head of Finance (Deputy S151 Officer) reports that all treasury management activities undertaken during the first six months of 2025/26 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy.

Table 8: Debt Limits

	30.9.25 Actual £m	2025/26 Operational Boundary £m	2025/26 Authorised Limit £m	Complied? Yes/No
Total debt	**205.306**	**294.000**	**304.000**	Yes

7.2 Council approved in March 2025 the authorised borrowing limit and operational boundary limit are increased to the new levels as shown above in table 8. Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

8. Treasury Management Indicators

8.1 The Council measures and manages its exposures to treasury management risks using the following indicators.

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	30.9.25 Actual	2025/26 Target	Complied?
Portfolio average credit rating	A+	A-	Yes

Maturity Structure of Borrowing: This indicator is set to control the Council's exposure to refinancing risk. This indicator covers the risk of replacement loans being unavailable, not interest rate risk. The upper and lower limits on the maturity structure of all borrowing were:

	30.9.25 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	31.42%	50%	0%	YES
12 months and within 24 months	3.60%	50%	0%	YES
24 months and within 5 years	23.17%	100%	0%	YES
5 years and within 10 years	21.58%	100%	0%	YES
10 years and above	20.23%	100%	0%	YES

8.2 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

8.3 Liability Benchmark - This new indicator compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £10m required to manage day-to-day cash flow.

	31.3.25 Actual £m	31.3.26 Forecast £m	31.3.27 Forecast £m	31.3.28 Forecast £m
Loans CFR- GF	118.812	142.083	138.331	134.726
Loans CFR- HRA	95.512	90.385	108.296	138.153
Total Loans CFR	**214.324**	**232.468**	**246.627**	**272.879**
External borrowing	204.409	214.864	239.641	268.160
Internal (over) borrowing	9.915	17.604	6.986	4.719
Less: Balance sheet resources	(19.375)	(32.755)	(22.986)	(21.719)
Investments (new borrowing)	19.603	15.151	16.000	17.000
Net loans requirement	194.949	199.713	223.641	251.160
Plus: Liquidity allowance	10.000	10.000	10.000	10.000
Liability benchmark	**204.949**	**209.713**	**233.641**	**261.160**
Existing Net Borrowing	**186.716**			

9. Consultation

9.1 Arlingclose the Council's treasury advisors have supported officers in preparing the treasury activities over the first 6 months of this financial year.

Performance management – monitoring and review

The budget position will continue to be monitored by the Finance team throughout the year and a revised budget will be presented to the December Cabinet with the 2026/27 draft budget proposal.

Report author:

Andrew Sherbourne, Treasury Management Accountant

Appendices:

1. Risk Assessment

Appendix 1: Risk Assessment

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
	If the assumptions made within the strategies change, then the aspirations within the capital programme may become unaffordable	ED Finance and Assets	3	2	6	Accept and Monitor	The Treasury Management Strategy and Prudential and Treasury Indicators reflect various assumptions of future interest rate movements and Government support for capital expenditure. These will be continually monitored and any necessary amendments will be made in accordance with the Strategy	ED Finance and Assets	Ongoing
	If the assumptions made within the strategies change, then the projected returns and the return of the initial investments may not be received.	ED Finance and Assets	3	2	6	Accept and Monitor	The Treasury Management Strategy and Prudential and Treasury Indicators reflect various assumptions of future interest rate movements and Government support for capital expenditure. These will be continually monitored and any necessary amendments will be made in accordance with the Strategy	ED Finance and Assets	Ongoing

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
	If thorough due diligence is not undertaken when pursuing PRS schemes, the Council may not meet all of the criteria set out within its capital and investment strategies.	ED Finance and Assets	4	2	8	Accept & Monitor	Due diligence is of paramount importance. All of our investments have individual business cases that are subject to thorough risk assessment and stress testing and we also stress test the whole housing to ensure all risks are captured and properly controlled. Where appropriate to the size and scale of the project we also commission independent technical, legal, accounting, risk management, property, taxation advice	ED Finance and Assets	Ongoing