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**Report to:** Audit & Scrutiny Committee

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**Date:** 5 February 2026

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**Subject:** Treasury Management Quarterly Update to 30<sup>th</sup> September 2025

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**Report by:** Chief Finance Officer

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## **1.0 Purpose**

1.1 The purpose of this report is to present an update of Treasury Management activity for the first two quarters of the 2025/26 financial year - 1<sup>st</sup> April to 30<sup>th</sup> September 2025.

## **2.0 Recommendations**

2.1 It is recommended that the Committee note, comment and challenge as appropriate on the review of the Council's Treasury Management activities.

## **3.0 Considerations**

3.1 The Treasury Management Strategy Statement (TMSS) for 2025/26 and the Prudential Indicators for 2025/26 to 2027/28 were approved by the Council on 27 February 2025. No changes to the TMSS are proposed in this report.

3.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management (the Code) recommends that the Council be updated on treasury management activities regularly (Treasury Management Strategy Statement, annual and quarterly reports). This report therefore ensures the Council is implementing best practice in accordance with the Code.

3.2 This report covers the following:

- The Economy and Interest Rates;
- Interest Rate Forecast;
- Investment Position as at 30 September 2025;
- Borrowing Requirement and Debt;
- Borrowing Position as at 30 September 2025 and Forecast as at 31 March 2026, and
- Compliance with Treasury and Prudential Limits.

## The Economy and Interest Rates

3.3 The continuing war in Ukraine, the Israel-Gaza war and the US foreign and trade policies including import tariffs continue to increase uncertainty for the global economy. In the UK, CPI inflation increased from 3.5% in April 2025 to a high of 3.8% from July to September, before gradually decreasing to 3.2% in November 2025.

3.4 The Bank of England's Monetary Policy Committee (MPC) sets its monetary policy in line with its 2% inflation target with the aim of sustaining growth and employment. As inflation was above the 2% target, the MPC has reduced the base rate three times this financial year, decreasing it from 4.50% as at March 2025 to 4.25% in May, to 4.00% in August and to 3.75% in December 2025. The forecast is for Bank Rate to steadily reduce further over the next few years as the MPC continues to take action to combat on-going inflationary and economic uncertainty.

### Interest Rate Forecast

3.5 The Council's treasury advisors, MUFG Corporate Markets, provided the following interest rate forecast as at 22<sup>nd</sup> December 2025 for Bank Rates and Public Works Loan Board (PWLB) borrowing rates.

**Table 1: MUFG Corporate Markets Investment Forecast as at 22<sup>nd</sup> December 2025**

	Mar 2026	Jun 2026	Sep 2026	Dec 2026	Mar 2027	Jun 2027	Sep 2027	Dec 2027
<b>Bank Rate</b>	3.75	3.50	3.50	3.25	3.25	3.25	3.25	3.25
<b>5yr PWLB Rate</b>	4.60	4.50	4.30	4.20	4.10	4.10	4.10	4.10
<b>10yr PWLB Rate</b>	5.20	5.00	4.90	4.80	4.80	4.70	4.70	4.70
<b>25yr PWLB Rate</b>	5.80	5.70	5.60	5.50	5.50	5.40	5.30	5.30
<b>50yr PWLB Rate</b>	5.60	5.50	5.40	5.30	5.30	5.20	5.10	5.10

3.6 As outlined in paragraphs 3.3 and 3.4 above, inflation is above target, however it has fallen from its peak in October 2022 and as a result the UK Base Rate has reduced throughout 2025/26. The rate is now expected to continue to reduce steadily to 3.25% by December 2026. However, uncertainty remains due to geopolitical events which could lead to the forecast being changed within a short timeframe.

3.7 Similar to bank rates, PWLB borrowing rates are expected gradually reduce over the next two years as shown in the interest forecast table above.

## **Investment Position as at 30 September 2025**

3.8 The Treasury Management Strategy Statement (TMSS) for 2025/26 includes the Annual Investment Strategy, which sets out the approved upper limits of investments with fixed and variable interest rates. It can be confirmed that these limits were not breached during the period from 1<sup>st</sup> April 2025 to 30<sup>th</sup> September 2025.

3.9 In order to maintain the availability of cash to meet daily cash flow payments, cash is held in easily accessible current accounts, call accounts, Money Market Funds (MMFs) and Ultra-Short Duration Bond Funds (USDBFs).

3.10 Current accounts generally have low interest rates; therefore, cash is invested in MMFs and USDBFs on a short-term basis to achieve a higher return. MMFs and USDBFs are mutual funds that invest in a range of short-term and medium-term money market instruments such as cash deposits (e.g. with banks), short term fixed and variable income securities (such as bonds) and, for USDBFs, mortgage and asset backed securities. These funds allow investors to participate in a more diverse and higher quality portfolio holdings than if they were to invest independently. Their primary aims are the preservation of capital and the provision of liquidity whilst offering a level of return consistent with money market investment. This aim is consistent with the Council's investment priorities of security first, liquidity second and then returns.

3.11 The Council also has an account with the UK Treasury Debt Management Office (DMO) to place deposits for fixed periods up to six months at rates close to the Bank of England Base rate.

3.11 As at 30<sup>th</sup> September 2025, the Council held cash balances of £11.7m, of which £0.6m was immediately available in the Council's bank accounts and a further £11.1m immediately available from holdings in MMFs and USDBFs.

3.12 The average level of funds available for investment during the six months to 30<sup>th</sup> September 2025 was £15.7m. These funds were available on a temporary basis with the amount available varying at any one time depending on several factors including cash flow and the borrowing strategy.

3.13 The benchmark investment returns over the six months ended 30<sup>th</sup> September 2025 are illustrated in the undernoted table:

**Table 3: Benchmark Investment Returns 2025/26**

<b>Benchmark Period</b>	<b>Benchmark Return as at 30 Sep 2025</b>
7 Days	4.20%
30 Days	4.24%
90 Days	4.34%
6 Months	4.48%
12 Months	4.79%

\*The rates shown above are based on the average backward-looking Sterling Overnight Index Average (SONIA) rates for the period.

3.14 The Council's budgeted cash investment return for 2025/26 is 2.25%. This is a composite rate of all investments which is a mixture of instant access balances and short-term investments with maturity dates up to 100 days. The budgeted rate was based on an expected average bank rate of 3.75% for 2025/26.

3.15 For the six months ended 30<sup>th</sup> September 2025 the Council achieved an actual investment return of 4.17% (£394.0k) which is higher than budgeted due to interest rates remaining above the budgeted level. Most of this return (£364.6k) was from investments in MMFs and USDBFs which achieved rates of between 4.05% and 4.58% for the period.

3.16 For the six months ended 30<sup>th</sup> September 2025, an average return of 2.32% (£11.9k) was achieved on everyday cash balances held with Royal Bank of Scotland (RBS). The cash balances in RBS accounts are held as working balances and achieved a return of between 2.00% and 2.50%. The DMO account was used for deposits of less than 7 days when temporary excesses of working funds were identified, achieving returns of between 3.95% and 4.45% (£15.9k) in the period. Balances held with Bank of Scotland achieved a return of 4.03% (£1.6k) for the first two quarters of 2025/26.

3.17 The bank rate was reduced to 3.75% in December 2025. It is expected that there will be two further reductions in 2026, reaching 3.25% by December 2026, as shown in Table 1 above. Investment rates generally follow the bank rate and as the bank rate is forecast to be higher than previously expected for the remainder of 2025/26, it is anticipated that actual investment returns will also continue to be higher than budgeted.

### **Borrowing Requirement and Debt**

3.18 The Council's underlying need to borrow to finance capital expenditure, termed the Capital Financing Requirement (CFR) is shown below. The 2024/25 Actual CFR increased by £7.3m due to GF and HRA capital expenditure offset by Loans Fund principal repayments and lease repayments. The projected CFR shows a decrease from budgeted, due to the net effect of:

- the General Fund and HRA capital expenditure for 2024/25 being less than anticipated;
- the forecast General Fund capital expenditure for 2025/26 being less than anticipated (with proposed re-phasing of spend into future years);
- the forecast for HRA capital expenditure for 2025/26 being higher than anticipated.

Overall, although the HRA forecast is higher than anticipated, it is outweighed by the reductions in the General Fund and this results in a net decrease from the budgeted CFR.

**Table 4: Borrowing Requirement (CFR) 2025/26**

	31 March 2025 Actual £000	31 March 2026 Budget Estimate £000	31 March 2026 Projected as at Dec 2025 £000
CFR General Fund	141,805	172,410	161,605
CFR HRA	27,161	39,198	34,797
<b>Total CFR</b>	<b>168,966</b>	<b>211,069</b>	<b>195,862</b>

**Borrowing Position at 30 September and Forecast as at 31 March 2026**

3.19 The approved Capital programmes for both the General Fund and the HRA for 2025/26 indicated that additional external borrowing would need to be undertaken to finance capital expenditure within the year.

3.20 During the six months to 30<sup>th</sup> September 2025, the Council undertook borrowing from the PWLB of £5m in May for two years to refinance a one-year PWLB loan taken in May 2024. In April, an opportunity arose to redeem four Barclays loans (Market Loans) totalling £18.5m at a substantial discount. To finance this, three PWLB loans totalling £18m were undertaken, with a range of maturities from one to five years. The duration of the loans was varied between short and medium terms on the expectation of a forecast reduction in the bank rate. It is anticipated that the Council will refinance the debt as it falls due at a lower interest rate. As a result of this activity ongoing revenue savings were made totalling £1.072m within the General Fund which reduced the amount held for Market Loans to nil (£437k) with the remainder offsetting a previous debt rescheduling premium (£635k). A one-off revenue saving of £0.808m was also achieved and this has been allocated across both GF and HRA in line with Loans Fund debt weightings. Following the additional borrowing being undertaken, the Council remains in an under borrowed position.

3.21 In the same period, the Council made repayments of £25.4m against its external borrowing. This included repayments of £6.1m towards PWLB debt, £18.5m to repay the Barclays loans mentioned above and repayments of £0.8m towards the Council's PFI arrangement.

3.22 Capital spend in the first six months of 2025/26 was funded from internal borrowing (cash balances), as the new borrowing and repayments resulted in a net reduction in borrowing of £1.6m. In the third quarter of 2025/26, £20m of PWLB borrowing was undertaken and it is anticipated that a further £10m of PWLB borrowing will be undertaken by 31 March 2026. This will be subject to review of progress on the approved capital programme and the level of cash balances held.

3.23 The Council's external borrowing position as at 30<sup>th</sup> September 2025 and projected year end position is illustrated in the undernoted table:

**Table 5: External borrowing 2025/26**

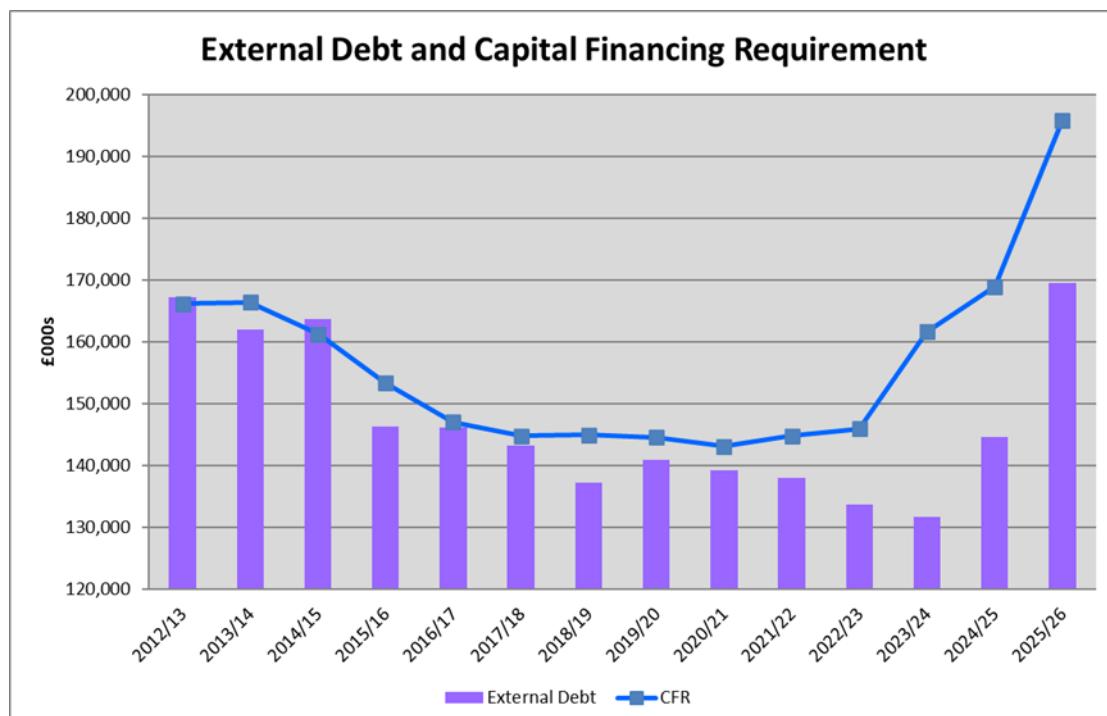
	Actual March 2025 £000	Actual Sep 2025 £000	Projected March 2026 £000
Public Works Loan Board	88,297	103,989	133,489
Market Loans	18,937	0	0
LOBO* Loans	5,000	5,000	5,000
Long term Liabilities - PFI	32,358	31,513	30,667
<b>Total</b>	<b>144,592</b>	<b>140,502</b>	<b>169,156</b>

\*LOBO = Lender Option Borrower Option – long term loan with a fixed interest rate but allows the option to vary the interest rate at periodic intervals throughout the term of the loan.

3.24 The level of borrowing is forecast to increase by the end of 2025/26. This is on the basis of £20m of new external borrowing undertaken in the quarter October to December 2025 and a further £10m of new borrowing that is anticipated to be undertaken in the quarter January to March 2026 to fund the ongoing capital programme.

3.25 The following chart shows the actual and forecast level of debt up to the end of 2025/26. In addition to programmed capital spend, repayment profiles of debt maturity mean there are variations in annual change in debt year on year.

**Chart 1: External debt and Capital Financing Requirement (actual and forecast)**



3.26 Overall there was reduction in cumulative external debt of £35.4m (21%) between 2012/13 and 2023/24, showing that over the longer term the Council did not increase its level of debt to finance its capital programme. However, the rolling 20-year capital programme for 2024/25 to 2043/44, approved by Council at its meeting in February 2024 and updated annually, included a significant increase in capital investment with the expectation that new external borrowing would need to be undertaken over this period to ensure sufficient cash is available to meet the capital investment. In line with this strategy, external debt has increased since 2024/25 and is forecast to increase in the medium term before falling again towards the end of the 20-year programme. Repayments towards PFI also continue to reduce the Council's overall level of external debt on an annual basis.

3.27 In line with the 2025/26 TMSS and Prudential Indicators, total external debt of £169.2m is forecast at end of the year which remains below the Operational Boundary for External Debt (£204m) and the Authorised Limit for External Debt (£220m).

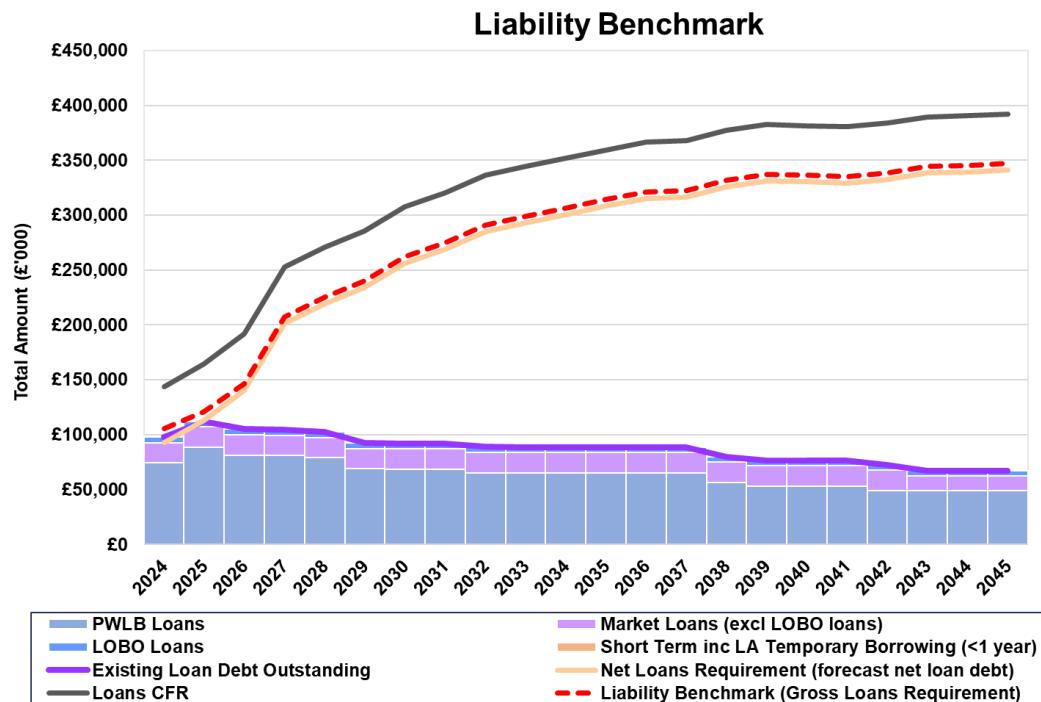
### **Liability Benchmark**

3.28 The Liability Benchmark was introduced in the 2021 Code and is included in the annual TMSS. As a minimum, the Council is required to estimate and measure the Liability Benchmark for the forthcoming financial year and the following two financial years. The chart below estimates the Liability Benchmark to 2044/45 in line with the approved GF and HRA Capital Programme. The liability benchmark itself 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 required to manage day-to-day cash flow.

There are four components to the Liability Benchmark are:

- a) **Existing loan debt outstanding:** the Council's existing loans that are outstanding at the end of each financial year.
- b) **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing, and planned Loans Fund advances and Loans Fund principal repayments.
- c) **Net loans requirement:** this shows the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned Loans Fund principal repayments and any other major cash flows forecast.
- d) **Liability Benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

## Chart 2: Liability Benchmark



3.29 The combined Liability Benchmark across the GF and HRA above, shows that it is anticipated that the Council will need to borrow to ensure it holds sufficient funds to finance its capital spending plans.

The Liability Benchmarks for the GF and HRA were reported separately in the TMSS. In line with the borrowing strategy for the GF, the borrowing requirement increases then falls towards the end of the programme. The borrowing requirement for the HRA increases year on year and the revenue cost of borrowing will need to be contained within affordable revenue budgets.

### Borrowing in Advance of Need

3.30 The Council has not borrowed in advance of need in the six months ended 30<sup>th</sup> September and has no intention to borrow in advance during the remainder of 2025/26.

### Debt Rescheduling

3.31 An opportunity arose during the first half of the year to undertake debt rescheduling. As noted in paragraph 3.20, the four Market Loans totalling £18.9m were repaid at a discount and new loans were undertaken at a lower rate generating a significant revenue benefit. There has been limited economic opportunities for PWLB debt rescheduling in recent years due to interest rate structures and as such no rescheduling of PWLB debt has taken place or is expected to take place during 2025/26.

### Compliance with Treasury and Prudential Limits

3.32 It is a statutory duty for the Council to determine and keep under review the affordable capital expenditure limits. The Council's Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.

3.33 All treasury and prudential indicators set out in the Council's TMSS have been complied with in the financial period to 30<sup>th</sup> September 2025. These prudential and treasury Indicators are shown in Appendix 2.

## **4.0 Conclusions**

4.1 Cash balances were £11.7m as at 30<sup>th</sup> September which contributes to supporting the Council's capital financing requirement internally.

4.2 The Council's return on investments was higher than the budgeted return and similar to the SONIA benchmark rates for the first six months of the financial year.

4.3 The Council has repaid £0.8m towards PFI arrangements and £24.6m towards other external debt.

4.4 During the period to 30<sup>th</sup> September 2025, the Council undertook borrowing from the PWLB of £23m. A further £20m was borrowed from the PWLB in the three months to 31<sup>st</sup> December 2025. It is anticipated that a further £10m borrowing will be required in the three months to 31<sup>st</sup> March 2026.

4.5 Immediate cash balances have decreased by £3.6m over the first six months of the year. A total of £11.2m was held in two MMFs and two USDBFs as at 30<sup>th</sup> September 2025. It is anticipated that the balances in the MMFs and USDBFs will remain around this level for the remainder of the financial year.

## **5.0 Sustainability Implications**

5.1 None

## **6.0 Resource Implications**

### *6.1 Financial Details*

6.2 The full financial implications of the recommendations are set out in the report. This includes a reference to full life cycle costs where appropriate.

Yes

6.3 Finance have been consulted and have agreed the financial implications as set out in the report.

Yes

6.4 Staffing

6.5 None

## **7.0 Exempt Reports**

7.1 Is this report exempt? Yes  (please detail the reasons for exemption below) No

## **8.0 Declarations**

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

### **(1) Our Priorities** (Please double click on the check box )

Clackmannanshire will be attractive to businesses & people and ensure fair opportunities for all

Our families; children and young people will have the best possible start in life

Women and girls will be confident and aspirational, and achieve their full potential

Our communities will be resilient and empowered so that they can thrive and flourish

### **(2) Council Policies**

Complies with relevant Council Policies

## **9.0 Impact Assessments**

9.1 Have you attached the combined equalities impact assessment to ensure compliance with the public sector equality duty and fairer Scotland duty? (All EFSIAs also require to be published on the Council's website)

Yes

9.2 If an impact assessment has not been undertaken you should explain why:

This report is for noting and there are no direct impacts resulting from the content of this report.

## **10.0 Legality**

10.1 In adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes

## **11.0 Appendices**

11.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

Appendix 1 – Investment Portfolio as at 31<sup>st</sup> December 2025

Appendix 2 - Prudential and Treasury Indicators as at 30<sup>th</sup> June and 30<sup>th</sup> September 2025

## **12.0 Background Papers**

12.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)

Yes  (please list the documents below)      No

**Treasury Management Strategy Statement 2025/26 - report to Council February 2025**

**Author**

NAME	DESIGNATION	TEL NO / EXTENSION
Steven Henderson	Corporate Accountant	2069
Helen Coleman	Team Leader – Corporate Accountancy	

**Approved by**

NAME	DESIGNATION	SIGNATURE
Lindsay Sim	Chief Finance Officer	
Chris Alliston	Strategic Director of Partnership & Performance	

## APPENDIX 1: Investment Portfolio as at 30 September 2025

<b>Short Term Investments – Counterparty</b>	<b>Principal as at 30 Sep 2025 £000</b>	<b>Interest Rate</b>	<b>Type</b>
Aberdeen Standard Money Market Fund	2,950	Average Yield: Mar-Aug 4.33%	Instant access
Aberdeen Standard Ultra Short Dated Bond Fund	2,514	Average Yield: Mar-Aug 4.49%	Instant access
Blackrock Money Market Fund	4,100	Average Yield: Mar – Aug 4.17%	Instant access
Blackrock Ultra Short Dated Bond Fund	1,593	Average Yield: Apr - Sep 4.32% (Accumulating interest)	Instant access
CSBP Clackmannanshire Investments Ltd	1		
<b>Total Short Term Investments</b>	<b>11,158</b>		

<b>Cash and Cash Equivalents – Counterparty</b>	<b>Principal as at 30 Sep 2025 £000</b>	<b>Interest Rate</b>
Royal Bank of Scotland plc	386	2.50% from 28 <sup>th</sup> Feb 2025 2.25% from 28 <sup>th</sup> May 2025 2.00% from 29 <sup>th</sup> Aug 2025
Bank of Scotland plc	80	Average Yield Apr-Sep 4.05%
Other Accounts	110	-
<b>Total Cash and Cash Equivalents</b>	<b>576</b>	

<b>TOTAL INVESTMENTS</b>	<b>11,734</b>
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## APPENDIX 2: Prudential and Treasury Indicators

Treasury Indicators	2025/26 Budgeted Estimate £'000	Actual as at 30 June 2025 £'000	Actual as at 30 Sept 2025 £'000	Projected 31 March 2025 £'000
<b>Authorised limit for external debt</b>	220,000	220,000	220,000	220,000
<b>Operational boundary for external debt</b>	204,000	204,000	204,000	204,000
<b>Gross external debt</b>	178,268	142,161	* 140,502	169,156
<b>Investments</b>	** 15,330	13,837	11,734	11,734
<b>Net borrowing</b>	162,938	128,324	128,768	157,422

\*As at 30 September 2025, Gross external debt consisted of £108.989m fixed rate borrowing and £31.513m liabilities in relation to PFI

\*\*Actual as at 31 March 2025

Maturity structure of fixed rate borrowing (excluding PFI)	Upper and Lower Limits	Fixed Rate Borrowing as at 30 Jun 2025	Fixed Rate Borrowing as at 30 Sep 2025	% of Total Fixed Rate Borrowing as at 30 Sep 2025
		£'000	£'000	
<b>Under 12 months</b>	25% - 0%	9,149	7,912	7.26%
<b>12 months to 2 years</b>	25% - 0%	8,100	8,100	7.43%
<b>2 years to 5 years</b>	50% - 0%	19,500	19,500	17.89%
<b>5 years to 10 years</b>	75% - 0%	3,499	3,499	3.21%
<b>10 years and above</b>	100% - 0%	69,978	69,978	64.21%
		110,226	108,989	100.00%

## Prudential and Treasury Indicators

2025/26		As at 30 September 2025		
Prudential Indicators		Budgeted Estimate	Projected Outturn	Variance
		£'000	£'000	£'000
<b>Capital expenditure: General Fund Services</b>		29,266	21,416	(7,850)
<b>Capital expenditure: Housing Revenue Account</b>		14,118	14,060	(58)
<b>Capital Financing Requirement (CFR): General Fund</b>		172,410	161,065	(11,345)
<b>Capital Financing Requirement (CFR): HRA</b>		39,198	34,797	(4,401)
<b>In year borrowing requirement</b>		33,341	32,016	(1,325)
<b>Ratio of financing costs to net revenue stream - General Fund</b>		4.35%	4.16%	(0.19%)
<b>Ratio of financing costs to net revenue stream - HRA</b>		8.95%	8.96%	0.01%