

Appendix '1'

2025/26 Mid-Term Treasury Report ended 30 September 2025

East Lindsey District Council

1 Treasury Management

The Council operates a balanced revenue budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

2. Introduction

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021). The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the 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, (stewardship report), covering activities during the previous year. Quarterly reports are also required for the periods ending April to June and October to December but may be assigned to a designated committee or panel as deemed appropriate to meet the Treasury Management governance and scrutiny aspects of the Council.
4. 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.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is Audit and Governance Committee.

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 half of the 2025/26 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Council's investment portfolio for 2025/26;
- A review of the Council's borrowing strategy for 2025/26;
- A review of compliance with Treasury and Prudential Limits for 2025/26.

3. Economic Update & Interest Rate Forecasts (provided by MUFG)

3.1 Economic Update

The first half of 2025/26 saw:

- A 0.3% pick up in Gross Domestic Product (GDP) for the period April to June 2025. More recently, the economy flatlined in July, with higher taxes for businesses restraining growth.
- The 3 month year on year rate of average earnings growth excluding bonuses has fallen from 5.5% to 4.8% in July;
- Core Consumer Price Index (CPI) inflation has ebbed and flowed but finished September at 3.8%, whilst core inflation eased to 3.6%;
- The Bank of England cut interest rates from 4.50% to 4.25% in May and then to 4% in August.
- The 10-year gilt yield fluctuates between 4.4% and 4.8%, ending the half year at 4.70%.

MPC meetings: 8 May, 19 June, 7 August, 18 September 2025

There were four Monetary Policy Committee (MPC) meetings in the first half of the financial year. In May, the Committee cut Bank Rate from 4.50% to 4.25%, while in June policy was left unchanged. In June's vote, three MPC members 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.

In August, a further rate cut was implemented. However, a 5-4 split vote for a rate cut to 4% laid bare the different views within the MPC, with the accompanying commentary noting the decision was "finely balanced" and reiterating that future rate cuts would be undertaken "gradually and carefully". Ultimately, Governor Bailey was the casting vote for a rate cut but with the

CPI measure of inflation expected to reach at least 4% later this year, the MPC will be wary of making any further rate cuts until inflation begins its slow downwards trajectory back towards 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%.

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 both our own view and that of the prevailing market sentiment.

3.2 Interest rate forecasts

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 following Public Works Loan Board (PWLB) rate forecasts are based on the Certainty Rate (the standard rate minus 20 basis points) which has been accessible to most authorities since 1 November 2012.

The latest forecast was provided on 11 August 2025.

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. Treasury Management Strategy and Annual Investment Strategy Update

The Treasury Management Strategy Statement (TMSS) for 2025/26, which includes the Annual Investment Strategy, was approved by Council on 5 March 2025.

There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

Prudential Indicator 2025/26	Approved Budget £'000	Latest Revised Prudential Indicator £'000
Authorised Limit	29,000	29,000
Operational Boundary	25,000	25,000
Capital Financing Requirement	21,711	21,711

5. The Council's Capital Position (Prudential Indicators)

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 the limits in place for borrowing activity.

5.1 Prudential Indicators for Capital Expenditure

The following table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure	2025/26 Approved Budget £'000	2025/26 Latest Revised Budget £'000	Actual Expenditure As At 30/09/25 £'000	2025/26 Estimated Outturn £'000
Towns Fund Projects	14,378	13,700	5,858	13,680
UKSPF Projects	1,069	1,069	231	1,077
Lincolnshire Wolds Culture & Heritage Programme	6,206	6,232	311	6,232
EL Investment Fund Projects	446	1,436	417	1,436
Other Projects	22,680	23,781	4,924	20,116
Grand Total	44,779	46,218	11,741	42,541

5.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision (MRP)). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2025/26 Approved Budget £'000	2025/26 Latest Revised Budget £'000	Actual Expenditure As At 30/09/25 £'000	2025/26 Estimated Outturn £'000
Total capital expenditure	44,779	46,218	11,741	42,541
Financed by:				
External Grants	(34,853)	(34,878)	(8,415)	(31,123)
Capital reserve	(1,143)	(2,793)	(82)	(2,756)
Other reserve	(6,498)	(7,062)	(3,049)	(7,177)
Capital Receipts	(857)	(57)	(22)	(57)
Total financing	(43,351)	(44,790)	(11,568)	(41,113)
Borrowing requirement	1,428	1,428	173	1,428

5.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

We are on target to achieve the original forecast Capital Financing Requirement.

Prudential Indicator – the Operational Boundary for external debt

	2025/26 Approved Budget £'000	2025/26 Latest Revised Budget £'000	Actual Expenditure As At 30/09/25 £'000	2025/26 Estimated Outturn Limit £'000
Prudential Indicator – Capital Financing Requirement				
Total CFR	21,711	21,711	20,196	21,448
Net movement in CFR	1,428	1,428	(87)	1,165
Prudential Indicator – the Operational Boundary for external debt				
Borrowing	20,000	20,000	0	20,000
Other long-term liabilities*	5,000	5,000	550	5,000
Total debt (year end position)	25,000	25,000	550	25,000

5.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings 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 preceding 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.

	2025/26 Original Estimate £'000	2025/26 Latest Approved Budget £'000	Actual Expenditure As At 30/09/25 £'000	2025/26 Estimated Outturn £'000
Borrowing	0	0	0	0
Other long-term liabilities	0	0	550	550
Total debt	0	0	550	550
CFR* (year end position)	21,711	21,711	20,196	21,448

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 of 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 Limit £'000	2025/26 Latest Approved Limit £'000	Actual Borrowing As At 30/09/25 £'000	2025/26 Estimated Outturn Limit £'000
Borrowing	24,000	24,000	0	24,000
Other long-term liabilities	5,000	5,000	550	5,000
Total	29,000	29,000	550	29,000

6. Borrowing

The Council's capital financing requirement (CFR) for 2025/26 is £20.196m. 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. The Council has no external borrowing apart from leases and had utilised £20.196m of cash flow funds in lieu of borrowing as at 30 September 2025. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring if gilt yields remain elevated, particularly at the longer-end of the yield curve (25 to 50 years).

The following table provides a comparison of budgeted borrowing costs and the outturn position for the year. The only borrowing costs during 2025/26 relate to borrowing for cash flow purposes and has now been fully repaid.

Borrowing Type	2025/26 Budget Quarter 2	2025/26 Actual Quarter 2	2025/26 Annual Budget	2025/26 Forecast Outturn
Cash Flow Borrowing	0	23,723	0	23,723
Total Borrowing Costs	0	23,723	0	23,723

PWLB maturity certainty rates (gilts plus 80bps) year to date to 30 September 2025

Gilt yields and PWLB certainty rates have remained relatively volatile throughout the six months under review, but the general trend has been for medium and longer dated parts of the curve to shift higher whilst the 5-year part of the curve finished September close to where it began in April.

Concerns around the stickiness of inflation, elevated wages, households' inflation expectations reaching a six-year high, and the difficult funding choices facing the Chancellor in the upcoming Budget on 26 November dominated market thinking, although international factors emanating from the Trump administration's fiscal, tariff and geo-political policies also played a role.

At the beginning of April, the 1-year certainty rate was the cheapest part of the curve at 4.82% whilst the 25-year rate was relatively expensive at 5.92%. Early September saw the high point for medium and longer-dated rates, although there was a small reduction in rates, comparatively speaking, by the end of the month.

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.

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.

The current PWLB rates are set as margins over gilt yields as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate (General Fund (GF))** is gilt plus 80 basis points (G+80bps)
- **PWLB Local Infrastructure Rate** is gilt plus 60 basis points (G+60bps)
- **PWLB Certainty Rate (Housing Revenue Account (HRA))** is gilt plus 40bps (G+40bps)

The **National Wealth Fund** will lend to local authorities that meet its scheme criteria at a rate currently set at gilt plus 40bps (G+40bps).

7. Compliance with Treasury and Prudential Indicators

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council’s approved Treasury and Prudential Indicators (affordability limits) are included in the approved Treasury Management Strategy Statement.

During the quarter ended 30 September 2025 the Council has operated within the treasury and prudential indicators set out in the Council’s Treasury Management Strategy Statement.

The Director of Finance/S151 Officer reports that no difficulties are envisaged for the current or future years in complying with these indicators.

8. Annual Investment Strategy

The Treasury Management Strategy Statement for 2025/26, which includes the Annual Investment Strategy, was approved by the Council on 5 March 2025. It sets out the Council’s investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

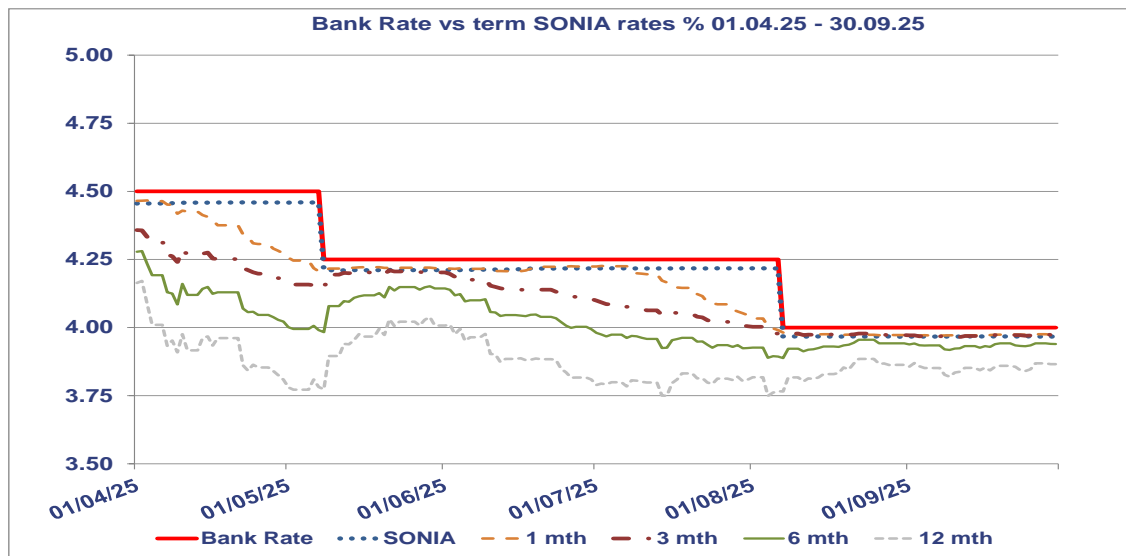
The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity aligned with the Council’s risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit quality financial institutions, using the MUFG Corporate Markets suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

Creditworthiness - The UK’s sovereign rating has proven robust through the first half of 2025/26. The Government is expected to outline in detail its future fiscal proposals in the Budget scheduled for 26 November 2025.

Investment Counterparty Criteria - The current investment counterparty criteria selection approved in the Treasury Management Strategy Statement is meeting the requirement of the treasury management function.

Credit Default Swap prices - It is noted that sentiment in the current economic climate can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

Investment performance year to date as at 30 September 2025 - The following graph shows that longer term investment rates in the market fell during the first half of the financial year because of the reduction in the Bank of England Base Rate and expectations of further reductions.



During the financial year the Council has made investments in line with the agreed Treasury Management Strategy.

Because the Council collects money on behalf of other organisations which are paid out at future dates (e.g. Council Tax and Business Rates) the value of investments held at any point in time does not represent the value of ELDC's own resources.

The following table provides details of the cash investments held by the Council on 30 September 2025. Note this represents the position at this one point in time. The peaks and troughs in cash flow are managed on a daily basis.

Financial Institution	Country	Amount (£)	Start Date	Maturity Date	Fixed/ Variable	Yield (%)
Barclays Current Account	UK	57,365	N/A	Instant	N/A	0.00%
Barclays Bank	UK	1,155,362	N/A	Instant	Variable	2.60%
Handelsbanken Plc	Sweden	7,016	N/A	Instant	Variable	3.20%
CCLA* Money Market Fund	Various	7,500,000	N/A	Instant	Variable	4.04%
UK Debt Management Office	UK	1,500,000	26/09/25	03/10/25	Fixed	3.95%
UK Debt Management Office	UK	1,950,000	29/09/25	03/10/25	Fixed	3.95%
Cheshire East Council	UK	2,000,000	23/05/25	23/10/25	Fixed	4.25%
Cherwell District Council	UK	3,000,000	15/05/25	14/11/25	Fixed	4.60%
ANZ (London)	Australia	2,500,000	15/05/25	17/11/25	Fixed	4.48%
The Moray Council	UK	2,000,000	28/11/24	27/11/25	Fixed	5.35%
Monmouthshire County Council	UK	2,000,000	03/03/25	03/12/25	Fixed	5.80%
High Peaks Borough Council	UK	3,000,000	09/04/25	09/12/25	Fixed	4.60%
Broxbourne Borough Council	UK	2,500,000	20/06/25	22/12/25	Fixed	4.25%
Gloucester City Council	UK	2,500,000	15/04/25	15/01/26	Fixed	4.60%
ANZ (London)	Australia	2,500,000	21/07/25	21/01/26	Fixed	4.48%
Blackpool Borough Council	UK	2,500,000	27/05/25	27/02/26	Fixed	4.70%
Derbyshire County Council	UK	2,500,000	30/04/25	30/04/26	Fixed	4.60%
Police & Crime Commissioner for Hertfordshire	UK	2,000,000	29/08/25	29/05/26	Fixed	4.15%
East Ayrshire Council	UK	2,500,000	02/06/25	01/06/26	Fixed	4.65%
Chorley Borough Council	UK	2,500,000	04/08/25	03/08/26	Fixed	4.30%
Wrexham County Borough Council	UK	3,000,000	20/08/25	19/08/26	Fixed	4.30%
Aberdeen City Council	UK	2,000,000	01/09/25	28/08/26	Fixed	4.15%
TOTAL		51,169,743				

** The CCLA (Church, Charities and Local Authorities) Money Market Fund is domiciled in the UK but investment funds deposited globally.*

At Quarter 1 the level of investments was £42.6m.

In addition to the above loans the Council has made loans to Invest EL as follows:

Loan	Amount	Start Date	Agreed Repayment Terms	Yield
Caravan Sales Loan	272,600	01/07/2020	31/03/2036	4.00%
Caravan Hire Fleet Loan	268,952	01/07/2020	31/03/2037	4.00%
Caravan Hire Fleet Expansion Loan	720,000 <u>380,000</u> 1,100,000	15/02/2021 07/02/2022	£200k per annum from 31/03/2038 and final payment of £300k on 31/03/2042	4.00% 4.00%
Housing Development Loan	300,000 <u>500,000</u> 800,000	30/06/2021 16/11/2021	£200k per annum from 31/03/2026	4.00% 4.00%
Cash Flow Loans	500,000 200,000 300,000 <u>250,000</u> 1,250,000	20/01/2022 19/05/2022 12/07/2022 20/09/2022	£200k per annum from 31/03/2030 and final payment of £250k on 31/03/2035	4.00% 4.00% 4.00% 4.00%
TOTAL	3,691,552			

Interest earned and received on these loans in the current financial year to 30 September 2025 is £74,033.

Maturity structure of investment

A breakdown of the maturity structure of investments on 30 September 2025 is as follows:

Period to Maturity	Amount (£)	% of Portfolio
Instant Access	8,719,743	12%
Less than one month	5,450,000	8%
One to three months	15,000,000	20%
Three to six months	7,500,000	10%
Six to nine months	7,000,000	9%
Nine months to a year	7,500,000	10%
InvestEL	3,691,552	5%
>12 Months	19,343,042	26%
TOTAL	74,204,337	100%

Property Fund Investments

The Council purchased property fund units between 2016 and 2019.

In August, the Federated Hermes Fund (classified as revenue expenditure) completed a merger with Legal and General. The Council is not eligible to be an investor in the new fund as it isn't a pension administering authority so the investment was returned based on the transferred Net Asset Value of the fund.

The Council originally invested £3,999,951 and received a payment of £3,790,970 on 14 August 2025, resulting in a principal impairment of £208,981. When the 2025/26 budget was set it included a provision of £200k which leaves a small additional budget pressure of £8,981.

The overall change in the combined Net Asset Values for all capital funds during the first half year of 2025/26 has been an increase of £96,173.

The movement in fair value of the Capital Funds gets charged to the revenue account and reversed out through the MIRS to the capital adjustment account each year end so there is no bottom-line impact.

The M&G UK Property fund is liquidating its assets and therefore their fund valuation is reducing as repayments are made. Of the £4.8m originally invested, M&G have now paid East Lindsey DC distribution payments totalling £4,656,014 as of 30 September 2025 leaving a book value of £143,986 outstanding.

The following table provides details of purchase cost, current fair value and performance information of the property fund investments on 30 September 2025 and projected outturns for the year.

Pooled Investment Fund (Revenue Expenditure)

Financial Institution	Purchase Cost (£)	Q2 Budgeted Net Revenue 2025/26 (£ & %)	Q2 Estimated Net Revenue (£ & %)	2025/26 Budgeted Net Revenue (£ & %)	2025/26 Estimated Outturn Net Revenue (£ & %)	Net Asset Value (£)	Total Gain/(Loss) Since Purchase (£ & %)	Capital Gain/(Loss) Since 31/03/25 (£ & %)	2025/26 Combined Annual Return (%)
Federated Hermes Property Unit Trust (now redeemed)	N/A	80,218 4.00%	14,438 1.55%	159,998 4.00%	14,438 1.55%	N/A	N/A	N/A	N/A

Property Funds (Capital Expenditure)

Financial Institution	Purchase Cost (£)	Q2 Budgeted Net Revenue 2025/26 (£ & %)	Q2 Estimated Net Revenue (£ & %)	2025/26 Budgeted Net Revenue (£ & %)	2025/26 Estimated Outturn Net Revenue (£ & %)	Net Asset Value (£)	Total Gain/(Loss) Since Purchase (£ & %)	Capital Gain/(Loss) Since 31/03/25 (£ & %)	2025/26 Combined Annual Return (%)
Schroder UK Real Estate Fund	4,800,037	96,264 4.00%	86,961 3.61%	192,002 4.00%	170,908 3.56%	4,173,876	(626,161) (13.04%)	(97,321) (2.28%)	1.28%
Threadneedle Property Unit Trust	4,798,987	96,243 4.00%	102,151 4.25%	191,960 4.00%	185,904 3.87%	4,159,683	(639,304) (13.32%)	48,508 1.18%	5.05%
BlackRock UK Property Fund	4,800,032	96,264 4.00%	70,153 2.92%	192,001 4.00%	153,923 3.21%	4,271,005	(529,027) (11.04%)	23,444 0.55%	3.76%
M&G Investments UK Property Fund (after distribution payments)	143,986	8,092 4.00%	3,506 N/A	16,141 4.00%	6,019 N/A	330,248	186,262 N/A	32,931 N/A	N/A
AEW UK Core Property Fund	4,800,000	96,263 4.00%	38,605 1.60%	192,000 4.00%	122,374 2.55%	4,305,481	(494,519) (10.30%)	88,611 2.10%	4.65%
TOTAL	19,343,042	393,126	301,376	784,104	639,128	17,240,293	(2,102,749)	96,173	
TOTAL REVENUE & CAPITAL FUNDS	19,343,042	473,344	315,814	944,102	653,566	17,240,293	(2,102,749)	96,173	

Summary of Investment Income Received Against Budget and Forecast Outturn

The table below provides a comparison of investment income received against budget at Quarter 2 and a forecast outturn position for the year.

Investment Type	2025/26 Budget Quarter 2	2025/26 Actual Quarter 2	2025/26 Variance Quarter 2	2025/26 Annual Budget	2025/26 Forecast Outturn	2025/26 Forecast Variance
<u>Treasury Investments</u>						
Gross Interest	(603,727)	(1,256,397)	(652,670)	(1,204,155)	(2,208,938)	(1,004,783)
Brokers Fees	<u>10,027</u>	<u>0</u>	<u>(10,027)</u>	<u>20,000</u>	<u>0</u>	<u>(20,000)</u>
Net Position	(593,700) <i>(4.290%)</i>	(1,256,397) <i>(4.619%)</i>	(662,697) <i>(0.329%)</i>	(1,184,155)	(2,208,938)	(1,024,783)
<u>Property Funds</u>						
Gross Distributions	(573,618)	(379,739)	193,879	(1,144,102)	(791,552)	352,550
Less Management Fees	<u>100,274</u>	<u>66,382</u>	<u>(33,892)</u>	<u>200,000</u>	<u>138,371</u>	<u>(61,629)</u>
Net Distributions	(473,344) <i>(4.000%)</i>	(313,357) <i>(2.798%)</i>	159,987 <i>1.202%</i>	(944,102)	(653,181)	290,921
M&G Property Fund Liquidation Distributions <i>(to be used for MRP Contributions as the original capital purchase was unfinanced)</i>	0	(259,546)	(259,546)	0	(262,845)	(262,845)
Total Net Income	(1,067,044) <i>(4.174%)</i>	(1,829,300) <i>(4.085%)</i>	(762,256) <i>(0.089%)</i>	(2,128,257)	(3,124,964)	(996,707)

Treasury investments achieved an average rate of 4.619% (Q1 4.846%) and property fund investments achieved an estimated average rate of 2.798% (Q1 3.465%). The combined rate achieved on all investments was 4.085% (Q1 4.384%).

At 30 September 2025 there was a favourable variance of £762,256 compared with £442,286 at Quarter 1. At Quarter 2 the forecast outturn was a favourable variance of £996,707 compared with £1,065,503 at Quarter 1.

The higher level of investment income achieved compared to the original budget is due to interest rates in the market being higher than the budgeted return for 2025/26 and balances available for investment being higher due to slippage in the capital programme.

10. Summary Net Treasury Position as of 30 September 2025

The following table provides an analysis of the net treasury position as at Quarter 2 and the projected outturn for the year:

	2025/26 Budget Quarter 2	2025/26 Actual Quarter 2	2025/26 Variance Quarter 2	2025/26 Annual Budget	2025/26 Forecast Outturn	2025/26 Forecast Variance
Net Investment Income	(1,067,044)	(1,569,754)	(502,710)	(2,128,257)	(2,862,119)	(733,862)
M&G Property Fund Liquidation Distributions <i>(to be used for MRP Contributions)</i>	0	(259,546)	(259,546)	0	(262,845)	(262,845)
Total Borrowing Costs	0	23,723	23,723	0	23,723	23,723
Overall Net Position	(1,067,044)	(1,805,577)	(738,533)	(2,128,257)	(3,101,241)	(972,984)

At Quarter 2 the net treasury position shows a combined favourable variance of £738,533 (Q1 £442,286) and the forecast outturn is a favourable variance of £972,984 (Q1 £1,065,503).

The liquidation distribution from M&G which is included in these figures will be used to finance a corresponding MRP charge.

11. Changes in Risk Appetite

The 2021 CIPFA Codes and guidance notes place importance on risk management. Where an authority changes its risk appetite e.g., for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members' attention in treasury management update reports.

It is reported that there has been no change in risk appetite during the first half of the financial year. This will be kept under review when considering global markets and forecasts for interest rates.