

Agenda Item No:	6	
Committee:	Audit and Risk Management Committee	
Date:	24 November 2025	
Report Title:	Treasury Management Strategy Statement and Annual Investment Strategy Mid-Year Review 2025/26	

Cover sheet:

1 Purpose / Summary

The purpose of this report is to review the Council's Treasury Management activity for the first six months of 2025/26 and to provide members with an update on matters pertinent to future updates to the Council's Treasury Management Strategy.

2 Key issues

- The Chartered Institute of Public Finance and Accountancy is currently consulting local authorities in respect of potential changes to the Codes. At this juncture, the focus seems to primarily be on the non-treasury investment aspects of local authority activity. Officers will provide an update on any material developments/changes in due course.
- The Council has operated within its Treasury Management Strategy Statement (TMSS), Annual Investment Strategy, treasury limits and prudential indicators set by Council for the first six months of 2025/26.
- Forecasts that short, medium and long-dated interest rates will fall back over the next year or two, although there are upside risks in respect of the stickiness of inflation and a continuing tight labour market, as well as the size of gilt issuance.
- Forward projections for PWLB certainty rates are forecast to fall back over the next two to three years as inflation dampens.
- Prudential indicators have been updated to reflect the latest capital programme and borrowing projections.
- The Council temporarily borrowed £5M in May from another local authority to cover cash flow requirements. This temporary loan has now been repaid. It is anticipated that further borrowing will be undertaken during this financial year.
- Investment income received from temporary investments (call accounts and fixed term deposits) for the first six months of 2025/26 was £188k. The 2025/26 budget of £300k is expected to be achieved.
- The Council was invested in two property funds at the start of the financial year. Both funds had large redemption notices served by Trust Unit holders and with respect to Federated Hermes Property Fund (FHPT), Extraordinary General meetings were held that proposed a merger of the fund with Legal and General Management Property Fund. This merger was passed in August and excluded non pension fund unitholders from transferring their funds. Subsequently, the Council's investment was sold and repaid, resulting in a capital loss of £362k.

- With regards to the Patrizia Property Fund, the Trust has initiated a formal consultation and decision-making process regarding its potential wind-down or merger. Either scenario would require formal unitholder approval prior to execution.
- Debt rescheduling opportunities have increased over the course of the past six months and will be considered if giving rise to long-term savings. However, no debt rescheduling has been undertaken to date in the current financial year.

3 Recommendations

It is recommended that Members note the report.

Wards Affected	All
Portfolio Holder(s)	Cllr Chris Boden, Leader and Portfolio Holder, Finance
Report Originator(s)	Peter Catchpole, Chief Finance Officer and Corporate Director Sian Warren, Chief Accountant
Contact Officer(s)	Peter Catchpole, Chief Finance Officer and Corporate Director Sian Warren, Chief Accountant
Background Paper (s)	MUFG Corporate Markets template Council Report - 24 February 2025 - General Fund Budget 2025/26 and Capital Programme 2025-28

Report:

1 Context

- 1.1 The Council's responsibilities in relation to Treasury Management are defined as part of the Local Government Act 2003 ('the Act'). The Act requires the Council to have regard to the Treasury Management Code published by the Chartered Institute of Public Finance and Accountancy, (CIPFA).
- 1.2 Additionally, there is a statutory requirement for the Council to comply with the Prudential Code. There is a close interaction between the Treasury Management Code and the Prudential Code. The Prudential Code establishes a framework for the Council to self-regulate the affordability, prudence and sustainability of its capital expenditure and borrowing plans whilst the Treasury Management Code is concerned with how the Council uses its Treasury Management function to progress the future plans developed with reference to the Prudential Code.
- 1.3 In December 2021, CIPFA issued revised Prudential and Treasury Management Codes. These require local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments.
- 1.4 The Chartered Institute of Public Finance and Accountancy is currently consulting local authorities in respect of potential changes to the Codes. At this juncture, the focus seems to primarily be on the non-treasury investment aspects of local authority activity. Officers will provide an update on any material developments or changes in due course.
- 1.5 The Council's Capital Strategy for 2025/26 was approved by Full Council on the 24 February 2025.

2 Treasury Management

- 2.1 Treasury management is defined as "The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks."
- 2.2 The Council complies with the requirements of CIPFA's Code of Practice on Treasury Management (revised 2021).
- 2.3 The primary requirements of the Code applicable to the 2025/26 financial year are as follows:
 - Creation and maintenance of a Treasury Management Policy Statement, which sets out the policies and objectives of the Council's treasury management activities.
 - Creation and maintenance of Treasury Management Practices, which set out the manner in which the Council will seek to achieve those policies and objectives.
 - Receipt by Full Council of an annual Treasury Management Strategy Statement, including the Annual Investment Strategy and Minimum Revenue Provision Policy for the year ahead, a Mid-year Review Report and an Annual Report covering activities during the previous year.
 - Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

- Delegation by the Council of the role of scrutiny of treasury management strategy and policies (including Mid-year Review Report) to a specific named body. For this Council the delegated body is the Audit and Risk Management Committee.
- 2.4 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management and covers the following:
- an economic update for the first six months of 2025/26 taking account of expert analysis provided by the Council's Treasury Management Advisors, MUFG Corporate Markets;
 - a review of the Treasury Management Strategy Statement and Annual Investment Strategy;
 - the Council's Capital Plans;
 - a review of the Council's Investment Portfolio for 2025/26;
 - a report of the Council's Borrowing Strategy for 2025/26;
 - a report of Debt Rescheduling during 2025/26;
 - a review of compliance with Treasury and Prudential Limits for 2025/26.

3 Economic Update

3.1 The first half of 2025/26 saw:

- A 0.3% pick up in GDP for the period April to June 2025. More recently, the economy flatlined in July, with higher taxes for businesses restraining growth.
- A weakening jobs market with payroll employment falling and softer wage pressures.
- CPI inflation has ebbed and flowed but finished September at 3.8%.
- The Bank of England cut interest rates from 4.50% to 4.25% in May, and then to 4% in August.

3.2 The Bank of England does not anticipate CPI getting to 2% until early 2027, and with wages still rising by just below 5%, it was no surprise that the September meeting saw the MPC vote 7-2 for keeping rates at 4% (Dhingra and Taylor voted for a further 25bps reduction).

3.3 The Bank also took the opportunity to announce that they would only shrink its balance sheet by £70bn over the next 12 months, rather than £100bn. The repetition of the phrase that "a gradual and careful" approach to rate cuts is appropriate suggests the Bank still thinks interest rates will fall further but possibly not until February, which aligns with that of the prevailing market sentiment.

4 Interest Rate Forecast

4.1 The Council's treasury advisor, MUFG Corporate Markets, provided the following interest rate forecasts on 11th August 2025). The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20bps):

MUFG Corporate Markets Interest Rate View 11.08.25													
	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28
BANK RATE	4.00	4.00	3.75	3.75	3.50	3.50	3.50	3.50	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	4.00	4.00	3.80	3.80	3.50	3.50	3.50	3.50	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	4.00	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.30	3.30	3.40	3.40	3.40
12 month ave earnings	4.00	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.30	3.40	3.50	3.60	3.60
5 yr PWLB	4.80	4.70	4.50	4.40	4.30	4.30	4.30	4.20	4.20	4.20	4.20	4.10	4.10
10 yr PWLB	5.30	5.20	5.00	4.90	4.80	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60
25 yr PWLB	6.10	5.90	5.70	5.70	5.50	5.50	5.50	5.40	5.40	5.30	5.30	5.30	5.20
50 yr PWLB	5.80	5.60	5.40	5.40	5.30	5.30	5.30	5.20	5.20	5.10	5.10	5.00	5.00

- 4.2 The latest forecast on 11 August 2025 sets out a view that short, medium and long-dated interest rates will fall back over the next year or two, although there are upside risks in respect of the stickiness of inflation and a continuing tight labour market, as well as the size of gilt issuance.
- 4.3 PWLB Forecast - At this juncture, MUFG Corporate Markets still forecasts rates to fall back over the next two to three years as inflation dampens, although there is upside risk to all forecasts at present. The CPI measure of inflation is expected to fall below 2% in early 2027 but hit a peak of 4% or higher later in 2025.
- 4.4 The Bank of England announced in September that it would be favouring the short and medium part of the curve for the foreseeable future when issuing gilts, but market reaction to the November Budget is likely to be the decisive factor in future gilt market attractiveness to investors and their willingness to buy UK sovereign debt.

5 Treasury Management Strategy Statement and Annual Investment Strategy Update

- 5.1 The Treasury Management Strategy Statement (TMSS) for 2025/26 was approved by Council on 24 February 2025. There are no policy changes to the TMSS.
- 5.2 Changes are required to some of the prudential indicators as a result of the forecast 2025/26 capital outturn. The following table compares the previous prudential indicators (agreed on 24th February) against the latest revised indicators.

Prudential Indicators	2025/26 Previous £000	2025/26 Revised £000
Capital Programme	17,121	23,611
Capital Financing Requirement	31,821	33,018
Gross Debt	27,255	28,450
Operational Boundary	33,255	29,450
Authorised Limit For External Debt	38,255	34,450

6 The Council's Capital Position

- 6.1 This part of the report is structured to update:
 - the Council's capital expenditure plans;
 - how these plans are being financed;
 - the impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
 - compliance with limits in place for borrowing activity.
- 6.2 An update capital programme and the financing of that programme for 2025/26 is to be presented to Cabinet for approval on 15 December 2025. This revised estimate will address amendments to the programme since February, including re-profiling schemes from 2024/25 and the allocation of further capital funds for Fenland Railway projects to be funded from the CPCA funding and a re-assessment of

resources available in the period 2025-28. The tables in this report reflect this updated programme.

- 6.3 The table below compares the revised estimates with the original capital programme which was incorporated into the 2025/26 Treasury Management Strategy Statement (TMSS).

Capital Programme	2025/26 Original Estimate £000	2025/26 Revised Estimate £000
Current Forecast Expenditure	17,121	23,611
Financed by:		
Capital Grants	3,678	8,957
Capital Receipts	250	250
Capital Reserves	200	214
Total Financing (before borrowing)	4,128	9,421
Borrowing Requirement	12,993	14,190

- 6.4 The capital expenditure plans set out above provide a summary of future level of spend. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet service activity and the Council's capital strategy.
- 6.5 The Council's projections for borrowings in 2025/26 are summarised below. The following table shows the actual external debt, against the underlying capital borrowing need (the Capital Financing Requirement – CFR). The revised estimated CFR is higher than the original budget forecast (see paragraph 5.2 to 5.4 above) due to proposed capital expenditure slippage from 2024/25.

External Debt Projections	2025/26 Original Estimate £000	2025/26 Revised Estimate £000
External Debt at 1 April	14,260	7,800
Prudential Borrowing	12,995	20,650
Gross Debt at 31 March	27,255	28,450
Capital Financing Requirement at 31 March 2026	31,821	33,018
Borrowing Less CFR – 31 March 2026	(4,566)	(4,568)

- 6.6 The Council has made provision to repay all 'borrowing' liabilities through increased Minimum Revenue Provision (MRP) in the General Fund revenue budget.

- 6.7 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total CFR in the preceding year plus the estimates of any additional CFR for 2025/26 and the next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need. The policy permits borrowing in advance of need where it is prudent to do so. Members should note that the current limits and estimates set out below have been determined with reference to the existing capital programme.
- 6.8 The operational boundary is the limit beyond which external debt is not normally expected to exceed. In most cases this would be a similar figure to the CFR but may be lower or higher depending on the levels of actual debt.

Operational Boundary	2025/26 Original Estimate £000	2025/26 Revised Estimate £000
Debt	24,555	20,750
Plus Other Long Term Liabilities Finance Leases	1,000	1,000
Commercial Activities/ Non-Financial Investments	7,700	7,700
Operational Boundary for Year	33,255	29,450

- 6.9 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit, which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level for borrowing which, while not desired could be afforded in the short term but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised Limit For External Debt	2025/26 Original Estimate £000	2025/26 Revised Estimate £000
Debt	29,555	25,750
Plus Other Long Term Liabilities Finance Leases	1,000	1,000
Commercial Activities/ Non-Financial Investments	7,700	7,700
Total Borrowing	38,255	34,450

- 6.10 The Corporate Director & Chief Finance Officer reports that no difficulties are envisaged for the current year in complying with the above prudential indicators.

7 Investment Portfolio

- 7.1 In accordance with the Treasury Management Code, it is the Council's priority to ensure security of capital and liquidity and to obtain an appropriate level of return which is consistent with the Council's risk appetite.
- 7.2 The current forecasts for bank rate are shown in paragraph 3.1 above.
- 7.3 The Council held £11.61m of investments, including property funds at 30th September 2025 (£6.9m at 31st March 2025). The investment portfolio yield from temporary investments (call and fixed term deposits) for the first 6 months of the year was 3.94% (7 day backward looking average Sonia Rate 4.20%).
- 7.4 The Council has achieved investment income of 188k on its temporary investment income to 30th September 2025. The projected income for 2025/26 (£300k) is expected to be achieved.
- 7.5 The Corporate Director and Chief Finance Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2025/26.

8 Property funds

- 8.1 At the start of the financial year the Council's investments, held in the Federated Hermes and Patrizia Hanover managed pooled property funds were valued at £1.643M and £1.91m respectively. £4m was originally invested, split equally, between the two funds.
- 8.2 Investment property funds are intended as a long-term investment (typically 5 years plus) where the value of the Council's underlying investment may increase and decrease over the period the Council maintains invested. The benefit to the Council of investing in property funds is that it receives a quarterly cash distribution reflecting rental income collected by the fund manager from tenants and the potential for capital growth.
- 8.3 Since mid-2022 commercial property markets have had a difficult time in general as property prices fell sharply in response to high inflation, rising interest rates and increased debt costs which result in capital losses which haven't been fully recovered. Income flows to property remained strong and distributions from the fund are not affected by movements in capital value.
- 8.4 A large redemption order of c.22% of the Federated Hermes Trust's net asset value (NAV) was reported at the end of Q2 2024. An Extraordinary General Meeting (EGM) was held in August 2024 requesting support for an additional 12-month period within which to meet the redemptions received prior to the end of Q2 2024 and all other requests to be 'gated', limiting future redemptions to protect capital.
- 8.5 This vote was defeated and in late 2024, early 2025 the trust manager held discussions with unit holders including Fenland and subsequently at an EGM in June 2025 a merger of the Federated Hermes Property Fund and the Legal and General Management Property Fund (LGMPF) was agreed.
- 8.6 The merger excluded non-pension fund holders from transferring their holding to LGMPF and shortly after the completion of the merger on 15 August 2025 paid this Council the NAV price at the merger date of £1,637,058.
- 8.7 This represents a net loss to the Council of £362,498 to be recognised in full in the 2025/26 accounts. This amount will be funded from the Cambridgeshire Horizon Reserve.

- 8.8 In addition, the annual property distribution payment (£65k estimated in 2025/26) will no longer be payable and the projected outturn property fund income reduced to reflect that.
- 8.9 Within the Patrizia Property Fund Q2 fund snapshot report the Council was informed of the following 'As of 14 July 2025, redemption notices have been served on approximately 85% of the Trust's units, equating to £435 million at the prevailing Bid Price. Since this exceeds the threshold of two-thirds of units in issue, the Trust has initiated a formal consultation and decision-making process regarding its potential wind-down or merger'.
- 8.10 Patrizia has since appointed a property investment advisor engaging with unitholders to explore the possibility of merging the Trust into an existing fund within the MSCI Benchmark Index. Should a suitable solution emerge—one that offers necessary liquidity while preserving investment continuity—it will be communicated to unitholders for consideration. Any merger or termination event would require formal Unitholder approval prior to execution.
- 8.11 Officers will continue to keep Members informed of progress.

9 Borrowing Strategy

- 9.1 The Council's estimated CFR for 2025/26 is £33.018m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.
- 9.2 Due to the overall financial position and the underlying need to borrow for capital purposes (the CFR), no new long term external borrowing was undertaken. The capital programme is being kept under regular review due to the effects of on-going budgetary pressures. Our borrowing strategy will, therefore, also be regularly reviewed and then revised, if necessary, to achieve optimum value and risk exposure in the long-term.
- 9.3 The Council temporarily borrowed £5M in May from another local authority to cover cash flow requirements. This temporary loan has now been repaid.
- 9.4 It is anticipated that further borrowing will be undertaken during this financial year. Assumptions about the level of external interest payable are included within the budget. Responsibility for deciding when to borrow externally, together with details of the amount to borrow and the term and type of any loan, rests with the Chief Finance Officer. The Chief Finance Officer's decision will be informed by advice from the Council's treasury management advisors and information regarding the progress of schemes set out in the capital programme. Any borrowing decisions will be reported to Cabinet through the annual treasury management report.

10 Debt Rescheduling

- 10.1 Debt rescheduling opportunities have increased over the course of the past six months and will be considered if giving rise to long-term savings. However, no debt rescheduling has been undertaken to date in the current financial year.