

COMMITTEE:	AUDIT AND GOVERNANCE COMMITTEE
MEETING DATE:	25 November 2025
BY:	Depute Chief Executive for Resources and Economy
REPORT TITLE:	Treasury Management– Mid Year Review 2025-26
REPORT STATUS:	Public

1 PURPOSE OF REPORT

An update to the Committee on Treasury Management activity during the first six months of 2025-26.

2 RECOMMENDATIONS

Members are recommended to:

- 2.1 Note the content of the report.

3 BACKGROUND

- 3.1 CIPFA's treasury management code requires that a mid-year review of treasury management activity is prepared and presented to members. Treasury management is defined as being 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. This mid-year report is reviewed against the current Treasury Management Strategy that was approved by Council on 18 February 2025.
- 3.2 A main function of treasury management operations is to ensure that the cash flow is adequately planned, with cash being available when it is required. Surplus monies are invested in low-risk counterparties, providing adequate liquidity initially before considering optimising investment return.

- 3.3 In addition, the treasury management service manages the accounting and funding of the Council's capital plans. The approved capital plans provide a guide to the borrowing need of the Council, including setting out the longer-term cash flow planning to ensure the Council can meet its capital spending obligations in future years. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, any debt previously incurred may be restructured to meet wider risk or cost objectives.
- 3.4 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:
- A. An economic update for the first part of the 2025-26 financial year;
 - B. A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
 - C. The Council's capital position (prudential indicators);
 - D. A review of the Council's investment portfolio for 2025-26.
 - E. A review of the Council's borrowing strategy for 2025-26.
 - F. A review of any debt rescheduling undertaken during 2025-26.

Part A – Economic Update

- 3.5 The Monetary Policy Committee (MPC) decreased interest rates by 0.25% in May and again in August, taking Bank rate from 4.50% in March to 4.00% in August. It is expected that the MPC will apply caution to making further cuts until inflation starts making a downward trajectory back towards 2%.
- 3.6 Interest rates are expected to continue to decrease slowly, with the rate expected to hold at 4.00% until the end of 2025. In line with the Bank of England strategy for managing inflation, which has held steady at 3.8% is expected to fall in 2026.
- 3.7 The MPC's thoughts and the economic conditions have informed our Treasury advisors forecast for the period December 2025 to September 2028 as shown in Table 3.1. It shows Bank Rate at 4.00% with an expectation that it will continue to decrease by 0.25% in March 2026 and again in September 2026 with the rate then remaining constant at 3.50% for the next twelve months, before a drop of 0.25% to 3.25%.

Table 3.1

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

Part B – Review of Treasury Management Strategy Statement and Annual Investment Strategy

- 3.8 The Treasury Management Strategy Statement (TMSS) sets out the wider Treasury and Investment Strategy and was approved by Council on 18 February 2025. The Strategy includes several key treasury management indicators. This report provides an update on the Treasury Management activity undertaken by the Council relative to the approved strategy taking account of the updated economic position and budgetary changes already approved.
- 3.9 Table 3.2 below provides a summary of the current position relative to approved indicators, with more details around the position on each indicator set out in the remainder of this report.

Table 3.2

Prudential Indicators 2025-26	Approved £m	Current Estimated Prudential Indicator £m
Capital Financing Requirement	753	742
Operational Boundary	753	742
Authorised Limit	774	774

Includes long term liabilities for PPP arrangements and finance leases

Part C - The Council's Capital Position (Prudential Indicators)

- 3.10 The current projections set against the approved indicators are set out below.

Capital Expenditure and Financing of the Capital Programme

- 3.11 Table 3.3 below sets out the current projected outturns for the Council's capital investment programmes for 2025-26 relative to the approved budget set on 18 February 2025.

The table sets out how the programme is financed, highlighting the supported and unsupported elements and the expected financing arrangements.

The borrowing requirement increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR). This in part will be offset by any revenue charges for the repayment of debt.

Table 3.3

	2025-26	2025-26
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Capital Expenditure	Approved Budget £m	Projected Outturn * £m
General Services	57	65
HRA	44	35
Total capital expenditure	101	100
Financed by:		
Capital receipts	5	12
Capital Grants	11	3
CFCR	3	3
Total financing	19	18
Borrowing requirement	82	82

** Projected outturn is based on the position to be reported in the December Council update and remains subject to change*

Impact on Prudential Indicators

- 3.12 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. Table 3.4 below, sets out the CFR and the expected debt position over the period, which is termed the Operational Boundary.
- 3.13 Overall, the Council is currently projecting to be under the approved limits for both CFR and Operational Boundary.
- 3.14 However, while General Services started the year under the CFR projected, due to delays onsite within Education projects, particularly Blindwells, Craighall and Whitecraig Primary Schools, carry forwards from these projects from 24/25 to 25/26 have given the increase in the projected General Service expenditure
- 3.15 The adjustments due to adoption of IFRS16, which changes the accounting treatment for leased assets increased the CFR by £9 million at the year end.
- 3.16 The decrease in HRA is due mainly to delays at both Herdmanflatt site and Wallyford Phase 1.

Table 3.4

Prudential Indicators	2025-26 Approved Limits £m	2025-26 Projected Outturn £m
Capital Financing Requirement		
CFR – General Services	441	436
CFR – HRA	312	306
Total CFR	753	742
Operational Boundary for external debt		
Borrowing	721	708
Other long term liabilities*	32	34
Total debt (year-end position)	753	742

* PPP arrangements and finance leases

Limits to Borrowing Activity

- 3.17 One of the key controls over the treasury activity is to ensure that over the medium term, net borrowing (borrowing less investments) will only be for a capital purpose. Gross external borrowing should not, (except in the short term), exceed the total of CFR in the previous year plus the estimates of any additional CFR for 2025-26 and next two financial years. This allows some flexibility for limited early borrowing for future years should the need arise.
- 3.18 Table 3.5 below sets out that the Council is currently managing to operate within this limit and continue to maintain an under-borrowed position. The table below shows that at the end of this financial year the Council is currently forecasting to have external borrowing of £625 million and to utilise £83 million of cash flow funds (under-borrowing) in lieu of borrowing. This is the most prudent and cost-effective approach in the current economic climate and remains consistent with the approved Treasury Management Strategy.

Table 3.5

	2024-25 Estimate £m	2024-25 Actual £m	2025-26 Original Estimate £m	2025-26 Revised Estimate £m
External borrowing	559	559	638	625
Other long term liabilities*	29	38	32	34

Total external debt	588	597	670	659
CFR* (year end position)	685	683	753	742
Under-borrowing	97	86	83	83

** Includes PPP arrangements and finance leases etc.*

- 3.19 The Authorised Limit is a statutory requirement that represents the limit beyond which borrowing is prohibited and sets an overall control on the level of borrowing. This limit reflects the level of borrowing which while not desired, could be afforded in the short term, but is not sustainable in the longer term. The approved Authorised Limit for 2025-26 is £756 million and as highlighted in Table 3.2 above, the Council continues to operate well within approved limits, and therefore there is no change to the overall strategy required.

Part D - Investment Portfolio 2025-26

- 3.20 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return consistent with the Council's risk appetite. Wider loan interest rates remain in line with the latest Bank Rate. Bank interest rates are forecast remain at 4.00% for the remainder of the year and are then expected to fall to 3.75% for the remainder of the financial year. Given this, investment returns will be lower than in 2024-25.
- 3.21 The Council's investment decisions are made in accordance with the approved strategy. Seventy-two short term investments were placed during the first 6 months of the financial year as shown in Appendix 1 for which the council received £486k of interest. Four of the investments placed are due to mature in the next financial quarter of the year.

Ethical, Sustainable, Governance (ESG) investments are sought where interest rates are comparable with other bodies and the criteria for risk exposure are also met and 3 investments of this type were placed in the period. Any other surplus cash balances are held in the Council's bank account.

These short term investments are aligned to the overall strategic direction to take opportunities to maximise income while maintaining overall liquidity and remaining in alignment with TMP1 (Treasury Management Practices) as per the Annual Investment Strategy within the approved 2025/26 Treasury Strategy.

Additionally, a call account at Lloyds was used to hold funds which has yielded a further £57k.

3.22 An external investment management company, Rathbones (previously Investec which has been incorporated into Rathbones) manages East Lothian Council Common Good funds and Charitable Trust funds in two separate portfolios. The returns on these investments continue to be closely monitored during the year. As of 30 September 2024:

- The Common Good portfolio was valued at £4.244 million, an increase of £0.353 million over the 6 month period. The performance of this portfolio over the first 6 months was lower than the benchmark by 0.80% it was also marginally lower than benchmark by 0.10% in the first 3 months of the financial year.
- The East Lothian Charitable Trust portfolio was valued at £4.184 million, an increase of £0.341 million over the 6 month period. The performance of this portfolio over the first 6 months was below the benchmark by 0.80% and it was marginally lower than benchmark by 0.30% in the first 3 months of the financial year.

Part E – Borrowing Strategy 2025-26

3.23 In recent years, the Council has predominately used PWLB as its main source of funding partly due to the level of risk and interest rates available. Consideration is given to both the maturity profile and interest rates to manage cost and refinancing risk. Interest rates at this point in the year are slightly higher than forecast within the approved capital and borrowing plans

Looking forward, the Council will need to consider further both the affordability of capital investment plans and potentially seek alternative sources and/or methods of borrowing in order to achieve the best rates and terms. Whilst it remains unclear as to the extent of any further decrease in borrowing rates or the duration of any peak, the Council's treasury advisor, MUFG Corporate Markets provides regular forecasting of PWLB rates so that an informed decision can be made on the timing of the borrowing for the capital programme.

3.24 One long term external loan was taken in the first 6 months of the financial year. Due to the overall financial position and the underlying need to borrow for capital purposes (the capital financing requirement – CFR, currently £742 million) it is currently estimated that further new external borrowing of £72 million will be required during the second half of this financial year.

Table 3.6

Loan	Date	Principal £m	Maturity (Years)	Interest rate
PWLB - Maturity	03/04/2025	10	2	4.53%

3.25 No PWLB loans matured during the first six months. Payment of £8.140m was made in relation to 4 annuities and 9 EIP loans.

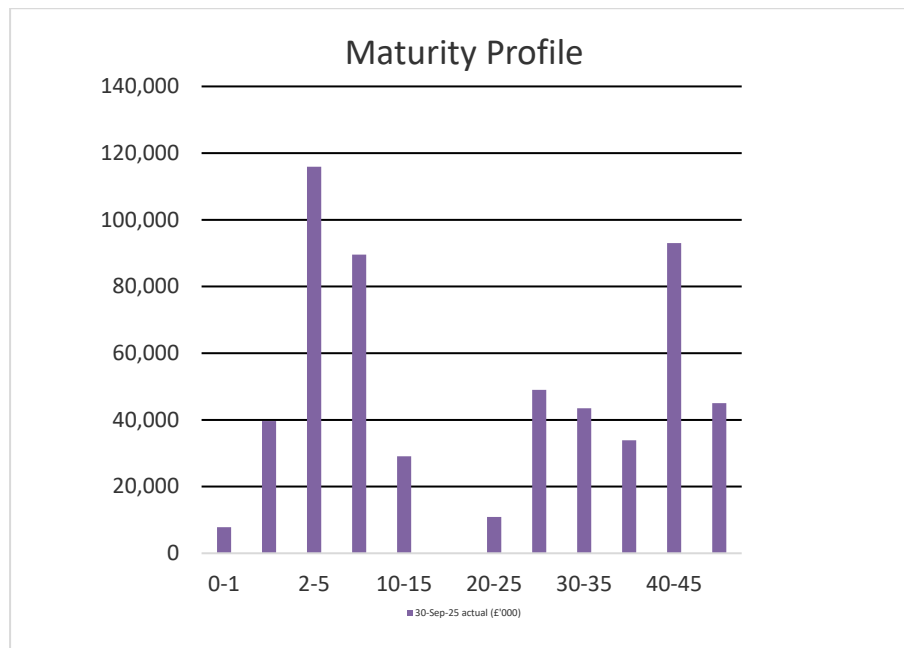
3.26 Two long term market loans were repaid early as shown in table 3.8

Table 3.7

Loan	Date repaid	Principal £m	Original Maturity	Date Repaid	Interest rate
Barclays Bank	21/06/2007	5	21/06/2066	25/07/2025	4.25%
Dexia	24/03/2006	4	30/03/2056	30/09/2025	4.10%

Current Loan Maturity Profile

3.27 The graph below sets out the current external borrowing maturity profile for the Council.



Part F – Debt Rescheduling

3.28 Debt rescheduling opportunities have increased over the course of the past six months and will be considered if giving rise to long-term savings.

- 3.29 As noted above in 3.26 two loans were repaid.
- 3.30 During the second quarter of the year, the opportunity arose to repay a £5 million market loan from Barclays Bank which was not due to mature until June 2066 at a discounted rate.
- 3.31 Given that the interest rate (4.25%) was higher than the rate that the council could receive from investing surplus cash balances (3.95%), and that interest rates are forecast to fall further by the time that refinancing of this debt will be required, a decision was taken to repay this loan.
- 3.32 This decision has given rise to a £1.1 million gain due to the discounted repayment, which will be used to reduce forecast debt charges.
- 3.33 At the end of the second quarter Dexia exercised their option on their £4 million loan to alter the interest rate from 4.10% to 6.56%. This allowed the Council to exercise its option to repay as this was higher than other interest rates available.
- 3.34 Given that the interest rates available (4.18%-5.26% depending on the term) were higher than the rate that the council could receive from investing surplus cash balances (3.95%), and that interest rates are forecast to fall further by the time that refinancing of this debt will be required, a decision was taken to repay this loan.

Part G - Introduction of Reporting Standard IFRS16

- 3.35 International Financial Reporting Standard 16 – Leases came into operation from 1 April 2024. The standard brings the value of assets where the Council has the right of use including lease agreements onto the Council's balance sheet. The standard also requires that these values are reflected in both capital and debt calculations. This standard had implications for the treasury prudential indicators, particularly the Capital Financing Requirement as well as the Operational Boundary and Authorised Limit.
- 3.36 The implementation of the new standard and the £9m adjustment required were included in the year report with an estimate of £8m incorporated into Treasury Strategy for 2025-26. Future reporting and Treasury Strategies will include these assets.

4 POLICY IMPLICATIONS

- 4.1 There are no direct policy implications associated with this report; however the Council's treasury management activity is determined by the policy framework set out in the approved Treasury Management Strategy. No changes to the current strategy are recommended on the basis of this mid-year review.

5 RESOURCE AND OTHER IMPLICATIONS

- 5.1 Finance: There are no direct financial implications associated with this report however the Council's Treasury Management and Capital activity clearly has a significant impact on the management of the Council's financial resources
- 5.2 Human Resources: None
- 5.3 Other (e.g. Legal/IT): None
- 5.4 Risk: None

6 INTEGRATED IMPACT ASSESSMENT

- 6.1 **Select the statement that is appropriate to your report by placing an 'X' in the relevant box.**

An Integrated Impact Assessment screening process has been undertaken, and the subject of this report does not affect the wellbeing of the community or have a significant impact on: equality and human rights; tackling socio-economic disadvantages and poverty; climate change, the environment and sustainability; the Council's role as a corporate parent; or the storage/collection of personal data.

X

or

The subject of this report has been through the Integrated Impact Assessment process and impacts have been identified as follows:

Subject	Impacts identified (Yes, No or N/A)
Equality and human rights	
Socio-economic disadvantage/poverty	
Climate change, the environment and sustainability	
Corporate parenting and care-experienced young people	
Storage/collection of personal data	
Other	

[Enter information on impacts that have been identified]

The Integrated Impact Assessment relating to this report has been published and can be accessed via the Council's website:

https://www.eastlothian.gov.uk/info/210602/equality_and_diversity/12014/integrated_impact_assessments

7 APPENDICES

7.1 Appendix 1 : April 2025- September 2025 Short-term Investment

8 BACKGROUND PAPERS

8.1 Treasury Management Strategy 2025-26 to 2029-30 – East Lothian Council 18 February 2025

9 AUTHOR AND APPROVAL DETAILS

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Date	11 November 2025

Head of Service Approval

Name	Ellie Dunnet
Designation	Head of Finance
Confirmation that IIA and other relevant checks (e.g.	Yes

Name	Ellie Dunnet
finance/legal) have been completed	
Approval Date	14 November 2025

Treasury Management Mid-Year Review 2025-26

Appendix 1 : April 2025- September 2025 Short-term Investment

Investment with	Principal £m	Interest Rate	Investment Date	Term (Days)	Interest	Date Repayable/ Repaid
DMADF (UK Government)	8.00	4.450%	01/04/2025	2	1,950.68	03/04/2025
DMADF (UK Government)	6.00	4.450%	02/04/2025	5	3,657.53	07/04/2025
DMADF (UK Government)	6.00	4.450%	03/04/2025	7	5,120.55	10/04/2025
DMADF (UK Government)	4.00	4.450%	03/04/2025	4	1,950.68	07/04/2025
DMADF (UK Government)	5.00	4.445%	07/04/2025	4	2,435.62	11/04/2025
DMADF (UK Government)	5.00	4.440%	07/04/2025	7	4,257.53	14/04/2025
DMADF (UK Government)	5.00	4.440%	07/04/2025	10	6,082.19	17/04/2025
DMADF (UK Government)	6.00	4.445%	09/04/2025	2	1,461.37	11/04/2025
DMADF (UK Government)	6.00	4.440%	10/04/2025	7	5,109.04	17/04/2025
DMADF (UK Government)	3.00	4.435%	15/04/2025	17	6,196.85	02/05/2025
DMADF (UK Government)	6.00	4.450%	16/04/2025	1	731.51	17/04/2025
DMADF (UK Government)	6.00	4.450%	17/04/2025	7	5,120.55	24/04/2025
DMADF (UK Government)	4.00	4.450%	17/04/2025	12	5,852.05	29/04/2025
DMADF (UK Government)	7.00	4.450%	24/04/2025	8	6,827.40	02/05/2025
DMADF (UK Government)	4.00	4.450%	29/04/2025	1	487.67	30/04/2025
DMADF (UK Government)	10.00	4.450%	01/05/2025	7	8,534.25	08/05/2025
DMADF (UK Government)	5.00	4.385%	06/05/2025	3	1,802.05	09/05/2025
DMADF (UK Government)	5.00	4.200%	08/05/2025	8	4,602.74	16/05/2025
DMADF (UK Government)	10.00	4.200%	09/05/2025	6	6,904.11	15/05/2025
DMADF (UK Government)	6.00	4.200%	15/05/2025	8	5,523.29	23/05/2025

DMADF (UK Government)	2.00	4.200%	22/05/2025	15	3,452.05	06/06/2025
DMADF (UK Government)	10.00	4.200%	28/05/2025	2	2,301.37	30/05/2025
DMADF (UK Government)	5.00	4.210%	30/05/2025	13	7,497.26	12/06/2025
DMADF (UK Government)	3.00	4.205%	02/06/2025	4	1,382.47	06/06/2025
DMADF (UK Government)	3.00	4.205%	05/06/2025	4	1,382.47	09/06/2025
DMADF (UK Government)	5.00	4.200%	11/06/2025	5	2,876.71	16/06/2025
DMADF (UK Government)	3.00	4.200%	12/06/2025	1	345.21	13/06/2025
DMADF (UK Government)	8.00	4.200%	16/06/2025	3	2,761.64	19/06/2025
DMADF (UK Government)	3.50	4.200%	18/06/2025	1	402.74	19/06/2025
DMADF (UK Government)	2.50	4.200%	19/06/2025	1	287.67	20/06/2025
DMADF (UK Government)	2.50	4.200%	20/06/2025	7	2,018.49	27/06/2025
DMADF (UK Government)	3.50	4.200%	24/06/2025	3	1,209.66	27/06/2025
DMADF (UK Government)	9.00	4.205%	25/06/2025	5	5,184.25	30/06/2025
DMADF (UK Government)	4.00	4.200%	01/07/2025	2	920.55	03/07/2025
DMADF (UK Government)	10.00	4.210%	01/07/2025	9	10,380.82	10/07/2025
DMADF (UK Government)	6.00	4.205%	02/07/2025	5	3,456.16	07/07/2025
DMADF (UK Government)	4.00	4.200%	03/07/2025	1	460.27	04/07/2025
DMADF (UK Government)	8.00	4.210%	08/07/2025	10	9,227.40	18/07/2025
DMADF (UK Government)	5.00	4.210%	09/07/2025	21	12,110.96	30/07/2025
DMADF (UK Government)	10.00	4.210%	10/07/2025	14	16,147.95	24/07/2025
DMADF (UK Government)	3.00	4.205%	16/07/2025	5	1,728.08	21/07/2025
DMADF (UK Government)	7.00	4.210%	23/07/2025	7	5,651.78	30/07/2025
DMADF (UK Government)	6.00	4.210%	24/07/2025	8	5,536.44	01/08/2025
DMADF (UK Government)	8.00	4.210%	30/07/2025	7	6,459.18	06/08/2025
DMADF (UK Government)	4.00	4.200%	01/08/2025	7	3,221.92	08/08/2025

DMADF (UK Government)	5.00	4.070%	05/08/2025	7	3,902.74	12/08/2025
DMADF (UK Government)	8.00	3.970%	06/08/2025	7	6,090.96	13/08/2025
DMADF (UK Government)	3.00	3.950%	07/08/2025	7	2,272.60	14/08/2025
DMADF (UK Government)	5.00	3.950%	12/08/2025	7	3,787.67	19/08/2025
DMADF (UK Government)	5.00	3.950%	13/08/2025	9	4,869.86	22/08/2025
DMADF (UK Government)	6.00	3.950%	13/08/2025	15	9,739.73	28/08/2025
DMADF (UK Government)	3.00	3.955%	14/08/2025	29	9,426.99	12/09/2025
DMADF (UK Government)	5.00	3.950%	20/08/2025	6	3,246.58	26/08/2025
DMADF (UK Government)	5.00	3.950%	21/08/2025	8	4,328.77	29/08/2025
DMADF (UK Government)	3.00	3.955%	26/08/2025	24	7,801.64	19/09/2025
DMADF (UK Government)	4.00	3.950%	27/08/2025	16	6,926.03	12/09/2025
DMADF (UK Government)	4.00	3.950%	29/08/2025	6	2,597.26	04/09/2025
DMADF (UK Government)	1.50	3.960%	01/09/2025	28	4,556.71	29/09/2025
DMADF (UK Government)	3.00	3.960%	03/09/2025	26	8,462.47	29/09/2025
DMADF (UK Government)	4.00	3.960%	05/09/2025	14	6,075.62	19/09/2025
DMADF (UK Government)	3.00	3.960%	10/09/2025	22	7,160.55	2-Oct-25
DMADF (UK Government)	7.00	3.960%	16/09/2025	13	9,872.88	29/09/2025
DMADF (UK Government)	5.00	3.960%	16/09/2025	35	18,986.30	21-Oct-25
DMADF (UK Government)	3.00	3.950%	17/09/2025	2	649.32	19/09/2025
DMADF (UK Government)	2.00	3.950%	19/09/2025	5	1,082.19	24/09/2025
DMADF (UK Government)	3.00	3.970%	25/09/2025	35	11,420.55	30-Oct-25
DMADF (UK Government)	1.50	3.965%	30/09/2025	24	3,910.68	24-Oct-25
Central Bedfordshire	5.00	4.200%	14/05/2025	92	52,931.51	14/08/2025
Perth & Kinross	5.00	4.000%	14/08/2025	32	17,534.25	15/09/2025
Standard Chartered - Sustainable Deposit	5.00	4.290%	15/04/2025	91	53,478.08	15/07/2025

Standard Chartered - Sustainable Deposit	5.00	4.070%	15/07/2025	31	17,283.56	15/08/2025
Standard Chartered - Sustainable Deposit	5.00	3.810%	15/08/2025	31	16,179.45	15/09/2025
Total					£485,586.11	