

Title of Report	Treasury Management Update
For Consideration By	Audit Committee
Meeting Date	13th January 2026
Classification	Open
Ward(s) Affected	All Wards
Group Director	Naeem Ahmed, Group Director, Finance & Corporate Resources

1. Introduction

1.1 This report covers both the half year treasury activity for 2025/26 - the detailed update on the treasury activity for the first six months of the financial year (Appendix 1) and the Quarter 3 (Q3) treasury activity update for the period October 2025 to December 2025 (Appendix 2).

2. Recommendations

2.1 There are no specific recommendations arising from this report. Audit Committee is therefore recommended to note the treasury management activity reports at Appendices 1 and 2

3. Reason(s) for decision

3.1 The Treasury Management Half Year Report at Appendix 1 is required in order to comply with the Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services: Code of Practice (the CIPFA Code) which the Council has adopted. The quarterly update at Appendix 2 is presented in accordance with the Council's Treasury Management Strategy.

4. Background

Policy Context

4.1 The CIPFA code of practice requires that those charged with oversight receive regular updates on the progress of the Council's Treasury Management Strategy during the year. Members are being provided with the detailed report on the first six months activity (to September 2025) with an update of the primary treasury indicators along

with the Treasury Management Report which provides details of activity during the months of October 25 to December 2025.

Equality impact assessment

- 4.2 There are no equality impact issues arising from this report

Sustainability and climate change

- 4.3 There are no sustainability and climate changes issues arising from this report.

Consultations

- 4.4 No consultations are required in respect of this report.

Risk assessment

- 4.5 There are no risks arising from this report as it reports on past events. Clearly though the treasury management function is a significant area of potential risk for the Council if the function was not properly carried out and monitored by those charged with responsibility for oversight. Regular reporting on treasury management ensures that the Committee is kept informed.

5. Comments of the Group Director, Finance and Corporate Resources

- 5.1 The half yearly Treasury Activity Report provides an update to this Committee on the treasury activities undertaken on behalf of the Council for the first six months of the current financial year, 2025/26. There are no direct financial consequences arising from the report as it reflects the first half year's performance. The information contained in this report will assist Members of this Committee in monitoring the treasury management activities and enable better understanding of such operations.
- 5.2 The treasury update report covers the period from October 2025 to December 2025 and reflects the most recent treasury activity. The financial impact of these activities have been reflected in the Council's budget monitoring as part of the monthly OFP report to Cabinet.
- 5.3 The increased borrowing undertaken throughout 2025/26 to finance the Council's capital programme as outlined in section 7 has been included within the Council's Medium Term Financial Plan approved by Council as part of the Council's Budget Report in February 2025.

6. Comments of the Director of Legal, Democratic and Electoral Services

- 6.1 The Accounts and Audit Regulations place obligations on the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control which includes arrangements for management of risk. In addition the Council's Constitution and Financial Procedure Rules require reporting on Treasury Management activity to be carried out during the year in line with the CIPFA Code of Practice on Treasury Management. This report demonstrates that Treasury Management is meeting these requirements and adapting to changes as they arise.

- 6.2 The Council's Constitution gives the Audit Committee responsibility for considering whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from any audit which need to be brought to the attention of the Council.
- 6.3 There are no immediate legal implications arising from the report.

7. BACKGROUND

- 7.1 The half yearly Treasury Activity Report (Appendix 1) provides a summary for the Committee on the economic background for the first six months of the current financial year 2025/26, whilst the quarterly update report provides details of treasury management activity covering the period October 2025 to December 2026 (Appendix 2).
- 7.2 The Council has an increasing Capital Financing Requirement due to the delivery of its capital programme and therefore needs to borrow in the current and future years, depending on the actual level of capital expenditure, other capital resources, reserves and cash balances. This has been fully planned for within the Council's Medium Term Financial Plan.
- 7.3 With regard to the investment portfolio, security of capital remains the prime consideration. The average rate of interest received on investments at the end of December 2025 was 3.90% compared to average rate of interest received in December 2024 of 4.74%. The Council has taken a longer term view of its cash balances and interest rates and invested an element of its core cash for a short duration in highly secure counterparties.
- 7.4 The Council successfully launched its Hackney Green Investment initiative via the Abundance platform, raising an additional £500k to support climate action plans. The Council intends to launch regular raises in future to reach its overall target of £5m by 2030.
- 7.5 In the first half of 2025, the Council borrowed £40m from the PWLB to convert HRA borrowing from the General Fund into external borrowing, and a further £40m in short-term inter-authority borrowing, reflecting the reduction in the Council's cash balances.

APPENDICES

The appendices to this report details the treasury management activities undertaken by the Council. It sets out in detail the economic background in which the treasury management function has had to operate since the beginning of the financial year and the treasury activities which have taken place in the first six months of the financial year to end of September 2025 and for the period October 2025 to December 2025.

Appendix 1 – Treasury Management Half Year Activity Report 2025/26

Appendix 2 – Treasury Management Activity Q3 Update Report 2025/26

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**TREASURY MANAGEMENT HALF YEAR ACTIVITY REPORT 2025/26
(6 MONTHS TO 30TH SEPTEMBER 2025)****1. Background**

- 1.1 The Annual Treasury Management Report is a requirement of the Council's reporting procedures and this report covers the treasury activity for the first six months of the financial year 2025/26, 1st April 2025 to 30th September 2025.
- 1.2 The Council's Treasury Management Strategy has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services: Code of Practice (the CIPFA Code), which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.
- 1.3 The Code also recommends that members are informed of Treasury Management activities at least twice a year. This report therefore ensures that the Council is embracing Best Practice in accordance with CIPFA's recommendations.
- 1.4 Treasury management is defined as: "The management of the local authority's investments, borrowings 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."
- 1.5 The Council's Treasury Management Strategy for 2025/26 was approved by the full Council on 24th February 2025.
- 1.6 The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. Council has also undertaken significant borrowing and is exposed to interest rate and refinancing risks. This report covers treasury activity and the associated monitoring and control of risk.

2. Economic Background

- 2.1 UK headline annual consumer price inflation (CPI) increased over the period, rising from 2.6% in March to 3.8% in August, still well above the Bank of England's 2% target. Core inflation also rose, from 3.4% to 3.6% over the same period, albeit the August reading was down from 3.8% the previous month. Services inflation also fell from July to August, to 4.7% from 5.0%.
- 2.2 The BoE's Monetary Policy Committee (MPC) cut Bank Rate from 4.5% to 4.25% in May and to 4.0% in August after an unprecedented second round of voting. The final 5-4 vote was for a 25bps cut, with the minority wanting no change. In September, seven MPC members voted to hold rates while two preferred a 25bps cut. The Committee's views still differ on whether the upside risks from inflation expectations and wage setting outweigh downside risks from weaker demand and growth.
- 2.3 Against a backdrop of uncertain US trade policy and pressure from President Trump, the US Federal Reserve held interest rates steady for most of the period, before cutting the Fed Funds Rate to 4.00%-4.25% in September. Fed policymakers also published

their new economic projections at the same time. These pointed to a 0.50% lower Fed Funds Rate by the end of 2025 and 0.25% lower in 2026, alongside GDP growth of 1.6% in 2025, inflation of 3%, and an unemployment rate of 4.5%.

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

3. Debt Management

3.1 At the beginning of the year the Council had one external debt of £0.4m LEEF (London Energy Efficient Fund) loan from the European Investment Bank to fund energy efficiency improvements in social housing within the HRA and £0.6m through Hackney Green Investment initiative on a crowdfunding platform to support climate action projects.

3.2 The Council also had £157m in external borrowing from PWLB to finance part of the borrowing requirement within the Housing Revenue Account (HRA) reflecting the take on debt as part of the HRA self financing in 2012 and for the financing of the housing capital programme, particularly in respect of housing regeneration.

Table 1: Debt Portfolio positions as at 01/04/2025 and 30/09/2025

	Balance at 01/04/2025 £'000	Balance at 30/09/2025 £'000	Avg Rate %
Long Term Borrowing	157,876	190,987	3.45%
Short Term Borrowing	0	40,200	3.93%
TOTAL BORROWING	157,876	231,187	
Other Long Term Liabilities	45,943	45,943	
TOTAL EXTERNAL DEBT	203,819	277,130	
Increase in borrowing		69,143	

3.3 For the Council, the use of internal resources in lieu of borrowing has continued to be the most cost effective means of funding capital expenditure. However, this position is not sustainable over the medium term and therefore, the Council has borrowed externally from PWLB throughout the period to cashflow the next phase of the housing capital regeneration programmes. We have replaced the HRA internal borrowing from the General Fund with external PWLB borrowing.

3.4 PWLB Borrowing: The Council qualifies for borrowing at the PWLB 'Certainty Rate' and PWLB HRA rate. As the HRA rate is lower than the Certainty Rate, the Council seeks to maximise the use of HRA borrowing where eligible, in order to minimise the overall cost of borrowing.

3.5 The Head of Treasury, Banking and Accounts Payable evaluates and pursues lower cost alternative borrowing solutions and opportunities with its treasury advisor and

recommends the optimum borrowing opportunities to the Group Director, Finance and Corporate Resources (S151) for approval in line with Local Government Act 1972.

4. Investment Activity

4.1 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. Cash flow forecasts indicated that during 2025/26 the Council's investment balances would range between £20m and £100 million,

4.2 The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

Table 2: Investment Portfolio positions as at 01/04/2025 and 30/09/2025

	Balance as at 01/04/2025 £'000	Average Rate of Interest %	Balance as at 30/09/2025 £'000	Average Rate of Interest %
Short term Investments*	0	-	0	-
Long term Investments	200		200	-
AAA-rated Stable Net Asset Value Money Market Funds	43,818	-	24,210	-
	40,018	4.50%	24,410	4.10%

* Less than one year

4.3 Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement. Investments are currently held with the following below institutions:

- AAA-rated Stable Net Asset Value Money Market Funds;
- Deposits with UK Banks (Call Account)
- UK Housing Associations

4.4 Counterparty credit quality is assessed and monitored with reference to Credit Ratings (the Council's minimum long-term counterparty rating of A- (or equivalent) across rating agencies Fitch, S&P and Moody's); credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; sovereign support mechanisms /potential support from a well-resourced parent institution and share price.

4.5 The Council will look to diversify into more secure and/or higher yielding asset classes during 2025/26, providing security of capital can be maintained. A proportion of the Council's cash remains invested in short-term unsecured bank deposits, and money market funds.

5. Credit Risk

5.1 Counterparty credit quality remains an important factor in the Council's assessment of approved counterparties. The Council continuously monitors the overall credit quality of its investment portfolio and this is clearly demonstrated by the Credit Score Analysis summarised below. The credit scores are based on the Council's quarter-end in-house investment position.

Table 3: Credit Score Analysis

Date	Value Weighted Average – Credit Risk Rating	Value Weighted Average – Credit Score	Time Weighted Average – Credit Risk Rating	Time Weighted Average – Credit Score
30/06/2025	A+	4.8	A+	4.8
31/07/2025	A+	4.9	A+	4.9
31/08/2025	A+	4.8	A+	4.8
30/09/2025	A+	4.7	A+	4.7

Scoring:

- Value weighted average reflects the credit quality of investments according to the size of the deposit
- Time weighted average reflects the credit quality of investments according to the maturity of the deposit
- AAA = highest credit quality =
- D = lowest credit quality = 27
- Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

6. Counterparty Update

6.1 Moody's upgrades all institutional long term ratings and in respect of Transport for London's outlook has been changed to stable from positive. Our treasury advisors are now comfortable with clients lending to Transport for London for periods of up to two years. Lancashire County Council (LCC) has been assigned an A+ long-term rating by Fitch and an AA- long-term rating by S&P. The outlook for both is stable. Our treasury advisors remain comfortable with clients lending to Lancashire County Council for up to two years without further due diligence.

7. Compliance with Prudential Indicators

7.1 The Council can confirm that it has to date complied with its Prudential Indicators for 2025/26, which were set in Feb 2025 as part of the Council's Treasury Management Strategy Statement.

Compliance with these Indicators is detailed below -

- **Capital Financing Requirement**

Estimates of the Council's cumulative maximum external borrowing requirement for 2025/26 to 2028/29 are shown in the table below. The numbers for 2025/26 to 2028/29 are provisional, ahead of March's annual budget report, and may be subject to change.

	31/03/25 Actuals £m	31/03/26 Estimated £m	31/03/27 Estimated £m	31/03/28 Estimated £m	31/03/29 Estimated £m
Gross CFR	626	948	1,148	1,477	1,625
Less: Other Long Term Liabilities	60	46	38	30	25
Borrowing CFR	566	902	1,110	1,447	1,600
Less: Existing Profile of Borrowing	158	262	203	184	145
Gross Borrowing Requirement/Internal Borrowing	408	640	907	1,263	1,455
Balance Sheet Resources	452	422	392	362	332
Net Borrowing Requirement/(Investment Capacity)	-44	218	515	901	1,123

- Gross Debt and the Capital Financing Requirement**

In the Prudential Code, it states that the Chief Finance Officer should make arrangements for monitoring with respect to gross debt and the capital financing requirement such that any deviation is reported to him/her, since any such deviation may be significant and should lead to further investigation and action as appropriate.

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with gross external debt.

	31/03/25 Actuals £m	31/03/26 Estimated £m	31/03/27 Estimated £m	31/03/28 Estimated £m	31/03/29 Estimated £m
CFR	626	948	1,148	1,477	1,625
Gross Debt	153	262	203	184	145
Borrowed in excess of CFR? (Yes/No)	No	No	No	No	No

The Group Director, Finance and Corporate Resources reports that the Council had no difficulty meeting this requirement to date, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

- **Estimates of Capital Expenditure**

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels. The numbers for 2025/26 to 2028/29 are provisional, ahead of March's annual budget report, and may be subject to change.

Capital Expenditure	31/03/25 Actuals £m	31/03/26 Estimated £m	31/03/27 Estimated £m	31/03/28 Estimated £m	31/03/29 Estimated £m
Non-HRA	119.1	319.3	306.9	71.1	40.0
HRA	112.6	174.5	292.5	502.4	306.8
Total	231.7	493.8	599.4	573.5	346.8

Capital expenditure will be financed or funded as follows:

Capital Financing	31/03/25 Actuals £m	31/03/26 Estimated £m	31/03/27 Estimated £m	31/03/28 Estimated £m	31/03/29 Estimated £m
Capital Receipts	35.2	21.7	38.7	29.4	51.8
Government Grants	59.3	77.5	147.6	74.9	29.0
Reserves	0.0	44.4	3.5	0.2	0.0
RCCO	44.0	43.7	51.0	52.0	53.7
S106/CIL	5.3	7.2	4.1	1.5	0.2
Borrowing	87.9	299.3	354.5	415.5	212.0
Total Financing	231.7	493.8	599.4	573.5	346.8

The table above shows that the capital expenditure plans of the Council cannot be funded entirely from sources other than external borrowing. The revenue impact of the increased borrowing requirement has been factored in the Council's Medium Term Financial Plan and the HRA Business Plan.

- **Capital Financing Requirement**

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and financing.

Capital Financing Requirement	31/03/25 Actuals £m	31/03/26 Estimated £m	31/03/27 Estimated £m	31/03/28 Estimated £m	31/03/29 Estimated £m
Total CFR	626	948	1,148	1,477	1,625

- **Authorised Limit and Operational Boundary for External Debt**

The Local Government Act 2003 requires the Council to set an **Authorised Borrowing Limit**, irrespective of their indebted status. This is a statutory limit which should not be breached.

Appendix 1

The Council's **Authorised Borrowing Limit** was set at **£1,059m for 2025/26**.

The **Operational Boundary** is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.

The **Operational Boundary for 2025/26 was set at £1,029m.**

The Group Director, Finance and Corporate Resources confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the year.

	Authorised Limit (Approved) 2025/26 £m	Operational Boundary (Approved) 2025/26 £m	Actual External Debt as at 30/09/2025 £m
Borrowing	1,046	1,016	231.2
Other Long-term Liabilities	13	13	46*
Total	1,059	1,029	

* This is a result of the implementation of the IFRS16 regulation concerning leases and PFI arrangements, effective from 2024/25.

- **Maturity Structure of Fixed Rate Borrowing**

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. Limits were set to have maximum flexibility in managing existing borrowing while the current portfolio remains relatively small.

Maturity Structure of Fixed Rate Borrowing	Lower Limit %	Upper Limit %	Actual Fixed Rate Borrowing as at 30/09/25	% Fixed Rate Borrowing as at 30/09/25	Compliance with Set Limits?
under 12 months	0	100	40,200	17.39%	Yes
12 months and within 24 months	0	100	0	0	Yes
24 months and within 5 years	0	100	27,796	12.02%	Yes
5 years and within 10 years	0	100	76,364	33.03%	Yes
10 years and within 20 years	0	100	86,828	37.56%	Yes

- **Total principal sums invested for periods longer than 364 days**

This indicator allows the Council to manage the risk inherent in investments longer than 364 days.

The limit for 2025/26 was set at £20m.

There were no investments longer than 364 days during the period.

- **Credit Risk**

This indicator has been incorporated to review the Council's approach to credit risk. The Council confirms it considers security, liquidity and yield, in that order, when making investment decisions.

Credit ratings remain an important element of assessing credit risk, but they are not the sole feature in the Council's assessment of counterparty credit risk. The Council considers the following tools to assess credit risk:

- Published credit ratings of the financial institution and its sovereign;
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP);
- Corporate developments, news, articles, market sentiment and momentum.

The Council can confirm that all investments were made in line with minimum credit rating criteria set in the 2025/26 TMSS.

10. Summary

10.1 In compliance with the requirements of the CIPFA Code of Practice this report provides Members with a summary report of the treasury management activity during the first two quarters of 2025/26. As indicated in this report none of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

TREASURY MANAGEMENT UPDATE 2025/26

(October 2025 to December 2025)

1. Economic Highlights

- **Growth:** UK GDP is estimated to have increased by 0.1% in Q3 2025, following growth of 0.3% in the previous quarter.
- **Inflation:** CPI rose by 3.6% in the 12 months to October 2025, a decrease from 3.8% in September 2025. On a monthly basis, CPI rose by 0.4% in October 2025, a decrease from 0.6% in October 2024.
- **Monetary Policy:** The Bank of England's Monetary Policy Committee voted by a majority of 5-4 to maintain the Bank Rate at 4.0%. Four members voted to reduce the Bank Rate by 0.25%, to 3.75%.

2. Borrowing & Debt Activity

2.1 The council currently has £310.05m in external borrowing. This is made up of £1.05m through Hackney Green Investment initiative on a crowdfunding platform to support climate action plans, £63m in short term borrowing and £246m borrowed from the Public Works Loan Board for the housing capital programme, particularly in respect of housing regeneration.

3. Investment Policy and Activity

3.1 The Council held average cash balances of £32m during the period, compared to £39m for the same period last financial year. This reflects the reduction in cash balances arising from delivery of the capital programme, use of reserves to support key priorities and the impact of the current forecast overspend.

Table 1: Movement in Investment Balances 01/10/25 to 31/12/25

	Balance as at 01/10/2025 £'000	Average Rate of Interest %	Balance as at 31/12/2025 £'000	Average Rate of Interest %
Short term Investments	0	-	0	-
Long term Investments	200	-	200	-
AAA-rated Stable Net Asset Value Money Market Funds	24,210	-	39,810	-
	24,410	4.10	40,010	3.90%

3.2 The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

3.3 The Council's specific policy objective is to invest its surplus funds prudently. The Council's investment priorities are:

- security of the invested capital; liquidity of the invested capital; and,
- an optimum yield which is commensurate with security and liquidity.

3.4 The ongoing investment strategy remained cautious but counterparty credit quality remains strong, as can be demonstrated by the Credit Score Analysis summarised below:

Table 3: Credit Score Analysis

Date	Value Weighted Average – Credit Risk Rating	Value Weighted Average – Credit Score	Time Weighted Average – Credit Risk Rating	Time Weighted Average – Credit Score
31/10/2025	A+	4.7	A+	4.7
30/11/2025	A+	4.9	A+	4.9
31/12/2025	A+	5.1	A+	5.1

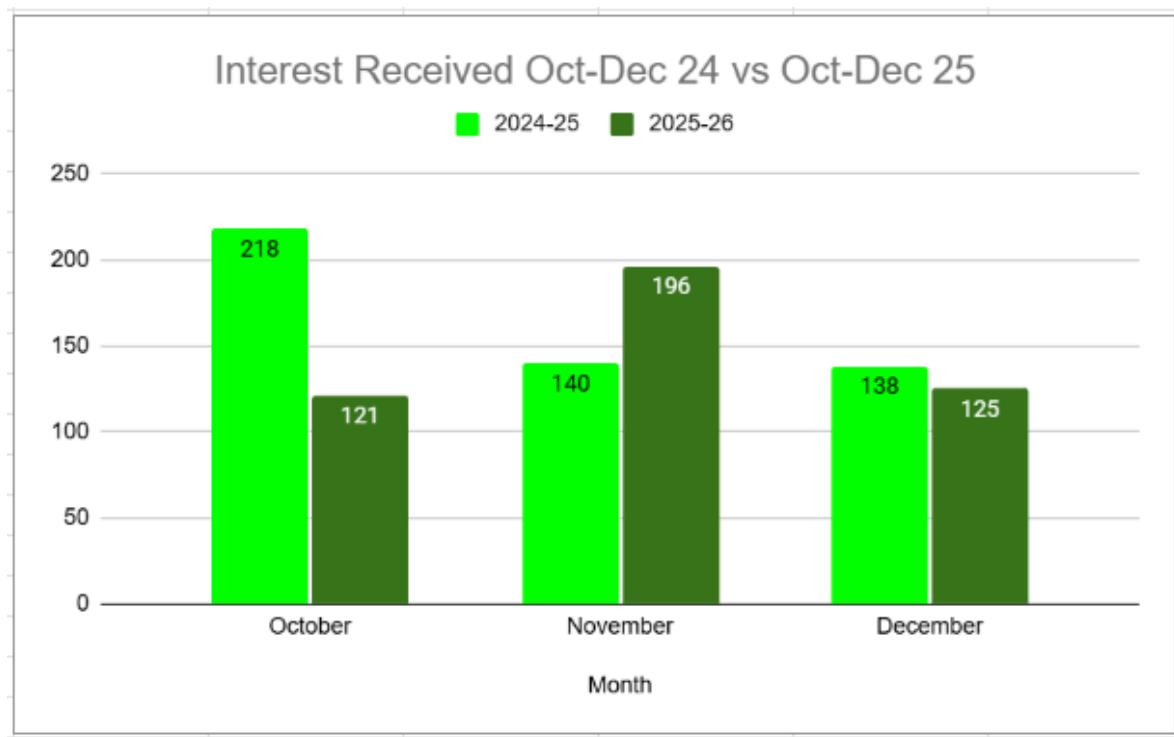
- *Value-weighted average reflects the credit quality of investments according to the size of the deposit*
- *Time weighted average reflects the credit quality of investments according to the maturity of the deposit*
- *AAA = highest credit quality = 1*
- *D = lowest credit quality = 27*
- *Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security*

3.5 The Council continues to utilise AAAmf/Aaa/AAAm rated Money Market Funds for its very short, liquidity-related surplus balances, together with high credit rated call accounts. This type of investment vehicle has continued to provide very good security and liquidity, although yield has suffered in recent months.

4. Comparison of Interest Earnings

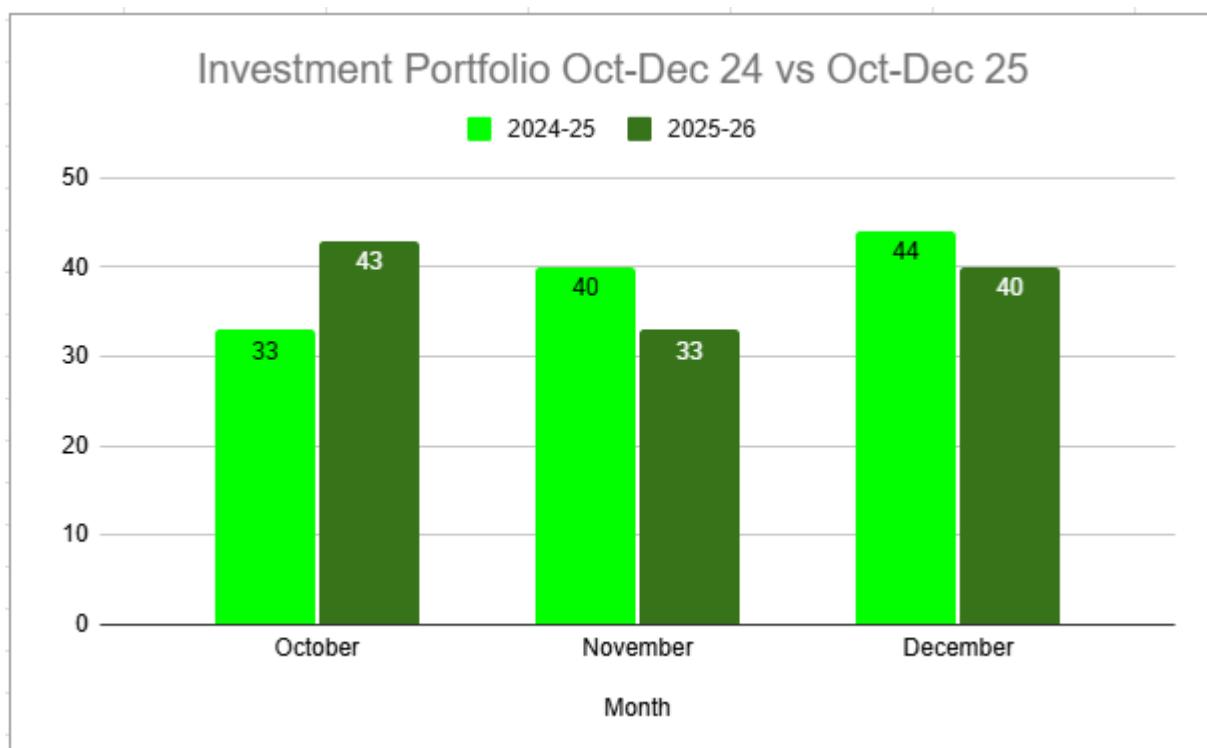
4.1 The Council continues to adopt a fairly cautious strategy in terms of investment counterparties and periods. Due to the volatility of available creditworthy counterparties, investments are placed in highly rated UK institutions, thus ensuring creditworthiness whilst increasing yields through the duration of the deposits.

4.2 The graph below provides a comparison of interest earnings for 2025/26 against the same period for 2024/25. Average interest received for the period October to December 2025 was £147k compared to £165k for the same period last financial year and is reflective of the reduced cash balances.



5. Movement in Investment Portfolio

5.1 Average investment levels for the period October to December 2025 were £39m, remaining broadly the same as the £39m recorded in the same period last year.



6. Summary

6.1 In compliance with the requirements of the CIPFA Code of Practice, this report provides members with a summary of treasury management activity during the above period of the 2025/26 financial year. As set out in the report, a prudent approach has been adopted to investment activity, with priority given to security and liquidity over yield.