Audit Committee		Agenda Item:
Meeting Date	15 July 2026	
Report Title	Annual Treasury Management Report 2025/26	
EMT Lead	Lisa Fillery, Director of Resources	
Head of Service	Claire Stanbury, Head of Finance and Procurement	
Lead Officers	Olga Cole, Management Accountant	
Classification	Open	
Recommendations	1. To note the Treasury Management outturn report for 2025/26.	

3 Purpose of Report and Executive Summary

1.1 The purpose of this report is to review the final outturn position of treasury management transactions for 2025/26, including compliance with treasury limits and Prudential and Treasury Management Indicators.

1.2 In February 2021 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve, as a minimum, treasury management semi-annual and annual reports.

1.3 This report includes the requirement in the 2021 Code, mandatory from 1st April 2023, of reporting of the treasury management prudential indicators and the non-treasury prudential indicators.

1.4 The Council's treasury management strategy for 2025/26 was approved at a meeting on 19 February 2025, and amended as agreed at full council on 1 October 2025. The Council has borrowed and 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. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.

1.5 This report:

- is prepared in accordance with the CIPFA Treasury Management Code and the Prudential Code;
- details the implications of treasury decisions and transactions;
- gives details of the outturn position on Treasury Management transactions in 2025/26; and
- confirms compliance with Treasury limits and Prudential Indicators.

1.6 In conclusion, the Council reports that all treasury management activity undertaken in the period has complied with its Prudential Indicators for 2025/26, and that there are no issues of concern to highlight to Members.

2. Background

Borrowing Requirement and Debt Management

2.1 The overall borrowing position is summarised below:

	Balance on 31/3/2025 £'000	**Movement in Year £'000**	**Balance on 31/3/2026 £'000**
Capital Financing Requirement	62,654	(387)	62,267
External Borrowing	(13,000)	(4,100)	(17,100)
Cumulative External Borrowing Requirement	**49,654**	**(4,487)**	**45,167**

2.2 Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be accounted for as a charge to the General Fund.

2.3 The CFR decreased slightly to £62.267m at 31 March 2026 as capital financing sources, particularly government grants, contributions and MRP, exceeded the net increase in capital expenditure requiring financing.

2.4 As outlined in the treasury strategy, the Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio and, where practicable, to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

2.5 Gilt yields slightly decreased over most of the period; reflecting expectations of lower interest rates, a tepid economy and to some extent an improvement in the UK governments fiscal position following tax rises in the autumn budget. Subsequent to the war in the Middle East however, gilt yields saw a rapid rise to above the yield at the beginning of the financial year.

2.6 The PWLB certainty rate for 10-year maturity loans was 5.38% at the beginning of the period and 5.72% at the end. The lowest available 10-year maturity certainty rate was 5.13% and the highest was 5.88%. Rates for 20-year maturity loans ranged from 5.71% to 6.37% during the period, and 50-year maturity loans from 5.46% to 6.24%. The cost of short-term borrowing from other local authorities has been similar to or a little above Base Rate for most of the period, with interest rates between 4.0% and 4.5%. However, as is commonly seen, rates rose higher towards the end of the financial year, with rates of 5.0% - 7.0% being seen.

2.7 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes. The Authority has no new plans to borrow to invest primarily for financial return.

2.8 The table below summarises the Council's borrowing portfolio at 31 March 2026.

Lender	Loan Value £	Borrowing Rate	Borrowing Date	Maturity Date
PWLB	3,000,000	4.92%	26/03/26	27/09/27
Spelthorne Borough Council	2,000,000	4.80%	02/04/25	02/04/26
Ashfield District Council	2,000,000	4.28%	08/07/26	08/07/26
Ashfield District Council	3,000,000	4.80%	07/05/25	07/05/26
Amber Valley Borough Council	2,000,000	4.25%	01/09/25	01/09/26
Tamworth Borough Council	3,000,000	4.82%	10/04/25	10/04/26
Maidstone Borough Council	2,100,000	6.25%	19/03/26	01/04/26

Investment Activity

2.9 The Council holds significant investment funds, representing income received in advance of expenditure plus balances and reserves held. During 2025/26, the Council held average daily cash balances of £23 million (£21 million for 2024/25) and our investment balances closed at £13.8 million at 31 March 2026.

2.10 The Council's budgeted investment income for 2025/26 was £676,000 and the actual income received was £949,000, of which £128,000 was from the Council's long-term investment in the Church, Charities and Local Authorities (CCLA) Mutual Investment Property Fund.

2.11 The table below summarises the Council's investment portfolio at 31 March 2026. All investments made were in line with the Council's approved credit rating criteria at the time of placing the investment, and still met those criteria at 31 March 2026.

Counterparty (MMF = Money Market Funds)	Long-Term Rating	Balance Invested at 31 March 2026 £'000
Black Rock MMF	AAAmmf	3,000
Invesco MMF	AAAmmf	3,000
BNP Paribas MMF	AAAmmf	3,000
Aberdeen MMF	AAAmmf	1,755

Counterparty (MMF = Money Market Funds)	Long-Term Rating	Balance Invested at 31 March 2026 £'000
CCLA Property Fund	unrated	3,000
Total		**13,755**

2.12 The ratings above are from Fitch credit rating agency. A description of the grading is provided below:

- AAAmmf: Funds have very strong ability to meet the dual objectives of providing liquidity and preserving capital.

2.13 The treasury management position at 31 March 2026 and the changes during the year is summarised below:

Investments	**Balance on 31/03/25** **£'000**	**Movement in Year** **£'000**	**Balance on 31/03/26** **£'000**	**Average Rate at 31/03/26** **%**
Money Market Funds	7,910	(2,845)	10,755	3.93
Long-Term Investments	3,000	0	3,000	4.27
TOTAL INVESTMENTS	**10,910**	**2,845**	**13,755**	
Borrowing				
Short-Term Borrowing	(13,000)	(4,100)	(17,100)	4.88
TOTAL BORROWING	**(13,000)**	**(4,100)**	**(17,100)**	

2.14 The long-term investment shown in the table above is the Council's investment in the CCLA Property Fund. Accounting requirements dictate that financial instruments, which include this investment, are carried in the balance sheet at fair value. The fair value for this fund is based on the market price which as at 31 March 2026 was £2.8 million.

2.15 Since CCLA fund has no defined maturity date, but funds are available for withdrawal after a notice period, its performance and continued suitability in meeting the Council's medium to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years and with the expectation that over a three to five-year period total returns should exceed cash interest rates.

2.16 In keeping with the Ministry of Housing, Communities and Local Government (MHCLG) Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds, overnight deposits and the use of Debt Management Agency Deposit Facility (DMADF).

2.17 The Council sought to optimise returns commensurate with its objectives of security and liquidity.

2.18 The criteria applied by the Director of Resources for the approval of a counter party for deposits are:

- credit rating - a minimum long-term of A-;
- credit default swaps;
- share price;
- reputational issues;
- exposure to other parts of the same banking group; and
- country exposure.

2.19 The investments permissible by the 2025/26 Treasury Strategy were:

Counterparty	**Time Limit**	**Cash Limits**
The UK Government	50 years	Unlimited
Local Authorities and other government entities	25 years	£3m
Major UK banks / building societies unsecured deposits*	13 months	£3m
Money Market Funds*	n/a	£3m each
Strategic Pooled Funds	n/a	£3m each
CCLA Property Fund	n/a	£3m
Registered providers (unsecured) *	5 years	£3m in aggregate
Secured Investments *	25 years	£3m in aggregate
Other Investments *	5 years	£3m in aggregate
Non treasury investments	As per credit advice	To be agreed on a case by case basis

2.20 This Council takes the view that the Capital Strategy should reflect the following principles:

- investing in sustainable, affordable and social housing to increase overall supply;
- using the ability to borrow at lower rates of interest for the benefit of the physical and social infrastructure of the borough and for broader social value; and,
- ensuring that the costs of borrowing are manageable long term within the revenue budget

2.21 The maximum permitted duration for unsecured deposits with major UK Banks and building societies is 13 months. For 2025/26 the Director of Resources in consultation with chair of Policy & Resources Committee could consider longer duration. Bonds could have been purchased with a maximum duration of five years.

2.22 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council, as well as other non-financial assets which the Council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and/or for commercial purposes (made primarily for financial return). At 31 March 2026 the Council held £3.983 million of a longstanding portfolio of 11 investment properties within the borough. These investments generated £257,000 of investment income for the Council in 2025/26 after taking account of direct costs, representing a rate of return of 6.45%.

External Context

2.23 **Economic background**: The financial year was largely dominated by two periods of significant uncertainty and volatility. The first being the US trade tariff 'Liberation Day' in April 2025 and the second was the US/Israel war with Iran at the end of February. After the initial fallout from US trade tariffs, the following months saw some improvements as equity markets made gains and bond yields eased modestly. However, in the UK this trend in bond yields reversed somewhat as an uncertain economic outlook together with concerns around the government's fiscal position and autumn Budget saw 'term premia' rise as investors demanded a higher return for holding gilts.

2.24 The Budget itself was more muted than had been expected. Despite a weak economic outlook, this helped UK markets perform better with gilt yields trending downwards, inflation easing, and expectations for cuts in Bank of England (BoE) Bank Rate increasing.

2.25 The end of February 2026 saw the start of the war between US/Israel and Iran. The conflict caused oil and other commodity prices to rise sharply as the shipping lanes in the region became effectively closed, restricting global oil supply. At the end of the period, the economic outlook remained highly uncertain in terms of its impact on inflation as well as countries' fiscal and monetary policy conditions around the globe.

2.26 After cutting Bank Rate to 3.75% in December 2025, the BoE's Monetary Policy Committee (MPC) voted 5-4 to hold rates in February 2026 and then unanimously to do so again in March. Until the war started, financial markets were expecting Bank Rate to be cut to 3.5% at the March meeting. However, the conflict in the Middle East quickly changed this. The MPC noted the risks to both inflation and growth and indicated they could move rates either up or down depending on the conditions. Financial markets quickly responded to this by pricing in rate hikes.

2.27 Following the March MPC meeting, Arlingclose, the authority's treasury adviser, revised its central interest rate view and now predicts Bank Rate will be held at 3.75%. However, the conflict makes the outlook for rates highly uncertain. In the short-term the risks are to the upside with the chance of higher Bank Rate should the MPC decide it wishes to quickly quash potential second-round effects from higher inflation. Further out, if Bank Rate is hiked quickly, the pace and magnitude of subsequent cuts could take it far lower than was previously anticipated as policymakers add significant stimulus to a much weaker economic growth outlook.

2.28 **Financial markets**: After declining sharply early in the financial year following the announcement of US tariffs, sentiment in financial markets had improved but equity and bond markets remained volatile throughout. However, the latter part of the period was dominated by the US/Israel war with Iran, which saw equity markets fall sharply, and bond yields rise as concerns over the inflationary impact from sharply higher oil and other commodity prices outweighed the flight-to-quality into government bonds often seen in conflicts.

2.29 Equity markets had been registering gains after the declines during the April sell-off, but the war reversed this and markets saw another sharp drawdown. Both the FTSE 100 and 250 fell by around 10% over the month from the start of the conflict to the end of the financial year.

2.30 The period saw significant volatility in gilt yields. The 10-year UK benchmark gilt yield started the year at 4.65% and ended at 4.86%. However, over this time the 10-year yield hit a low of 4.23% and a high of 4.95% in the space of a month. It was a similar picture for the 20-year gilt which started at 5.18% and ended at 5.45% with a low and high of 4.92% and 5.55% respectively. The Sterling Overnight Rate (SONIA) averaged 4.01% over the 12 months to 31st March.

Credit Review

2.31 Arlingclose maintained its recommended maximum unsecured duration limit on most of the banks on its counterparty list at 6 months. The other banks remain on 100 days. Earlier in the period, Fitch upgraded NatWest Group and related entities to AA- from A+ and placed Clydesdale Bank's long-term A- rating on Rating Watch Positive. Fitch later upgraded Clydesdale Bank and HSBC, but downgraded Lancashire CC and Close Brothers.

2.32 Moody's affirmed OP Corporate's rating at Aa3 In May 2025. Later in the period, Moody's upgraded Transport for London, Allied Irish Banks, Bank of Ireland, Toronto-Dominion Bank, DZ Bank, Nordea and HSBC and downgraded Close Brothers. In the last quarter of 2025 S&P upgraded Clydesdale Bank, Allied Irish Banks and Bank of Ireland, and assigned Warrington Council a BBB+ rating.

2.33 After spiking in April 2025 following the US trade tariff announcements, UK credit default swap (CDS) prices had trended down before picking up modestly in October and November. After declining again in December and into the new calendar year, they rose sharply once again when the war in the Middle East started. They were still elevated at the end of the period, but prices for all banks on Arlingclose's counterparty list remained within limits deemed satisfactory for maintaining credit advice at current durations.

2.34 Financial market volatility is expected to remain, and CDS levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remain under constant review.

CIPFA Code and PWLB Lending Facility Guidance

2.35 Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.

2.36 **Statutory override**: Further to consultations in April 2023 and December 2024 MHCLG wrote to finance directors in England in February 2025 regarding the statutory override on accounting for gains and losses in pooled investment funds. On the assumption that when published regulations follow this policy announcement, the statutory override will be extended up until the 1st April 2029 for investments already in place before 1st April 2024. The override will not apply to any new investments taken out on or after 1st April 2024. The Council had set up a reserve of £350k to mitigate the impact of the statutory override not being extended. In view of the fact that the override may not be extended past 2029 the authority has decided to maintain this reserve.

Compliance

2.37 The Council has complied with its Prudential and Treasury Management Indicators for 2025/26 which were set as part of the Treasury Management Strategy agreed by Council in February 2025.

2.38 In Appendix I the outturn position for the year against each Prudential Indicator is set out.

2.39 The Head of Finance and Procurement confirms that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

Treasury Advisers

2.40 Arlingclose has been the Council's treasury advisers since May 2009. Officers of the Council meet with Arlingclose regularly and high quality and timely information is received from them.

Capital Strategy

2.41 The Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy for 2025/26, complying with CIPFA's requirement, was approved by Council on 19 February 2025.

3. Proposal

3.1 Members are asked to note the report.

4. Alternative Proposals

4.1 No alternative proposals have been considered and compliance with the CIPFA Code is mandatory.

5. Consultation Undertaken

5.1 Our treasury advisors, Arlingclose, have been consulted.

6. Implications

Issue	Implications
Corporate Plan	Supports delivery of the Council's objectives.
Financial, Resource and Property	As detailed in the report
Legal, Statutory and Procurement	CIPFA produce a framework for managing treasury activities, called a 'Code'. Councils are legally required to have regard to this Code and members of CIPFA are expected to comply with its requirements. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the MHCLG Guidance
Crime and Disorder	Not relevant to this report
Environment and Climate/ Ecological Emergency	Not relevant to this report
Health and Wellbeing	Not relevant to this report
Safeguarding of Children, Young People and Vulnerable Adults	Not relevant to this report
Risk Management and Health and Safety	Not relevant to this report
Equality and Diversity	Not relevant to this report
Privacy and Data Protection	Not relevant to this report
Local Government Reorganisation	None identified at this stage

7. Appendices

7.1 Appendix I: Treasury Management and Prudential Indicators

8. Background Papers

None

Treasury Management and Prudential Indicators for 2025/26 - Appendix I

Introduction

The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

This report compares the approved indicators with the outturn position for 2025/26. Actual figures have been taken from, or prepared on a basis consistent with, the Council's Statement of Accounts

Capital Expenditure: The Council's capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	**2025/26 Actual £'000**
Total Capital Expenditure	**14,791**
Source of Funding	
Capital grants and other contributions	12,837
Capital receipts	224
Earmarked reserves	292
Direct revenue funding	0
Borrowing	1,439
Total Capital Funding	**14,791**

Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	**31/03/26 Estimate £'000**	**31/03/26 Actual £'000**	**31/03/26 Difference £'000**
Total CFR	74,800	62,267	(12,533)
External Borrowing	(37,500)	(17,100)	20,400
Cumulative External Borrowing Requirement	**37,300**	**45,167**	**7,867**

External borrowing: as at 31 March 2026 the Council had £17.1 million of external borrowing

Operational Boundary for External Debt: The Operational Boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance leases, and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary	**31/03/26 Boundary £'000**	**31/03/26 Actual Debt £'000**	**Complied**
Borrowing	45,000	17,100	✓
Other long-term liabilities	5,000	3,129	✓
Total Operational Boundary	50,000	**20,229**	✓

Authorised Limit for External Debt: The Authorised Limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The Authorised Limit provides headroom over and above the Operational Boundary for unusual cash movements.

Authorised Limit and Total Debt	**31/03/26 Boundary £'000**	**31/03/26 Actual Debt £'000**	**Complied**
Borrowing	55,000	17,100	✓
Other Long-Term Liabilities	9,000	3,129	✓
Total Authorised Limit	**64,000**	**20,229**	✓

The Head of Finance and Procurement confirms that there were no breaches of the operational boundary or authorised limit for other long-term liabilities in 2025/26. This position reflects the continued application of the updated accounting treatment for leased assets, which now appear on the balance sheet.

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Treasury Management and Prudential Indicators for 2025/26 - Appendix I

Ratio of Financing Costs to Net Revenue Stream	31/03/26 Estimate	31/03/26 Actual	Difference
Financing costs	1,455	2,450	995
General Fund Total	5.64%	6.36%	0.72%

Maturity Structure of Borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	31/03/26 Actual %	Upper Limit %	Lower Limit %	Complied
Under 12 months	82	100	0	✓
12 months and within 24 months	18	100	0	✓
24 months and within 5 years	0	100	0	✓
5 years and within 10 years	0	100	0	✓
10 years and above	0	100	0	✓

Time period starts on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Long-term Treasury Management Investments: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2025/26 £'000
Actual Principal Invested Beyond Year End	3,000
Limit on Principal Invested Beyond Year End	10,000
Complied	✓

Investment Benchmarking

Average Actual Return on Investments 2025/26	Original Estimate Return on Investments 2025/26	Average Bank Rate 2025/26	Average 7-day SONIA Rate 2025/26
3.61%	4.19%	4.04%	4.01%

SONIA is the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

Liability Benchmark: This indicator compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It 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 of £10m required to manage day-to-day cash flow.

	31.3.26 Actual £'000	**31.3.26 Forecast £'000**	**31.3.27 Forecast £'000**	**31.3.28 Forecast £'000**
Loans CFR	62.3	68.4	62.2	60
Less: Balance sheet resources	**(55.7)**	**(58.9)**	**(57.0)**	**(58.5)**
Net loans requirement	**6.6**	**9.5**	**5.2**	**1.5**
Plus: Liquidity allowance	10.0	10.0	10.0	10.0
Liability benchmark	**16.6**	**19.5**	**15.2**	**11.5**

Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing in line with the capital programme, and minimum revenue provision on new capital expenditure based on appropriate asset life values (50 years, unless a shorter life is more appropriate). This is shown in the chart below together with the maturity profile of the Council's existing borrowing.