

Treasury Management – 2025/26 End of Year review

Introduction & Background

This appendix provides a review of treasury management activity for the 2025/26 financial year as required by the Treasury Management Code. It reports the performance against the Treasury Management Strategy and key Prudential and Treasury Indicators for the year.

The 2025/26 Treasury Management Strategy Statement (TMSS), which includes the Annual Investment Strategy (AIS), was approved by Cabinet on 13 February 2025 and full Council on 27 February 2025 as part of the Budget Report. The Treasury Management Strategy sets out the role of Treasury Management, the strategy for Treasury Management activity in 2024/25, and the key parameters and indicators for investing council cash balances and undertaking borrowing for the year.

CIPFA defines treasury management as:

“The management of the local authority’s borrowing, investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.”

The council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Effective cash flow planning enables surplus monies to be invested in counterparties (financial institutions) or financial instruments commensurate with the council’s risk appetite, providing adequate cash availability (liquidity) is maintained.

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 that the council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn on may be restructured to meet the council’s risk or cost objectives.

Economic Background

The expectation for interest rates when the 2025/26 Treasury Management Strategy was set, based on external advice, was that Base Rate had peaked, and a number of rate reductions were forecast during the year. However, concerns of elevated inflation and wider economic uncertainty meant that cuts were not as fast and deep as previously forecast. The expectation is that the Bank of England Base Rate will be held throughout 2026/27 before reducing steadily thereafter to 3.25%.

A full summary of the economic background for 2025/26 has been provided by the council’s treasury management advisors, MUFG Corporate Markets, at Annex 2.

Treasury Management Activity

Treasury management activity during 2025/26 has focused on keeping any surplus cash liquid, as opposed to investing into longer term, higher yielding deals, to ensure cash is available when required as reserve levels reduce and to avoid the need for long-term borrowing whilst rates remain elevated. Some short to medium term borrowing has been undertaken to meet liquidity requirements and reduce the HRA capital financing position when there have been favourable movements in borrowing rates. The key activities undertaken in the year include:

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- Investment balances have continued to remain reduced as the council maintains a strategy to maximise internal reserves and balances to temporarily finance the borrowing need in the capital programme.
- The highest risk indicator on investments during the period was 0.003% which is below the maximum benchmark of 0.050%.
- The return on investments has exceeded the benchmark rates for the period.
- The council entered into six tranches of new HRA PWLB borrowing totalling £135m throughout 2025/26 to fund the HRA capital financing requirement in response to maturing debt and reducing cash balances.
- The two borrowing limits approved by full Council have not been exceeded.
- The Annual Investment Strategy parameters have been met throughout the 6-month period.

Within the year to date, the council has complied with its legislative and regulatory requirements with regards to treasury management.

The following table summarises the treasury activity and day-to-day cash flows during 2025/26.

Treasury Activity	Borrowing	Investments
Opening Balance 1 April 2025	£420.5m	(£31.7m)
Long-term borrowing raised (General Fund)	£0.0m	-
Long-term borrowing raised (HRA)	£135.0m	-
Long-term borrowing repaid (General Fund)	(£0.5m)	-
Long-term borrowing repaid (HRA)	(£29.5m)	-
Short-term borrowing raised	£42.0m	-
Short-term borrowing repaid	(£47.0m)	-
Investments made	-	(£0.2m)
Investments maturing	-	(£0.0m)
Net Money Market Transactions	-	(£14.7m)
Net movement in balances	£100.0m	(£14.9m)
Closing Balance 31 March 2026	£520.3m	(£46.6m)

The Financing Costs budget variance in 2025/26 was a £3.977m underspend. This is primarily due to slippage and reprofile of the capital programme resulting in a reduced in-year borrowing requirement. Whilst delays to the in-year borrowing requirement has contributed to this underspend, this will defer the cost of borrowing to future years when the borrowing will now be required. In addition, the council continues to maximise its internal reserves to meet its capital financing requirement as far as possible, which while limiting investment returns, will delay the need to externally borrow during a time of elevated borrowing rates and reduce in year borrowing costs.

Investment Strategy

All parameters in the Annual Investment Strategy have been complied with in full.

No new counterparties have been added to the approved counterparty list during the year.

A summary of investments made by the in-house team and outstanding as at 31 March 2026 is set out in the table below and shows that investments continue to be held in good quality, short-term instruments in line with the approved strategy.

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Summary of Investments as at 31 March 2026		
'AAA' rated money market funds	£35.8m	57%
'AA' rated institutions*	£0.0m	0%
'A' rated institutions	£10.9m	23%
'BBB' rated institutions	£0.0m	0%
Unrated Funds**	£9.3m	20%
Total	£46.6m	100%
Period – less than one week	£35.8m	77%
Period – between one week and one month	£5.8m	12%
Period – between one month and three months	£0.0m	0%
Period – between three months and 1 year	£0.0m	0%
Period – more than 1 year**	£5.0m	11%
Total	£46.6m	100%

* For the purposes of this analysis, other Local Authorities are assumed to have the same credit rating as the UK government (AA).

** Unrated Funds relates to short, dated funds that does not maintain an agency rating.

*** All investments that are over one year either have a legal offset against debt with the same counterparty.

Risk

As part of the investment strategy for 2025/26 the council agreed a maximum risk benchmark of 0.05% i.e. there is a 99.95% probability that the council will get its investments back. The benchmark is a simple target that measures risk based on the financial standing of counterparties and length of each investment based on historic default rates. The actual risk indicator has varied between 0.001% and 0.003% between April 2025 and March 2026, reflecting the high proportion of investments held in high security and/or very liquid investments. It should be remembered however that the benchmark is an 'average risk of default' measure and does not constitute an expectation of loss for any particular investment.

Investment Risk benchmark	0.050%
Maximum investment risk experienced	0.003%

The treasury management service is subject to a detailed audit on a regular basis. This includes the testing of the control environment and the management of risk. A 'substantial' level of assurance was provided during the most recent audit in January 2025, meaning that controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.

Investment Performance

The council's investment portfolio (adjusted for pooled funds) achieved an average rate of 4.34% over the last twelve months against a benchmark rate of 4.04% for the same period. The investments performance has therefore outperformed the SONIA benchmark rate by 0.30%, as investment balances have been largely maintained in liquid MMFs where there is usually a time lag between the Base Rate reducing and this being reflected in yields.

The following table summarises the performance achieved on investments compared to the approved benchmark for the whole year.

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Investment Performance	Apr - Sept 2025/26	Oct - Mar 2025/26	Full Year 2025/26
Average Investment Rate	4.48%	4.15%	4.34%
SONIA Benchmark Rate	4.19%	3.83%	4.01%
Performance Against Benchmark Rate	+0.29%	+0.32%	+0.33%

Since Base Rates peaked at 5.25%, there have been several Base Rate reductions, with the latest being a reduction to 3.75% in December 2025. The transition to a falling rate environment, combined with significantly reduced liquid balances has prompted the decision not to place any long-term investments during the period. The current priority for officers is to maintain sufficient liquidity to allow the council to limit external borrowing whilst rates continue to fall.

The Royal London (RLAM) short dated funds total return (capital and revenue combined) was 5.48% for the year to March 2026. The value of the investment as at 31 March 2026 was £9.304m, which presents a reduction of capital value compared to an initial investment of £10.000m. This reduction of capital value is not a reduction in the worth of the individual assets in the fund but reflects a “marked to market” valuation of the funds at the end of each month, declining due to the steep rise in interest rates from December 2021. Capital valuations have improved by 0.21% since 31 March 2025; a trend that is expected to continue now that the Base Rate has peaked and continues to fall.

Borrowing

The council operates separate debt portfolios for the General Fund and the HRA following the introduction of the HRA Self-Financing regime in 2012. The table below shows the Council's total external borrowing and average rates as at 31 March 2026, split between the General Fund and the HRA. There was no short-term borrowing at this date.

	General Fund Borrowing	HRA Borrowing £m	Total Borrowing	Average Rate
PWLB	£143.3m	£342.0m	£485.3m	3.19%
Market Loans	£16.3m	£18.7m	£35.0m	4.33%
Long-term borrowing	£159.6m	£360.7m	£520.3m	3.27%
Average rate	3.00%	3.39%	3.27%	

MUFG had been forecasting that interest rates had peaked and would continue to fall during 2025/26, however, long-term borrowing rates remained elevated during the financial year due to concerns of raised inflation and wider economic uncertainty. Therefore, new borrowing during the year was limited in its maturity profile and the council continued to utilise existing cash balances and short-term borrowing from other local authorities as much as possible.

In response to reducing cash balances, maturing debt and in support of the capital financing requirement, the council undertook new long-term PWLB borrowing of £135m during 2025/26 towards the HRA capital financing requirement. This borrowing was undertaken in six tranches to mature between 2026/27 and 2028/29, to enable refinancing when borrowing rates are expected to reduce. HRA borrowing from the PWLB benefits from attracting a specific concession rate which is lower than the cost of General Fund borrowing.

The General Fund capital outturn includes projects funded by borrowing of £30.6m compared to an original estimate of £66.0m and the HRA Capital Outturn includes projects funded by borrowing of £51.3m compared to an original estimate of £64.0m.

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The council's cumulative need to borrow to support its capital programme is known as its Capital Financing Requirement (CFR). This increases each year by capital expenditure where existing funding streams (such as reserves, capital receipts, grants or revenue contributions) have not been applied (which is also known as funding through borrowing).

The council can undertake borrowing from external sources to fund its CFR position or make use of "internal borrowing", i.e. utilising the council's existing reserves and cash flows. This is in line with the approved strategy that seeks to limit external borrowing during period of unfavourable interest rates.

The CFR for both the General Fund and HRA are shown in the table below.

General Fund Capital Financing Requirement (CFR) – Underlying Borrowing requirement	Original Estimate 2025/26	Actual Outturn 2025/26
Opening General Fund CFR	£261.0m	£241.8m
In year borrowing requirement	£66.0m	£30.6m
Minimum Revenue Provision	(£12.0m)	(£11.5m)
Closing General Fund CFR	£315.0m	£260.9m
GF External Long-term Borrowing as at 31 March 2026		£159.6m
GF Internal Borrowing as at 31 March 2026		£101.3m
HRA Capital Financing Requirement (CFR) - Underlying Borrowing requirement	Original Estimate 2025/26	Actual Outturn 2025/26
Opening HRA CFR	£292.0m	£301.3m
In year borrowing requirement	£64.0m	£51.3m
Minimum Revenue Provision	-	-
Closing HRA CFR	£356.0m	£352.6m
HRA External Long-term Borrowing as at 31 March 2026		£360.7m
HRA Internal Borrowing as at 31 March 2026		(£8.1m)

The net borrowing position of the council at 31 March 2026 is £93.2m below its CFR, which means that the council has met an element of its borrowing requirement internally, i.e. utilising the council's existing reserves and cash flows. This is in line with the approved strategy that seeks to limit external borrowing during period of unfavourable interest rates. Officers continually review the level of internal borrowing in the context of prevailing and forecast interest rates, economic outlook and the expected movement in reserves. Internal borrowing has the benefit of mitigating the increase borrowing costs and reduces counterparty risk within the council's investment portfolio by reducing the portfolio size. The table below highlights a decrease of internal borrowing of £34.4m compared to the previous financial year, due to an increase in the external borrowing position to fund the HRA capital financing requirement during the year.

Internal Borrowing as at 31 March	2024/25	2025/26
Total CFR	£543.1m	£613.5m
Less: External long-term borrowing	(£415.5m)	(£520.3m)
Total Internal Borrowing	£127.6m	£93.2m

The table below shows that the Council has complied with the Operational Boundary and Authorised Borrowing Limits set within the Treasury Management strategy.

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Borrowing Limits	Operational Boundary	Authorised Borrowing Limit
Limit set for 2025/26	£745.0m	£795.0m
Less: PFI & Leases	(£65.0m)	(£65.0m)
Limit for Underlying Borrowing	£680.0m	£730.0m
Actual External Borrowing at 31 March 2026	£520.3m	£520.3m
Headroom*	£159.7m	£209.7m

**Authorised Borrowing headroom cannot be less than zero*

The maturity profile of the Authority's borrowing has complied with the limits set within the strategy. There has been an increase in the borrowing with maturity between 12 months to 2 years relating to the new borrowing undertaken in year to enable refinancing when borrowing rates are expected to reduce further.

Maturity Structure of borrowing	Lower Limit set	Upper Limit set	Actual as at 31 March 2026
Under 12 Months	0%	40%	16%
12 months to 2 years	0%	40%	12%
2 years to 5 years	0%	50%	9%
5 years to 10 years	0%	75%	6%
Over 10 years	40%	100%	57%

Treasury Advisors

Officers recognise that responsibility for decisions remains with the organisation at all times and ensure that undue reliance is not placed upon external service providers and advisers. However, it is recognised that there is value in employing external providers of treasury management services in order to access specialist skills and resources.

Member Training

It is a requirement of CIPFA's Treasury Management code to ensure that the members responsible for decision making and scrutiny of the authority's TMSS are adequately trained to undertake their roles in this area.

Treasury Management training was last provided in January 2024. This was offered to all members and is currently available on the Members section of the Learning Zone.

Annex 1 – Glossary of Terms

Authorised Borrowing Limit: The limit for which the council's external borrowing cannot breach. This limit is set by Council as part of the budget each year. This needs to be approved by Council to amend in the year if required.

Capital Financing Requirement (CFR): The council's cumulative need to borrow to support its capital programme. This increases each year by capital expenditure where existing funding streams (such as reserves, capital receipts, grants or revenue contributions) have not been applied (which is also known as funding through borrowing). The Council must make an annual minimum revenue provision (MRP) which reduces the CFR.

Credit Ratings: The council uses the credit ratings for counterparties provided by the three main credit ratings agencies (Moody's, Fitch and Standard & Poor) to determine how much and for how long the council can lend to them. The highest credit rating as described in the strategy is AAA, and the lowest credit rating that the council is willing to lend to is BBB.

Debt Maturity Profile: The timeline over which the council has to repay its debt. A smooth profile is preferable, as small, regular repayments reduce the risk of having to replace a lot of debt at a time when it may not be the optimum market conditions.

Lender Option Borrower Option (LOBO) Loans: Loans held with market lenders (such as banks), where lenders hold the right to increase the interest rate on the loans at set intervals during the loan. The council has the right to repay the loans without penalty if the lender chooses to increase the interest rate.

Marked to Market: An accounting method of measuring the fair value of investments at a point in time by valuing the investment under prevailing market conditions.

Minimum Revenue Provision (MRP): A statutory provision that the council sets aside from revenue to reduce its CFR. This has the impact of setting aside the cash to repay any debt incurred as a result of funding the capital programme by borrowing.

Operational Boundary: A limit set by Council as part of the budget each year. Whilst the Authorised Limit cannot be breached, the operational boundary is the expected level at which external debt will reach, taking into account current levels of debt, maturing debt that may need replacing and capital plans for the forthcoming year.

PWLB Loans: Loans held with the Public Works Loans Board. This is the primary lender for Local Authorities, and the PWLB forms part of the Debt Management Office (DMO) within the HM Treasury department of Central Government.

Risk Benchmark: An indicator used to monitor the perceived level of risk within the council's investment portfolio.

Under-borrowing: (also known as internal borrowing) The difference between the council's CFR and actual level of debt, where the actual debt is lower than the CFR. This

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occurs when council uses cash from its own reserves to temporarily fund capital expenditure.

SONIA: Sterling Over Night Index Average – A benchmark rate calculated and administrated by the Bank of England. This rate effective replaces LIBOR from 1 January 2022 as the key benchmark rate in the UK. The calculation of SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and institutional investors.

Annex 2 – Economic Overview

Provided by Link Asset Services – April 2026

As with 2024/25, UK inflation has proved somewhat stubborn throughout 2025/26. Having started the financial year at 3.5% y/y (April), the CPI measure of inflation peaked at 3.8% from July to September, before dipping to 3% in January and February. Core inflation picked up to 3.2% in February, from 3.1%, and the recent upward pressure on energy costs could see CPI inflation breach 4.5% later this year.

Against this backdrop, the continued lack of progress in ending the Russian invasion of Ukraine, and the potentially negative implications for global growth as a consequence of the implementation of US tariff policies, Bank Rate reductions look limited for the remainder of 2026 (as they do in the euro-zone). Bank Rate currently stands at 3.75%.

Moreover, borrowing has becoming more expensive in 2025/26. Gilt yields have risen materially in March 2026, more than reversing the falls earlier in the financial year. Additionally, the public finances have remained under pressure. The higher-than-expected public net sector borrowing of £14.3bn in February was £2.2bn above last February’s outturn. But that borrowing overshoot was mainly due to timing effects relating to the £13.0bn government debt interest payment. That came in as the highest payment since June 2025, causing a 12.3% y/y jump in spending. On the flip side, sitting at £8.1bn, tax revenues were also higher than last February, largely on the back of solid growth in self-employment incomes in 2024/25, boosting self-assessment income tax receipts and stronger capital gains tax receipts.

However, the combination of some energy price support and pressures from higher inflation amid the ongoing energy price shock, higher interest rates and a weaker economy will ultimately put borrowing on an upward trend. With the rise in energy prices possibly pushing the Retail Prices Index inflation up to a peak of 5.7%, debt interest repayments will increase by about £10bn. A weaker growth profile, higher inflation, higher interest rates and gilt yields could erode about £11bn of the Chancellor’s £23.6bn headroom.

The loosening in the labour market continues to bear down on wage growth. The 3myy growth rate of average earnings including bonuses slowed from 4.2% in December to 3.9% in January. Meanwhile, excluding bonuses, private earnings growth continued to fall from 3.4% to 3.3%.

The table below provides a snapshot of the conundrum facing central banks: inflation pressures remain, labour markets are still relatively tight by historical comparisons, and central banks are also having to react to a fundamental re-ordering of economic and defence policies driven largely by the US administration.

	UK	Eurozone	US
Bank Rate	3.75%	2.0%	3.5%-3.75%
GDP	0.1%q/q Q4 (1.0%/y/y)	+0.2%q/q Q4 (1.2%/y/y)	0.7% Q4 Annualised
Inflation	3.0%/y/y (Feb)	1.9%/y/y (Feb)	2.4%/y/y (Feb)
Unemployment Rate	5.2% (Jan)	6.2% (Jan)	4.4% (Feb)

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The Bank of England sprung no surprises in their March meeting, leaving Bank Rate unchanged at 3.75% by a vote of 9-0, but suggesting rates may need to rise if inflation picks up markedly. The vote could best be described as moderately hawkish. The MPC stated it “stands ready to act as necessary” and “is alert to the increased risk of domestic inflationary pressures through second-round effects in wage and price-setting”. Even so, we suspect the committee is likely to put equal weight on higher inflation and weaker growth, particularly the poor macroeconomic backdrop prior to the energy shock, keeping interest rates at 3.75% this year.

10-year Gilt yields have been exceptionally volatile in the final weeks of 2025/26, troughing at around 4.23% in late February before shooting up to 5.00% (and well through that on an intraday basis). That spike was driven by the outbreak of war in the Middle East, which prompted a dramatic reassessment of investors’ Bank of England policy rate expectations. Having been pricing in rate cuts in late-February, as many as four rate hikes were discounted by late-March. The 10-year yield ended the quarter at 4.92% with around 65bp of rate hikes priced in over the coming year. In addition to more hawkish monetary policy expectations, part of this increase in yields probably reflected an increase in term premia amid concerns that the government may react by loosening the fiscal purse strings.

As for equity markets, the FTSE 100 experienced another volatile quarter, surging to an all-time high of around 10,900 in late February, leaving it up 10% from the start of 2026, before giving back most of those gains in March after the outbreak of the Middle East conflict. That pullback leaves the index at around 10,176 at the end of the quarter. For context it was at 8,582 at the start of April. The £ has stayed relatively resilient also at \$1.33, strengthening from \$1.29 back in April.