Treasury Management Outturn Report 2025/26

1. Introduction

1.1 In February 2011 this 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 Authority to approve a treasury management annual report after the end of each financial year.

1.2 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 2026.

1.3 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. This impacted significantly the borrowing rates offered from the PWLB, making it very expensive to borrow.

1.4 Having begun the financial year at 4.50%, the Bank of England's Monetary Policy Committee (MPC) reduced Bank Rate by 0.75% to 3.75% by the close of March 2026.

2. Main Points

2.1 Investment and borrowing interest for 2025/26 have produced a net deficit of £172k against the revised budget. Borrowing rates in the local authority increased significantly in the last quarter of 25/26, but due to the US/Iran war, investment rates remained higher than estimated for the last quarter of the financial year as further rate reductions were forecast at the revised budget time in January 2025.The HRA capital expenditure was well below estimated spend and this resulted in less debt recharged to the HRA for 2025/26.

2.2 Pooled Funds have returned dividends that were budgeted at the start of the financial year starting against lower capital values, returned 4.36% against the £7m invested, resulting in over £305k received.

2.3 The capital values of the Pooled Funds realised gains of over £15k for 2025/26.

2.4 The Council had debt of £217.435m as of 31st March 2026 at an average rate of 3.86%.

2.5 Investments returned an average rate of 4.27% on an average £17.970m for 2025/26 on

2.5 All treasury prudential indicators were within their permitted limits for 2025/26.

3. Local Context

3.1 On 31st March 2026, the Authority had net borrowing of £199.200 arising from its revenue and capital expenditure, an increase on 2025/26 of £12.480m. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

3.2 The Council's strategy was to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, to reduce risk and keep interest costs low. The treasury management position as of 31st March 2026 and the year-on-year change is shown in table 1 below.

Table 1: Balance Sheet Summary

	31.3.25 Actual £m	31.3.26 Actual £m
General Fund CFR	120.328	119.942
HRA CFR	95.512	109.435
Total CFR	**215.840**	**229.377**
External borrowing	204.409	217.435
Internal (over) borrowing	11.440	11.950
Less: Balance sheet resources	19.375	18.240
Net borrowing	**186.720**	**199.200**

3.4 The treasury management position as 31st March 2026 and the change during the year is shown in table 2 below.

Table 2: Treasury Management Summary

	31.3.25 Balance £m	2025/26 Movement £m	31.3.26 Balance £m	31.3.26 Rate %
Long-term borrowing	151.359	(8.430)	142.930	3.40
Short-term borrowing	53.050	21.450	74.500	5.10
Total borrowing	**204.409**	**13.020**	**217.430**	**3.86**
Long-term investments	17.693	0.542	18.235	4.27
Short-term investments	0	0	0	-
Cash and cash equivalents	0	0	0	-
Total investments	**17.693**	**0.542**	**18.235**	**4.27**
Net borrowing	**186.720**	**12.480**	**199.200**	

3.5 Borrowing Activity as of 31st March 2026, the Council held £217.435m of loans, an increase of £13.020m on the previous year. All new borrowing undertaken in 2025/26 was temporarily from the LA market, since PWLB rates were much higher as they were affected by higher gilt rates. As outlined in the treasury strategy, the Council's chief objective when borrowing has been to strike an appropriate 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.

3.6 In May 2025, the one remaining LOBO loan (Lenders Option, Borrowers Option) the Council had with Bayerische Landesbank, was repaid in full as the lender exercised their right to increase the loan rate from 3.95% to 7%. It was decided to repay the loan after seeking advice from Arlingclose and replaced the loan with short term debt.

Table 3: Borrowing Position

	31.3.25 Balance £m	2025/26 Movement £m	31.3.26 Balance £m	31.3.26 Rate %
Public Works Loan Board	137.459	(3.430)	134.030	3.38
Banks (LOBO)	5.000	(5.000)	0	3.95
Banks (fixed term)	8.900		8.900	3.82
Local authorities (short-term)	53.050	21.450	74.500	5.10
Total borrowing	**204.409**	**13.020**	**217.430**	**3.86**

3.7 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.

3.8 The cost of short-term borrowing from other local authorities has generally tracked Base Rate at around 4%-4.5%. However, from late 2025 rates began to rise, peaking at around 7% in February and March 2026.

3.9 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 Council. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

3.10 The Council currently holds PWLB debt of £38.500m for commercial investments that were purchased prior to the change in the CIPFA Prudential Code.

4. Investment Activity

4.1 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2025/26 the Council's investment balance ranged between £16m and £36.2m due to timing differences between income and expenditure. The year-end investment position and the year-on-year change is show in table 3 below.

Table 4: Investment Position (Treasury Investments)

	31.3.25 Balance £m	2025/26 Movement £m	31.3.26 Balance £m	Interest Rate %
Banks & Building Societies	0	0	0	-
Government (inc. Local Authorities)	0	0	0	-
MMF's/Call Accounts	0	0	0	-
Pooled Funds	7.000	0	7.000	4.36
Other Investments	10.693	0.550	11.235	4.69
Total Investments	**17.693**	**0.550**	**18.235**	**4.39**

4.2 £7m of the Council's investments are held in externally managed strategic pooled (bond, equity, multi-asset and property) funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated a total return of £305k (4.36%), with the capital value of these funds increased by £15k, which is treated as an unrealised capital gain. See table 4 below for a breakdown of the individual returns for each fund.

Table 5: Current Pooled Funds

Fund Manager	Investment	Capital Value as at 31st March 2025	Capital Value as at 31st March 2026	Dividends Received 2025/26	2025/26 Gain/(Loss)	Gain/(Loss) v Original Investment
	£	£	£	£	£	£
CCLA Property Fund	3,000,000	2,649,166	2,648,975	123,558	(191)	(351,025)
Schroders Income Maximiser Fund	2,000,000	1,640,687	1,762,194	125,024	121,507	(237,806)
CCLA Diversified Income Fund	2,000,000	1,870,964	1,764,380	56,622	(106,584)	(235,620)
Total –current Funds	**7,000,000**	**6,160,816**	**6,175,549**	**305,204**	**14,732**	**(824,451)**

4.5 The nature of these funds is that values can fluctuate from one year to another. Their performance and suitability in meeting the Council's investment objectives are monitored and discussed with Arlingclose on a regular basis. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's 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; but with the confidence that over a long period total return will exceed cash interest rates.

5. Financial Implications

5.1 The outturn for debt interest paid in 2025/26 was £7.538 million (3.7%) on an average debt portfolio of £203.728 million against a budgeted £7.479 million. A deficit of £53k was recorded for the financial year after considering the re-imbursement of £3.718m for the debt associated to the HRA for 2025/26. The reason for the variance is mainly due to the higher rates available towards the back end of the financial year added with additional borrowing to cover the daily cashflow.

5.2 The outturn for investment income received in 2025/26 was £1.496m which equates to a 4.62% return (24/25 – 4.92%) on an average investment portfolio of £22.410 million against a budgeted £1.444m. The General Fund reimbursed the HRA £28k for revenue balances held within investment balances during 2025/26. A General Fund surplus of £52k was made on investment income. The council were able to hold higher balances within the MMF's for longer periods which resulted in better interest returns, and due to the HRA Reserves being lower than expected, resulted in less interest being re-paid to the HRA.

5.3 Net loans and investments budget for 2025/26 which also includes leasing and third-party loans repayments, was a budgeted cost of £2.323m but made an actual cost return of £2.324, a deficit of £1k. See table 6 below for a breakdown.

Table 6 – Borrowing and Investment Costs

Borrowing Costs	2025/26 Revised £	2025/26 Actual £	Variance (surplus)/loss £
Temp Borrowing	2,515,788	2,576,330	60,542
LT Borrowing	4,963,145	4,961,759	(1,386)
HRA Share	(3,711,500)	(3,546,209)	165,291
Total GF Cost	**3,767,433**	**3,991,880**	**224,447**
Investment Income	2025/26 Revised £	2025/26 Actual £	Variance (surplus)/loss £
Pooled Funds	312,000	305,204	6,796
Short term/call	378,678	400,360	(21,682)
Other Loans/Lease	820,327	818,798	1,529
HRA Share	(67,000)	(28,283)	(38,717)
Total GF Income	**1,444,005**	**1,496,079**	**(52,074)**
NET COST (Saving)	**2,323,428**	**2,495,801**	**172,373**

6. Compliance Report

6.1 The Council can confirm that it has complied with its Prudential Indicators for 2025/26, which was set in March 2025 as part of the Council's Treasury Management Strategy and Capital Strategy. 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 2025/26. None of the Prudential Indicators have been breached and a prudent approach has been taking in relation to investment activity with priority being given to security and liquidity over yield.

The Prudential Indicators include:

- Authorised and Operational Boundary for External Debt
- Average Credit rating
- Upper limits for fixed interest rate exposure and variable interest rate exposure
- Upper limit for total principal sums invested over 364 days.

Table 7: Debt Limits

	2025/26 Maximum £m	31.3.26 Actual £m	2025/26 Operational Boundary £m	2025/26 Authorised Limit £m	Complied
Borrowing	231.359	217.430	294	304	✓

6.2 Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. Total debt was never above the operational boundary during 2025/26.

7. Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

7.1 **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:

Table 8 Maturity structure of borrowing

	31.3.26 Actual	Actual Debt Due	Upper Limit	Lower Limit	Complied
Under 12 months	38%	£82.500m	50%	0%	✓
Over 12 months and within 5 years	28%	£61.597m	100%	0%	✓
5 years and within 10 years	5%	£10.617m	100%	0%	✓
10 years and above	29%	£62.720m	100%	0%	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. The actual maturity percentages for 31st March 2026 are calculated on the debt outstanding of £217.430m.

7.2 Principal Sums Invested for Periods Longer than 364 days

The purpose of this indicator is to control the Authority'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:

Table 9 Principal invested over 364 days

	2024/25	2025/26	2026/27
Actual principal invested beyond year end	7m	7m	7m
Limit on principal invested beyond year end	10m	10m	10m
Complied	✓	✓	✓