

ANNUAL TREASURY REPORT 2025/26**1. Background**

- 1.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2025/26. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).
- 1.2 Treasury management is defined as: 'The management of the local authority's 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.'
- 1.3 Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management strategy.

2.0 Economic Background**UK Economy**

- 2.1 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.
- 2.2 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%.
- 2.3 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.
- 2.4 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.

- 2.5 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%.
- 2.6 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)

- 2.7 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.
- 2.8 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.
- 2.9 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.

US Economy

- 2.10 Despite a weak finish to 2025, the US economy has generally been the strongest among the developed economies, but with uncertainties growing surrounding President Trump's central economic tenet of being able to apply tariffs on an ad-hoc basis, and bend the FOMC Fed Funds rate decision-making to his will, there is something of a stalemate in place at present over when, and if, rates will be cut further in 2026.
- 2.11 Inflation is currently stuck at around 2.5%, unemployment is only a little above 4%, and tax refunds are in the process of being facilitated for many households. But will those refunds be – at least partially – offset by higher gasoline prices?
- 2.12 The S&P500 started April 2025 at 5,633 and finished March 2026 at 6,528 having peaked at just over 7,000. The 10-year Treasury yield finished March at 4.30% having been 4.17% back at the start of April, and during the year has been both above 4.50% and below 4.00%.

EZ Economy

- 2.13 The Eurozone economy has run pretty much in parallel with that of the UK. A slightly stronger finish to 2025 (GDP of 0.2% q/q) than that of the UK cannot hide the fact that the economy has been negatively impacted by German economic stagnation until late in 2025. France has also struggled against a difficult political backdrop but managed to post GDP growth of 0.3% q/q for October to December.
- 2.14 With Eurozone headline inflation close to 2%, the ECB has been able to reduce its Deposit Rate to 2%. Whether it rises from that low point will very much be driven by how energy prices trend over the coming months. The Euro has appreciated against the dollar from 1.08 at the start of April 2025 to 1.16 at the end of March.

3.0 Local Context

- 3.1 During 2025/26, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as although near-term investment rates were equal to, and sometimes higher than, long-term borrowing costs, the latter are expected to fall back through 2026/27 as inflation concerns are dampened.
- 3.2 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.
- 3.3 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when the Council may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

- 3.4 The Council's Capital Financing Requirement (CFR) at 31 March 2026 was £158.603m, while usable reserves and working capital which are the underlying resources available for investment were £67.444m.
- 3.5 The Council has an increasing CFR over the next 2 years of £51.551m, due to the borrowing requirement of £62.390m (GF £24.035m / HRA £38.355m) for financing the capital programme over the forecast period. The CFR reduces when Minimum Revenue Provision (MRP) are made and the repayment of debt, over the forecast period there are loans due for repayment with a combined total value of £10.839m.

4.0 **Borrowing Strategy**

4.1 Borrowing Activity in 2025/26

	Balance 1/4/25 £m	New Borrowing £m	Debt Maturing £m	Balance 31/3/26 £m
CFR	147.046			158.603
Short Term Borrowing	36.442	4.419	-4.254	36.607
Long Term Borrowing	73.357	0.000	-5.041	68.316
Total Borrowing	109.799	4.419	-9.295	104.923
Other Liabilities – Finance Lease Liability	5.169	1.298	-0.170	6.297
Total External Debt	114.968	5.717	-9.465	111.220
Increase/(Decrease) in Borrowing £000				-3.748

- 4.2 **Refinancing:** As interest rates remained higher than anticipated levels for the coming year, the Council continued to make use of short-term borrowing. This approach enabled the Council to retain flexibility and avoid committing to longer-term borrowing until rates are considered more favourable. The table below sets out the loans refinanced during the year and compares the rates available at the time.

Description	Balance 1/4/25 £m	Old Rate	Balance 31/3/26 £m	New Rate
PWLB Maturity	17.000	4.63%	17.000	4.10%
PWLB Maturity	10.000	4.95%	10.000	4.15%
LOBO*	3.500	3.75%	3.500	4.06%
Total	30.500		30.500	

- 4.3 **LOBOs:** At the start of 2025/26, the Council held £3.5m of LOBO (Lender's Option Borrower's Option) loans. During the year, the lender exercised its option to propose an increase to the interest rate. As the proposed rate was 5.70%, which is significantly higher than the rate available from PWLB, the loans were repaid and refinanced with a PWLB maturity loan as above.

- 4.4 The Council's primary objective when borrowing has been to achieve an appropriate balance between minimising risk, securing low interest costs, and providing certainty over borrowing costs for the period in which funds are required. A secondary objective has been to retain flexibility to renegotiate loans should the Council's longer-term plans change.
- 4.5 The Council has an increasing CFR due to the capital programme and an estimated borrowing requirement as determined by the Liability Benchmark, which also takes into account usable reserves and working capital. Having considered the appropriate duration and structure of the Council's borrowing need based on realistic projections, it was decided not to take any long term borrowing due to the high interest rates.
- 4.6 **Debt Rescheduling:** The premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

5.0 Investment Activity

- 5.1 The Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Council on 6 March 2025. The policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.). During 2025/26 the Council's investment balances have ranged between £36.280m and £68.406m.

	Balance 1/4/25 £m	New Investments £m	Investments Redeemed £m	Balance 31/3/26 £m
Short Term Investments	36.528	190.812	-201.700	25.640
Long Term Investments	12.500	0.000	0.000	12.500
Total Investments	49.028	190.812	-201.700	38.140
Increase/(Decrease) in Investments £000				-10.888

- 5.2 Security of capital remained the Council's main objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2025/26.
- 5.3 Counterparty credit quality is assessed and monitored by MUFG, the Council's treasury advisors, with reference to credit ratings; credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. MUFG provide recommendations for suitable counterparties and maximum investment periods.

6.0 Compliance with Prudential Indicators

- 6.1 The Council has complied with its Prudential Indicators for 2025/26, which were set on 6 March 2025 as part of the Council's Treasury Management Strategy Statement.

- 6.2 **Interest Rate Exposure:** These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates for both borrowing and investments. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	Approved Limit for 2025/26 %	Maximum during 2025/26 £m
<u>Fixed Rate</u>		
Borrowing	100%	99.18%
Investments	75%	20.98%
<i>Compliance with Limit</i>		Yes
<u>Variable Rate</u>		
Borrowing	20%	0.82%
Investments	100%	79.02%
<i>Compliance with Limit</i>		Yes

- 6.3 **Maturity Structure of Fixed Rate Borrowing.** This indicator is to limit large concentrations of fixed rate debt and control the Council's exposure to refinancing risk.

	Upper Limit %	Fixed Rate Borrowing 31/03/26 £m	Fixed Rate Borrowing 31/3/26 %	Compliance?
Under 12 months	15%	14.111	13.45%	Yes
12 months to 2 years	15%	23.006	21.93%	Yes
2 years to 5 years	30%	19.295	18.39%	Yes
5 years to 10 years	100%	1.146	1.09%	Yes
10 years and above	100%	47.365	45.14%	Yes

- 6.4 **Principal Sums Invested for over 364 Days.** 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.

Price Risk Indicator	Limit 2025/26	Actual 31/03/26	Compliance?
Limit on principal invested beyond year end	£15m	£12.5m	Yes

- 6.5 **Authorised Limit and Operational Boundary for External Debt.** The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached. 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 s151 Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2025/26.

	Approved Operational Boundary 2025/26 £m	Authorised Limit 2025/26 £m	Actual External Debt 31/03/26 £m
Borrowing – incl Finance Leases	178.954	183.954	111.220
Other Long Term Liabilities	2.000	2.000	0.000
Total	180.954	185.954	111.220

- 6.6 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary of the treasury management activity during 2025/26. A prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.
- 6.7 The Council also confirms that during 2025/26, it complied with its Treasury Management Policy Statement and Treasury Management Practices.