

TREASURY MANAGEMENT ANNUAL REPORT 2025/26

INTRODUCTION AND BACKGROUND

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 the financial year 2025/26. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

The Council's Treasury Management Strategy for 2025/26 was approved at a meeting on 12 February 2025. 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. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.

The CIPFA Code of Practice on Treasury Management was adopted by this Council on 24 February 2010; this was updated in November 2011 and updated further in December 2017 and December 2021.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the Council of an annual treasury management strategy report (including the annual investment strategy) for the year ahead and an annual review report of the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of the treasury management strategy to a specific named body which in this Council is the Finance, Assets and Performance Scrutiny Committee.
6. Delegation by the Council of the role of scrutiny of treasury management performance to a specific named body which in this Council is the Audit and Standards Committee, a midyear and year-end review report is received by this Committee.

Treasury Management in this context 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."

The purpose of this report is to meet one of the above requirements of the CIPFA Code, namely the annual review report of Treasury Management activities, for the financial year 2025/26.

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council has complied with the requirement under the Code to give prior scrutiny to the annual review report by reporting this to the Audit and Standards Committee prior to it being reported to Council.

2. THIS ANNUAL TREASURY REPORT COVERS

- The Council's treasury position as at 31 March 2026;
- The strategy for 2025/26;
- The economy in 2025/26;
- Investment rates in 2025/26;
- Compliance with treasury limits and Prudential Indicators;
- Investment outturn for 2025/26;
- Involvement of Elected Members;
- Other issues.

3. TREASURY POSITION AS AT 31 MARCH 2026

The Council's investment position at the beginning and the end of the year was as follows:

	At 31/03/26	Average Return	Average Life (Days)	At 31/03/25	Average Return	Average Life (Days)
Total Debt	£8m	5.4%	32.5	£0m	0.00%	0
Total Investments	£4.05m	1.76%	1	£3.05m	2.7%	1

It should be noted that the above table is only a snapshot of the total Investments as at 31 March 2026. Large fluctuations in cash inflows and outflows that occur throughout the month can have an impact on the figure reported.

4. THE STRATEGY FOR 2025/26

The strategy agreed by Council on 12 February 2025 was that:

- The Council may be required to borrow during 2025/26;
- All borrowing would be kept absolutely within the Authorised Limit of £100m and would not normally exceed the Operational Boundary of £80m;
- Temporary surpluses which might arise would be invested, either in short term deposits with the Council's various deposit accounts or in money market investments (cash deposits) if the size warranted this and for an appropriate period in order that these sums would be available for use when required;
- The proportions of loans and investments to be at fixed or variable rates were: fixed rate loans to be between 0% and 100% of the total and variable rate to be between 0% and 100% of the total, thus enabling maximum flexibility to take advantage of interest rate trends;
- Long term investments to be permitted as follows: maturing beyond 31 March 2026 – £25m, maturing beyond 31 March 2027 – £25m, maturing beyond 31 March 2028 – 25m;
- The overriding consideration is safeguarding the Council's capital. At all times the risk to the Council will be minimised. Within these constraints, the aim will be to maximise the return on investments; and
- Forward commitment of funds for investment is permitted in respect of in-house investments, in instances where market conditions warrant it.

5. THE ECONOMY AND INTEREST RATES - narrative supplied by the Council's Treasury Management Advisors – Arlingclose Limited

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.

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 investors demand a higher return for holding gilts.

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.

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.

Prior to the start of the war, headline UK consumer price inflation (CPI) inflation had generally been trending downwards, albeit the 3% in February 2026 was unchanged from January. Core CPI also stayed put at 3.1%. Inflation was expected to fall further over the coming months to the BoE's 2% target, but the war changed this. Inflation is now expected to rise again, but how quickly and by how much depends on the duration of the war and how long commodity prices are elevated.

The Office for National Statistics (ONS) reported the UK economy expanded by 0.1% in Q4 2025. This followed previous modest gains of 0.2% in Q2 and by 0.1% in Q3. Of the subsequent monthly figures, the ONS estimated that Gross Domestic Product (GDP) showed no growth in January 2026. As this is from before the war started the impact on growth will not be seen formally in the data for a couple more months.

While the most recent labour market figures were slightly better than expected, the general trend has been one of persistent weakness. In the three months to January 2026, the unemployment rate rose to 5.2% (from 5.1%), while the employment rate held at 75.1%. Despite inflation being expected to rise in the coming months, labour market conditions remain loose and so any upward pressure on wages from general inflation is likely to be tempered by the weaker labour market environment.

After cutting the 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 the 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.

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 the 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.

The US Federal Reserve had been cutting rates over the period, reducing Fed Funds Rate target range by 0.25% at its December meeting to 3.50%-3.75%. At the three subsequent meetings, the rate was held

at the same range. Policymakers noted that while inflation was elevated, economic activity had been expanding but the war with Iran made the path of monetary policy highly uncertain. Despite this, the Fed still suggested that further rate cuts were likely in 2026 and 2027.

The European Central Bank (ECB) has kept its key interest rates on hold since June 2025, maintaining the deposit rate at 2.0% and main refinancing rate at 2.15%. At its March 2026 meeting, the ECB noted the war in the Middle East had significantly increased uncertainty, creating upside risks for inflation and downside risks for growth, leading it to revise up its forecasts accordingly.

6. FINANCIAL MARKETS IN 2025/26 – narrative supplied by the Council’s Treasury Management Advisors – Arlingclose Limited

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.

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.

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.

7. COMPLIANCE WITH TREASURY LIMITS

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council’s annual Treasury Strategy Statement. The outturn for the Prudential Indicators is shown in Annex 1.

8. INVESTMENT OUTTURN FOR 2025/26

Internally Managed Investments

The Council manages its investments in-house and during 2025/26 invested with institutions in compliance with the credit worthiness service of the Council’s treasury management advisors, Arlingclose Limited.

The Council invested for a range of periods from overnight to up to 16 days during 2025/26, dependent on the Council’s cash flows, its interest rate view and the interest rates on offer. 87 of 88 investments made in 2025/26 were for a period of 2 weeks or less. 8 investments were made with the Public Sector Deposit Fund. The remaining 80 investments were deposited in the Debt Management Account Deposit Facility.

In addition, funds were held in the general fund account that the Council has with Lloyds Bank.

Investment Outturn for 2025/26

During 2025/26 an average rate of return of 3.71% was achieved on an average individual investment of £1.647m due to the receipt in advance of Government grants. No target was set for 2025/26 as it was assumed that a net interest payable amount would be required to meet the Council's capital programme. Actual interest income from interest activity amounted to £0.231m.

9. INVOLVEMENT OF ELECTED MEMBERS

Elected members have been involved in the treasury management process during 2025/26 including:

- Scrutiny of the treasury management strategy by the Finance, Assets & Performance Scrutiny Committee prior to being submitted for approval by the Council.
- Scrutiny of treasury management performance by the Audit and Standards Committee through the receipt of a half yearly treasury management report.
- A quarterly budget monitoring and performance report is reported to Cabinet, this contains details of Treasury Management activity undertaken during the quarter.

ANNEX 1: PRUDENTIAL INDICATORS

Position/Prudential Indicator		2024/25 Actual	2025/26 Indicator	2025/26 Actual
1	Capital Expenditure	£26.236m	£35.634m	£27.348m
2	Capital Financing Requirement at 31 March	£19.893m	£35.061m	£21.807m
3	Treasury Position at 31 March:			
	Borrowing	£0	N/A	£8m
	Other long-term liabilities	£0	N/A	£0
	Total Debt	£0	N/A	£8m
	Investments	(£3.05m)	N/A	(£4.05m)
	Net Borrowing	(£3.05m)	N/A	£3.95m
4	Authorised Limit (against maximum position)	£0	£100.0m	£0
5	Operational Boundary (against maximum position)	£0	£80.0m	£8.0m
6	Ratio of Financing Costs to Net Revenue Stream	(2.29%)	5.19%	(0.98%)
7	Upper Limits on Variable Interest Rates (against maximum position)			
	Loans	0%	100%	0%
	Investments	0%	100%	0%
8	Actual External Debt	£0	N/A	£8m
9	Principal Funds Invested for Periods Longer than 365 days (against maximum position)	£0	£25.0m	£0

GLOSSARY

CFR – Capital Financing Requirement

The Capital Financing Requirement is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources.

CIPFA – The Chartered Institute of Public Finance and Accountancy

The Chartered Institute of Public Finance and Accountancy is the professional body for accountants working in Local Government and other public sector organisations.

CPI – Consumer Price Index

A measure that examines the weighted average of prices of a basket of consumer goods and services. The Consumer Price Index is calculated by taking price changes for each item in the predetermined basket of goods/services and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living.

GDP – Gross Domestic Product

Gross Domestic Product is the market value of all officially recognised final goods and services produced within a country in a given period of time.