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|------------------------------------------------------------------------------------|-------------------------------------------------------------------|
| <b>Meeting of:</b>                                                                 | <b>Cabinet</b>                                                    |
| <b>Date of Meeting:</b>                                                            | <b>Thursday, 09 July 2026</b>                                     |
| <b>Relevant Scrutiny Committee:</b>                                                | Resources Scrutiny Committee                                      |
| <b>Item which the Chair has decided is urgent (Part I)</b><br>(If yes, why)        | Not applicable                                                    |
| <b>Urgent Decision Procedure Used (15.14 of the Constitution)</b><br>(If yes, why) | Not applicable                                                    |
| <b>Item Type</b>                                                                   | Part I                                                            |
| <b>Report Title:</b>                                                               | Annual Treasury Management Report 2025/26                         |
| <b>Portfolio Holder:</b>                                                           | Executive Leader and Cabinet Member for Performance and Resources |
| <b>Strategic Leadership Team:</b>                                                  | Head of Finance/Section 151 Officer                               |
| <b>Lead Officer:</b>                                                               | Head of Finance/Section 151 Officer                               |

## 1.0 What is this report about?

- 1.1 The 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), the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) and the Welsh Government (WG) revised guide on Local Government Investments (April 2010).
- 1.2 During 2025/26, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year are to be found in the main body of this report including the Authorised Limit and Operational Boundary.
- 1.3 The Council's prudential indicators continue to include the additional long-term liabilities brought onto the Council's balance sheet with the introduction and implementation IFRS16 Leasing from April 2024.

- 1.4 The Council's borrowing requirement increased £11.478M in 2025/26 giving a total Capital Financing Requirement of £213.634M on 31st March 2026. At the same date, the Council held £181.871M of Gross External Borrowing and other longer term debt liability of £3.506M. The Council was therefore under borrowed by £28.257M as of 31st March 2026.
- 1.5 The Head of Finance confirms that borrowing was only undertaken for capital purposes and the statutory borrowing limits (the Authorised and Operational limits), were not breached.
- 1.6 The Council's External Borrowing was well within the Authorised Limit and Operational Boundary set for 2025/26.
- 1.7 The Council has, where possible, self-financed new capital expenditure and the repayment of maturing debt. However, available balances and reserves are now practically exhausted, and the Council is continuing to borrow externally from the Public Works Loan Board (PWLB). In light of current borrowing costs and interest rate expectations, the Council is adopting a mid-term borrowing approach, with loan durations extending up to 12 years, balancing cost certainty with the expectation that rates will fall during this period. The Council meets regularly with its Treasury Management advisors to review its borrowing position.
- 1.8 The Council borrowed £20.500M with maturity dates ranging from 1 year to 12 years during 2025/26. Of this amount £16.000M was borrowed from the Public Works Loan Board (PWLB), a loan of £3.500M from a Local Authority (LA) and an additional loan of £1.000M has been advanced from the Welsh Government for Town Transformation.
- 1.9 Of the borrowing undertaken £10.000M was in support of capital expenditure for the Housing Revenue Account (HRA). These loans were subject to a 60-basis point deduction from the standard PWLB interest rate.
- 1.10 The Council financed new Capital Expenditure of £4.012M from internal borrowing and £10.139M from prudential borrowing. The Council's debt portfolio as of 31st March 2026 was as follows:

**Table 1 Debt Portfolio**

|                                                         | <b>31st March<br/>2026</b> |
|---------------------------------------------------------|----------------------------|
|                                                         | <b>Principal</b>           |
|                                                         | <b>£M</b>                  |
| Public Works Loan Board (PWLB)                          | 173.935                    |
| Concessionary Loans                                     | 0.375                      |
| Town Centre Loans                                       | 0.550                      |
| Town Transformation Loan                                | 1.000                      |
| Salix Loans                                             | 0.511                      |
| Local Authority Borrowing                               | 5.500                      |
| <b>Total Debt Excluding Other Long-Term Liabilities</b> | <b>181.871</b>             |
| Other Long-Term Liabilities                             | 3.506                      |
| <b>Total Debt Including Other Long-Term Liabilities</b> | <b>185.377</b>             |

1.11 The Council spent £73.765M during 2025/26 and most of that was financed by Capital Grant, S106 and Reserves.

The Council held investments of £37.100M on 31st March 2026.

1.12 The Council's investment portfolio as of 31st March 2026 was as follows:

**Table 2 Investment Portfolio**

|                                          | <b>31st March<br/>2026</b> |
|------------------------------------------|----------------------------|
|                                          | <b>Principal</b>           |
|                                          | <b>£M</b>                  |
| Debt Management Account Deposit Facility | 0.000                      |
| Local Authorities                        | 16.500                     |
| Federated Hermes Money Market Fund       | 7.850                      |
| CCLA Money Market Fund                   | 10.000                     |
| Lloyds Instant Access Deposit Account    | 2.750                      |
| <b>Total Investments</b>                 | <b>37.100</b>              |

1.13 The Bank of England (BoE) interest rate at the beginning of the financial year was 4.50%. During 2025/26 this rate was cut three times to 3.75%. Interest rates were expected to fall again in March 2026. However, the Iran conflict and the resulting increase in global energy prices led the BoE to pause any further cuts. While the short-term expectation is for rates to remain unchanged, the possibility of further inflationary pressures may necessitate an increase in interest rates.

1.14 Investment returns have increased despite falling interest rates compared to 2024/25 levels due to higher investment balances arising from grant funding, including Levelling Up grants. Investment returns have increased from £1.586M in 2024/2025 to £2.321M in 2025/26. Interest payable on debt (excluding internal interest) has increased from £6.594M in 2024/2025 to £7.510M in 2025/26.

1.15 While investment returns have remained higher, borrowing costs have also remained elevated than previously forecast.

1.16 External borrowing fell below the original forecasts mainly due to slippage, hence borrowing costs were lower than budgeted.

1.17 Consequently, financing costs, as a proportion of the net revenue stream for both the Council Fund and the HRA, fall below the levels originally budgeted for 2025/26.

## 2.0 What is the Recommendation?

|     | <b>Recommendation – What and How?</b>                                                                                                                                                                                                                                                                                                                      | <b>Reason for Recommendation – Why?</b>                                                                                                                                                                |
|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1 | That Cabinet accepts the annual report on Treasury Management 2025/26 and that the report be referred to Governance and Audit Committee prior to referral to Full Council for final approval. Should Governance and Audit Committee have no recommendations back to Cabinet, that the report be referred directly to Full Council for final consideration. | To accept and refer the report to the Governance and Audit Committee which has oversight of the Treasury arrangements, prior to referral to Full Council for final approval as required by regulation. |

## 3.0 What is the background to this report?

- 3.1 The 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 2024/25. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code), the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) and the Welsh Government (WG) revised guide on Local Government Investments (April 2010).
- 3.2 During 2025/26 the reporting requirements were that Full Council should receive the following reports:
- An Annual Treasury Strategy in advance of the year (Council 10th March 2025, minute no 919).
  - A Mid-year Treasury Update Report (Council 1st December 2025).
  - An Annual Review Report comparing actual activity to the strategy (this report).
- 3.3 The Quarter 1 Monitoring 2025/26 was received by Cabinet on 4th September 2025 (Minute no C89).
- 3.4 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities This Council confirms that it has complied with this requirement under the Code and has given prior scrutiny to all the above treasury management reports before they were reported to the Full Council. Member training on treasury management issues was undertaken on 23rd February 2026 to support Members' scrutiny role.
- 3.5 This annual outturn Treasury Management Report covers.
- The Economy/Interest rates in 2025/26
  - The Strategy for 2025/26
  - Compliance with Treasury Limits and Prudential Indicators
  - The Borrowing Outturn for 2025/26
  - The Investment Outturn for 2025/26

## External Context 2025/26

### Economic Background

- 3.6 The following information has been prepared by the Authority's Treasury Management Advisors Arlingclose and sets out the changing conditions under which Treasury Management operations were carried out.
- 3.7 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.
- 3.8 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.
- 3.9 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 BoE Bank Rate increasing.
- 3.10 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.
- 3.11 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.
- 3.12 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.
- 3.13 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.

- 3.14 After cutting Bank Rate to 3.75% in December 2025, the BoE's Monetary Policy Committee (MPC) voted 5 to 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.
- 3.15 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.

### **US Economy**

- 3.16 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% to 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.

### **Eurozone Economy**

- 3.17 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.

### **Financial Markets**

- 3.18 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.
- 3.19 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
- 3.20 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**

- 3.21 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.
- 3.22 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.
- 3.23 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.
- 3.24 After rising sharply in April 2025 following the US trade tariff announcements, UK credit default swap (CDS) prices eased back for a period 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 acceptable limits, meaning lending advice did not need to be tightened.
- 3.25 Overall, European banks' CDS prices have generally been flatter and lower compared to the UK, as have Singaporean and Australian lenders while some Canadian bank CDS prices have remained elevated since the beginning of the period in part due to ongoing trade tensions with the US
- 3.26 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.
- 3.27 Quarterly Monetary Policy Report, therein providing a clarity over the timing of potential future rate cuts.

## **Local Context**

- 3.28 On 31st March 2026, the Authority had net borrowing of £144.771M arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. These factors are summarised in Table 3 below.

**Table 3: Balance Sheet Summary**

|                                  | <b>31/3/25</b>   | <b>31/3/26</b>   |
|----------------------------------|------------------|------------------|
|                                  | <b>Actual</b>    | <b>Actual</b>    |
|                                  | <b>£m</b>        | <b>£m</b>        |
| General Fund CFR                 | 120.021          | 124.109          |
| HRA CFR                          | 82.135           | 89.525           |
| Total CFR                        | 202.156          | 213.634          |
| Less: *Other debt liabilities    | (2.921)          | (3.506)          |
| Borrowing CFR                    | 199.235          | 210.128          |
| External borrowing**             | <b>(169.851)</b> | <b>(181.871)</b> |
| Internal borrowing               | 29.384           | 28.257           |
| Less: Balance sheet resources    | <b>(47.000)</b>  | <b>(67.000)</b>  |
| Amount Available for Investments | <b>17.616</b>    | <b>38.743</b>    |

3.29 The treasury management position on 31st March 2026 and the change during the year is shown in Table 2 below.

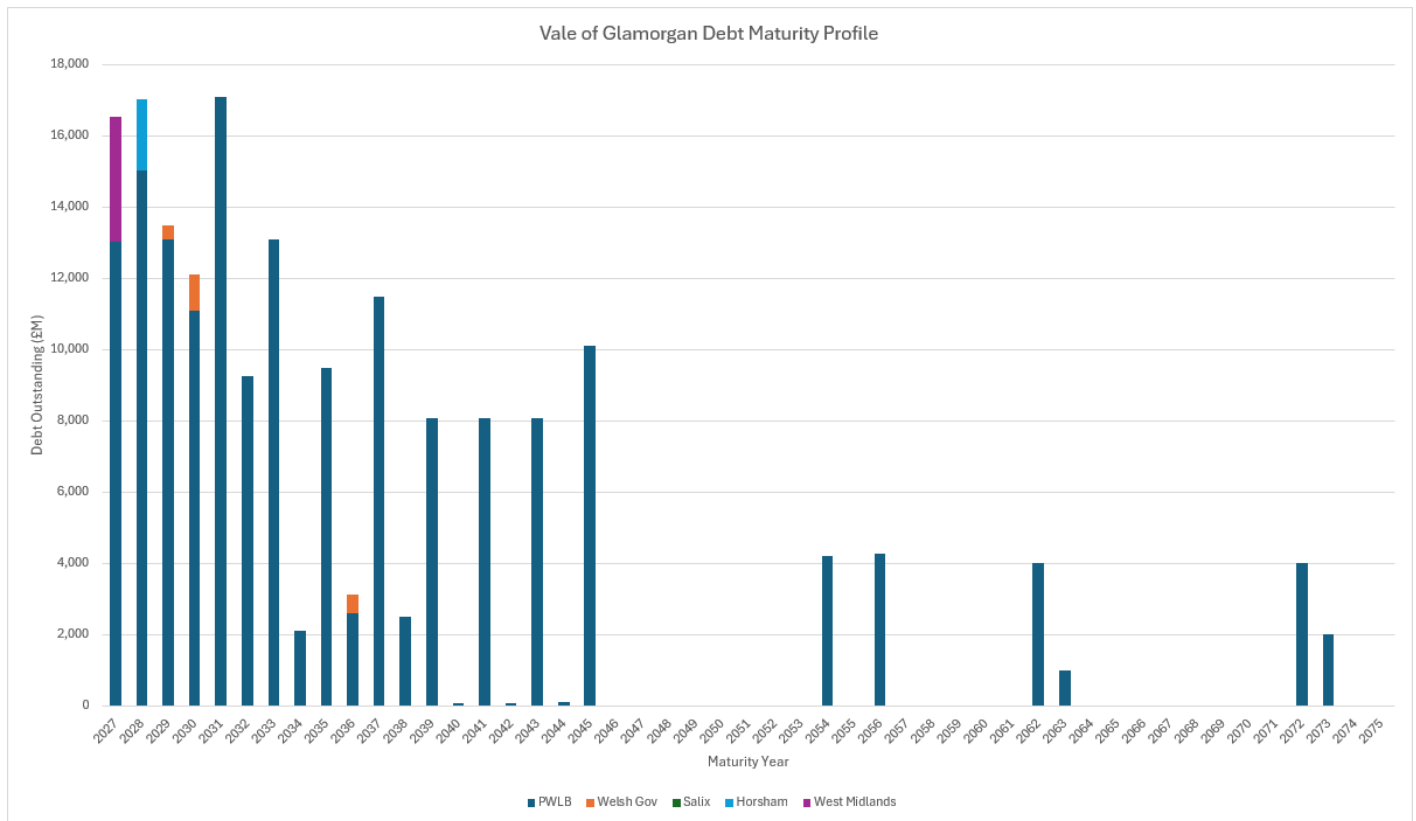
**Table 4: Treasury Management Summary**

|                            | <b>31.3.25<br/>Balance</b> | <b>Movement</b> | <b>31.3.26<br/>Balance</b> | <b>31.3.26<br/>Rate</b> |
|----------------------------|----------------------------|-----------------|----------------------------|-------------------------|
|                            | £m                         | £m              | £m                         | %                       |
| <b>Long-term borrowing</b> |                            |                 |                            |                         |
| PWLB                       | (165.952)                  | (7.983)         | (173.935)                  | 4.38                    |
| Other                      | (3.899)                    | (4.037)         | (7.936)                    | 3.42                    |
| <b>Total borrowing</b>     | <b>(169.851)</b>           | <b>(12.020)</b> | <b>(181.871)</b>           | 4.34                    |
| Long-term Investments      | 0.000                      | 0.000           | 0.000                      | 0.00                    |
| Short-term investments     | 16.825                     | 17.525          | 34.350                     | 4.16                    |
| Cash and cash equivalents  | 0.365                      | 2.385           | 2.750                      | 3.67                    |
| <b>Total investments</b>   | <b>17.190</b>              | <b>19.910</b>   | <b>37.100</b>              | 4.13                    |
| <b>Net (borrowing)</b>     | <b>(152.661)</b>           | <b>7.890</b>    | <b>(144.771)</b>           |                         |

### **Borrowing Strategy and Activity**

3.30 As outlined in the treasury strategy, the Authority'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 Authority's long-term plans change being a secondary objective. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. The following table confirms the Council's debt maturity position as at 31st March 2026.

**Chart 1 – Debt Maturity Profile**



- 3.31 The majority of the Authority’s external borrowing is made up of Public Works Loan Board (PWLB) fixed rate debt. Debt is heavily concentrated in the short to medium term with peaks reaching around £17M. After 2044, debt repayments begin to fall, with smaller maturities every few years through to 2072.
- 3.32 Gilt yields slightly decreased over most of 2025/26 reflecting expectations of lower interest rates, a tepid economy and to some extent an improvement in the UK Government’s 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.
- 3.33 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% to 7.0% being seen.
- 3.34 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.

- 3.35 The PWLB HRA rate which is 0.4% below the certainty rate is available up to March 2027. This discounted rate is to support Local Authorities borrowing for the Housing Revenue Account and for refinancing existing HRA loans. The HRA borrowing rate was applied to two loans during the financial year.
- 3.36 As at 31st March 2026 the Authority held £181.871m of loans, an increase of £12.020m to 31st March 2025, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 31st March 2026 are summarised in Table 6 below:

**Table 5: Borrowing Position**

| Loan Type            | Opening Balance<br>31/03/2025 | Received      | Repaid         | Closing Balance<br>31/03/2026 | Weighted Average Rate |
|----------------------|-------------------------------|---------------|----------------|-------------------------------|-----------------------|
|                      | £m                            | £m            | £m             | £m                            | %                     |
| PWLB                 | 165.952                       | 16.000        | (8,017)        | 173.935                       | 4.38                  |
| Local Authority Loan | 2.000                         | 3.5000        | (0.000)        | 5.500                         | 4.39                  |
| Salix Loans          | 0.849                         | 0.000         | (0.338)        | 0.511                         | 0.00                  |
| WG Loans             | 1.050                         | 1.000         | (0.125)        | 1.925                         | 1.54                  |
| <b>Total</b>         | <b>169.851</b>                | <b>20.500</b> | <b>(8.480)</b> | <b>181.871</b>                |                       |

- 3.37 Investment balances have continued to be kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets, particularly during periods of elevated borrowing rates. However, available balances and reserves are now practically exhausted, and the Council continues to borrow externally from the Public Works Loan Board (PWLB).
- 3.38 Due to current high borrowing costs, the Council has adjusted its borrowing strategy to include longer term fixed rate borrowing, extending from a previous period of 7 years to up to 12 years. This change is intended to lock in interest rates over a longer period, reducing refinancing risk and exposure to future interest rate volatility.
- 3.39 Borrowing rates are currently elevated due to wider economic and geopolitical pressures, including tensions in the Middle East, which have contributed to upward pressure on interest rates. Although rates remain unpredictable, there is an expectation that they may begin to ease later in the year. The spread of PWLB rates throughout 2025/26 can be found at Appendix A.
- 3.40 The Council's primary objective for the management of its debt is to ensure its long-term affordability. It has been the Council's policy to borrow from the Public Works Loan Board at long term fixed rates of interest. Borrowing long term with fixed interest rates provides certainty to the budget setting process. This policy will be resumed as soon as PWLB rates fall from their current inflated levels.
- 3.41 External borrowing was undertaken to finance capital expenditure for both General Fund Account (GF) and the Housing Revenue Account (HRA). GF loans were subject to a 20

basis point deduction, while HRA loans were subject to a 60 basis point deduction from the standard interest rate.

## Treasury Management Investment Activity

- 3.42 The CIPFA Treasury Management Code now defines treasury management investments as those investments which arise from the Authority's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.
- 3.43 The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances ranged between £17.190M and £55.950M due to timing differences between income and expenditure. The investment position is shown in table 5 below.

| <b>Table 5:<br/>Treasury Management Position<br/>Investment Counterparty</b> | <b>31/03/25<br/>Balance</b> | <b>Invested</b>  | <b>Returned</b>    | <b>31/03/26<br/>Balance</b> | <b>31/03/26<br/>Income Return</b> | <b>31/03/26<br/>Weighted Average Maturity</b> |
|------------------------------------------------------------------------------|-----------------------------|------------------|--------------------|-----------------------------|-----------------------------------|-----------------------------------------------|
|                                                                              | <b>£m</b>                   | <b>£m</b>        | <b>£m</b>          | <b>£m</b>                   | <b>%age</b>                       | <b>Days</b>                                   |
| <b>UK Local Authorities</b>                                                  | 2.000                       | 78.000           | (63.500)           | 16.500                      | 4.25                              | 191.8                                         |
| <b>Debt Management Office</b>                                                | 5.625                       | 957.805          | (963.430)          | 0.000                       | 4.05                              | n/a                                           |
| <b>Federated Hermes Money Market Funds (MMF)</b>                             | 6.050                       | 3.950            | (2.150)            | 7.850                       | 4.11                              | n/a                                           |
| <b>CCLA Money Market Funds (MMF)</b>                                         | 3.150                       | 6.850            | 0.000              | 10.000                      | 4.05                              | n/a                                           |
| <b>Lloyds Deposit Account</b>                                                | 0.365                       | 23.610           | (21.225)           | 2.750                       | 3.67                              | n/a                                           |
| <b>Total</b>                                                                 | <b>17.190</b>               | <b>1,070.215</b> | <b>(1,050.305)</b> | <b>37.100</b>               |                                   |                                               |

- 3.44 Both the CIPFA Code and Government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 3.45 All investment activity during 2025/26 conformed to the approved strategy and the Council managed not to experience any liquidity difficulties in year. Liquidity strengthened during 2025/26, leading to higher investment balances, primarily due to the receipt of grant funding, including Levelling Up grants.
- 3.46 The Council manages its investments in house and can invest with those institutions which meet the minimum credit rating criteria and are included on the approved lending list as laid out in the investment strategy. The Council currently invests short term for a range of periods from overnight to 364 days, dependent on its cash flows, its interest rate view, and

the interest rates/periods on offer. A laddering approach to investments was again taken in 2025/26.

- 3.47 As demonstrated by the liability benchmark, the Authority expects to be a long-term borrower, and new treasury investments are therefore primarily made to manage day to day cash flows using short term low risk instruments. The liability benchmark can be found at Appendix B.
- 3.48 The Bank Rate reduced from 4.50% to 4.25% in May 2025, followed by a further reduction to 4.00% in August 2025 and to 3.75% in December 2025. Short term interest rates have largely followed these levels. Interest rate forecasts for 2025/26 can be found at Appendix A. The spread of interest rates throughout 2025/26 can also be found at Appendix A.
- 3.49 The rates on the Debt Management Account Deposit Facility (DMADF) deposits ranged between 3.70% and 4.45% and money market rates between 3.74% and 4.51%.
- 3.50 During the 2025/26 financial year, financial markets were characterised by generally positive risk asset performance for much of the period, but with significant volatility, particularly at the beginning and end of the year. The period was effectively bookended by market disruption associated with US trade and foreign policy, initially following the announcement of US 'Liberation Day' tariffs in April 2025 and then, towards the year end, by the escalation of the US and Israel conflict with Iran in March 2026. Between these two episodes, market sentiment improved as inflation generally eased and expectations for further interest rate cuts increased, supporting both bond and equity markets.
- 3.51 For much of the year, the backdrop for government bonds became more constructive than had been the case in recent years. In the UK in particular, falling inflation and growing expectations of further Bank of England rate cuts supported sentiment, although yields remained volatile as investors also had to contend with fiscal concerns and an uncertain economic outlook. As a result, income returns remained attractive, while capital values were more variable. By the final quarter, however, the rise in oil and other commodity prices caused by the conflict with Iran raised concerns that inflation could move higher again and that further monetary easing could be delayed or even reversed, leading to renewed pressure on bond markets.
- 3.52 Equity markets also recovered well from the tariff related weakness seen early in the financial year, supported by improving sentiment around inflation and interest rates, resilient corporate earnings and continued enthusiasm for artificial intelligence investments (AI). AI remained a major focus for investors throughout the year, although some worried that parts of the market had become overpriced and could fall if expectations weren't met. Even so, markets generally rose for most of the year, before weakening towards the end as global political tensions increased.
- 3.53 Investment returns remained strong throughout 2025/26 despite a gradual reduction in the Bank Rate over the course of the financial year.
- 3.54 Funds available for investment continued to be placed with the Debt Management Office (DMO), other Local Authorities, Money Market Funds (MMFS) and the Lloyds Instant

Access Deposit Account. No investments were placed with and Treasury Bills as the other investment tools available offered more favourable rates of return and low risk.

- 3.55 Money Market Funds (MMFs) were still the most beneficial investment tool during 2025/26 as not only did they permit instant access to the funds invested, the rates of return were also calculated daily and moved simultaneously with the upward movement in interest rates. Since rates have been cut some money market fund rates have remained competitive and are currently achieving a yield more than Bank Rate.
- 3.56 Deposits placed with local authorities and the DMO were for periods between overnight and 364 days.
- 3.57 Deposits placed with Money Market Funds and the Lloyds Accounts had instant access and were drawn down when needed to meet the Council's financial commitments.
- 3.58 The Section 151 Officer will continue to keep the borrowing and investment strategies under review.
- 3.59 The Section 151 Officer reports that all treasury management activity undertaken during the financial year complied with the approved strategy, the CIPFA Code of Practice, and the relevant legislative provisions. Compliance with specific investment limits is demonstrated in table 6 below.

**Table 6: Investment Limits**

|                                            | <b>2026/27<br/>Maximum</b> | <b>31.3.26<br/>Actual</b> | <b>2025/26<br/>Limit</b> | <b>Complied<br/>Yes/No</b> |
|--------------------------------------------|----------------------------|---------------------------|--------------------------|----------------------------|
| UK Government – Treasury Bills and DMADF   | Unlimited                  | £0                        | Unlimited                | Yes                        |
| UK Local Authorities                       | £5M per LA                 | £5M                       | £5M per LA               | Yes                        |
| UK Fire and Police Authorities             | £5M per Organisation       | £0M                       | £5M per Organisation     | Yes                        |
| UK Call Bank Accounts in UK Banks          | £10M per Organisation      | £2.75M                    | £10M per Organisation    | Yes                        |
| Money Market Funds (AAA)                   | £10M per Organisation      | £10M                      | £10M per Organisation    | Yes                        |
| UK and Foreign Financial Institutions (A-) | £10M per Organisation      | £0M                       | £10M per Organisation    | Yes                        |

#### **4.0 What issues are there to be considered?**

- 4.1 The Council undertakes Capital Expenditure on long term assets. These activities may either be financed immediately through capital or revenue resources e.g., capital receipts, capital grants etc. Alternatively, the activities can give rise to a borrowing need which would create an increase in the Council's Capital Financing Requirement (CFR).
- 4.2 The Treasury Strategy for 2025/26 was set assuming planned expenditure of £106.706M split (£76.246M General Fund and £30.460M HRA). The final budget for 2025/26 is £92.717M (£69.370M General Fund and £23.347M HRA). Capital Outturn is £73.765M, a variance of £18.952M which is largely due to significant slippage. Slippage of £17.006M has been requested £12.834M for General Fund and £4.172M for HRA

4.3 The table below shows the Council's capital expenditure and how it is financed.

**Table 7 - In Year Movement in Capital Financing Requirement**

|                                                                         | 2025/26      | 2025/26 | 2025/26  |
|-------------------------------------------------------------------------|--------------|---------|----------|
|                                                                         | General Fund | HRA     | Total    |
|                                                                         | £M           | £M      | £M       |
| Total Capital Expenditure                                               | 54.603       | 19.162  | 73.765   |
| Leasing Adjustments                                                     | 1.681        | 0       | 1.681    |
| Total Adjusted Capital Expenditure and Adjustments                      | 56.284       | 19.162  | 75.446   |
| Financed in Year                                                        | (46.933)     | (9.966) | (56.899) |
| Minimum Revenue Provision                                               | (4.168)      | (1.805) | (5.973)  |
| Other Long Term Liabilities Minimum Revenue Provision                   | (1.095)      | 0       | (1.095)  |
| Movement in Capital Finance Requirement/Unfinanced Capital Expenditure* | 4.088        | 7.391   | 11.479   |

\*This is capital expenditure that will be funded by a reduction in the Council's borrowing requirement.

### The Council's Overall Borrowing Need

- 4.4 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend.
- 4.5 Part of the Council's treasury activity is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLB], or the money markets), or utilising temporary cash resources within the Council.
- 4.6 The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP) to reduce the CFR. This is effectively a repayment of the General Fund and Housing Revenue Account (HRA) borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.
- 4.7 The Council's 2024/25 MRP Policy, (as required by Welsh Government), was approved as part of the Treasury Management Strategy Report 2024/25 by Full Council on 10th March 2026 Minute No 919. A Council may also make Voluntary Revenue Provision payments if they wish to do so, in addition to the MRP requirement.

## Gross Borrowing and the Capital Financing Requirement (CFR)

4.8 To ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its Gross External Borrowing does not (except in the short term) exceed the total of the Capital Financing Requirement in the preceding year (2024/25) plus the estimates of any additional CFR for the current year (2025/26) and the next two financial years. The Council has fully complied with this prudential indicator in 2025/26.

4.9 The table below highlights the Council's Gross External Borrowing position against the CFR.

**Table 8 – Borrowing against the CFR**

|                                              | <b>Actual</b>        | <b>Revised Budget</b> | <b>Actual</b>        |
|----------------------------------------------|----------------------|-----------------------|----------------------|
|                                              | <b>31 March 2025</b> | <b>31 March 2026</b>  | <b>31 March 2026</b> |
|                                              | <b>£M</b>            | <b>£M</b>             | <b>£M</b>            |
| CFR General Fund Exc. Leasing                | 117.100              | 121.229               | 120.603              |
| CFR General Fund Other Long-Term Liabilities | 2.921                | 3.940                 | 3.506                |
| CFR HRA                                      | 82.135               | 89.259                | 89.525               |
| Total CFR                                    | 202.156              | 214.428               | 213.634              |
| <b>Gross External Borrowing Loans</b>        | (169.851)            | (194.412)             | (181.871)            |
| <b>Other Long-Term Liabilities</b>           | (2.922)              | (3.429)               | (3.506)              |
| Under/(Over) Borrowing of CFR                | <b>29.383</b>        | <b>16.587</b>         | <b>28.257</b>        |

4.10 The table above shows that from April 2025 to March 2026 there was an increase in the total loans raised to finance the capital expenditure after providing for the Minimum Revenue Provision (MRP). The amount outstanding fell well below the 2025/26 estimate. This was mainly due to the slippage of capital programme into 2026/27 and future years. Consequently, total external borrowing also fell below the 2025/26 estimate as firstly there was less new capital expenditure to finance and secondly, where possible this expenditure was funded from reserves and balances in the context of high interest rates for external borrowing. In year, as part of its overall treasury management position, the Council takes into account the availability of internal borrowing supported by usable reserves. The proportion of the financing requirement funded through internal borrowing is reducing as reserve levels decline.

### The Authorised Limit

4.11 The Authorised Limit is the affordable borrowing limit required by Section 3 of the Local Government Act 2003. Once it has been set, the Council does not have the power to borrow above this level.

### The Operational Boundary

4.12 The Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or above the boundary is acceptable subject to the Authorised Limit not being breached.

- 4.13 The Council's performance against the above indicators in 2025/26 is set out in the table below.
- 4.14 Authorised Limit /Operation Boundary versus Gross Borrowing is set out in the table below.

**Table 9 – Borrowing Limits**

|                | 2025/26<br>Maximum | 31.3.26<br>Actual | 2025/26<br>Operational<br>Boundary | 2025/26<br>Authorised<br>Limit | Complied<br>Yes/No |
|----------------|--------------------|-------------------|------------------------------------|--------------------------------|--------------------|
| Borrowing      | 181.871            | 181.871           | 231.739                            | 255.800                        | Yes                |
| PFI and Leases | 3.506              | 3.506             | 5.429                              | 10.000                         | Yes                |
| Total Debt     | <b>185.377</b>     | <b>185.377</b>    | <b>237.168</b>                     | <b>265.800</b>                 | Yes                |

### Actual Financing Costs as a Proportion of Net Revenue Stream

- 4.15 This indicator identifies the trend in the cost of capital (borrowing and long-term obligation costs net of investment income) against the net revenue stream.
- 4.16 Financing Costs as a proportion of Net Revenue Stream is set out below.

**Table 10 – Financing Proportions**

|                | Non HRA (Council<br>Tax) | HRA (Rents)  |
|----------------|--------------------------|--------------|
|                | %                        | %            |
| 2025/26 Budget | 2.93                     | 24.21        |
| 2025/26 Actual | <b>2.82</b>              | <b>24.01</b> |

### Treasury Position

- 4.17 The Council's treasury management debt and investment position is organised by the treasury management service to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting and through officer activity detailed in the Council's Treasury Management Practices.
- 4.18 At the beginning and the end of 2025/26, the Council's treasury position was as follow.

**Table 11 – Debt Portfolio**

| Debt Portfolio            | 31st March 2025 |              | 31st March 2026 |              |
|---------------------------|-----------------|--------------|-----------------|--------------|
|                           | Principal       | Rate Payable | Principal       | Rate Payable |
|                           | £M              | %            | £M              | %            |
| <b>Fixed Rate Funding</b> |                 |              |                 |              |
| PWLB                      | 165.952         | 4.382        | 173.935         | 4.380        |
| Local Authority Loans     | 2.000           | 4.650        | 5.500           | 4.427        |
| Concessionary Loans       | 0.500           | 0.000        | 0.375           | 2.150        |

|                               |                 |       |                 |       |
|-------------------------------|-----------------|-------|-----------------|-------|
| Town Centre Loans             | 0.550           | 0.000 | 0.550           | 0.000 |
| Town Trans. Loan              | 0.000           | 0.000 | 1.000           | 2.150 |
| Salix Loans                   | 0.849           | 0.000 | 0.511           | 0.000 |
| <b>Loan Debt</b>              | <b>169.851</b>  |       | <b>181.871</b>  |       |
| Other Long-Term Liabilities   | 2.922           |       | 3.506           |       |
| <b>Total Debt</b>             | <b>172.773</b>  |       | <b>185.377</b>  |       |
| CFR                           | (202.156)       |       | (213.634)       |       |
| <b>Over/(Under) Borrowing</b> | <b>(29.383)</b> |       | <b>(28.257)</b> |       |

**Table 12 - Movement in Net Debt**

|                   | <b>31st March<br/>2025</b> | <b>31st March<br/>2026</b> | <b>Movement</b> |
|-------------------|----------------------------|----------------------------|-----------------|
|                   | <b>£M</b>                  | <b>£M</b>                  | <b>£M</b>       |
| Total Debt        | 172.773                    | 185.337                    | 12.564          |
| Total Investments | (17.190)                   | (37.100)                   | (19.910)        |
| <b>Net Debt</b>   | <b>155.583</b>             | <b>148.237</b>             | <b>(7.346)</b>  |

### **Maturity Structure of Debt Portfolio**

4.19 The Maturity Structure of the Debt Portfolio (excluding accrued interest and accounting adjustments) is set out below.

**Table 13 – Maturity Profile**

| <b>Maturity Period</b>          | <b>2025/26</b> | <b>2025/26</b> | <b>2025/26</b> |
|---------------------------------|----------------|----------------|----------------|
|                                 | <b>Limits</b>  | <b>Actual*</b> | <b>Actual</b>  |
|                                 | %              | £M             | %              |
| Less than one year              | 20             | 17.001         | 9.35           |
| Between one and two years       | 40             | 17.343         | 9.54           |
| Between two and five years      | 40             | 42.432         | 23.33          |
| Between five and ten years      | 40             | 37.065         | 20.38          |
| Between ten and twenty years    | 100            | 48.580         | 26.71          |
| Between twenty and thirty years | 100            | 4.195          | 2.30           |
| Between thirty and forty years  | 100            | 9.255          | 5.09           |
| Between forty and fifty years   | 100            | 6.000          | 3.30           |
| <b>Total</b>                    |                | <b>181.871</b> | <b>100.00</b>  |

4.20 The above table excludes the leasing liability and shows that the Council's debt portfolio has a good spread of maturities and that in each period the amount of maturing debt falls well within the percentages of total debt permitted within the treasury management approved strategy.

4.21 The table below shows the timing of borrowing repayments and how they compare to the agreed limits, helping to show whether they are spread appropriately over time.

**Table 14 – Maturity Structure of Borrowing**

|                              | Actual | Lower Limit | Upper Limit |
|------------------------------|--------|-------------|-------------|
|                              | %      | %           | %           |
| Less than one year           | 9.35   | 0           | 20          |
| Between one and two years    | 9.54   | 0           | 40          |
| Between two and five years   | 23.33  | 0           | 40          |
| Between five and ten years   | 20.38  | 0           | 40          |
| Between ten and twenty years | 37.40  | 0           | 100         |

4.22 Due to the elevated levels in interest rates currently prevailing in the market the Council as advised by its treasury consultants, Arlingclose, has borrowed externally over shorter maturity dates as interest rates are forecast to fall in the shorter term. This is considered a prudent course of action which will benefit the Council in the longer term.

### **Borrowing Outturn 2025/26**

4.23 The total charges for interest and principal including for prudential borrowing during the year 2025/26 were £8.791M and £5.973M, respectively.

4.24 With the introduction of IFRS16 the total charges for principal and interest are £1.095M and £0.163M respectively for 2025/26. There were additions and remeasurements in 2025/26 totalling £1.750M including schools, vehicles and the corporate printing contract.

4.25 The Council raised four new loans in 2025/26. The first, totalling £3.377M, financed supported borrowing as part of the Council's General Capital Funding for the year. The second loan of £0.635M funded unsupported borrowing for Education. These loans were supported through internal borrowing, with an average pooled interest rate applied to reflect the use of capital resources. The third loan of £0.943M was prudentially borrowed from Welsh Government and used to finance Town Transformation. The fourth loan, amounting to £9.196M, was prudentially borrowed to support the Housing Revenue Account (HRA).

4.26 The Council externally borrowed £20.500M during 2025/26, comprising £16.000M from the Public Works Loan Board (PWLB), £3.500M from a Local Authority and £1M from the Welsh Government for Town Transformation. This funding was used to support General Fund and HRA capital expenditure and to refinance maturing debt.

4.27 Loans borrowed from the Public Works Loan Board (PWLB) are intended to assist Local Authorities in meeting their long-term borrowing requirements.

4.28 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 external loan debt as cash supporting the Council's reserves, balances and cash flow were used as an interim measure. This avoided the cost of carry on any new long-term borrowing that was not immediately used to finance capital expenditure.

4.29 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, these available cash balances and reserves have now been nearly exhausted, and most of the capital expenditure and the refinancing of

maturing debt will be financed by external borrowing in 2026/27. The situation is being kept under review by the Section 151 Officer.

- 4.30 The Concessionary Loan for £0.500M will now be repaid in four equal instalments, the final instalment due in August 2028. The first instalment was paid in 2025/26, reducing the outstanding balance to £0.375M. The loan provided by Welsh Government, is subject to an interest rate of 2.15%.
- 4.31 The Town Centre Loan for £0.550M is repayable on 31st March 2035. The loan is interest free and advanced by Welsh Government.
- 4.32 The loans advanced by Salix and Salix SEELS funded the street lighting energy reduction scheme and the installation of a new boiler at Stanwell Comprehensive School. These are repayable over 10 and 9.1 years in equal instalments. The loans are interest free funding.

### **Borrowing In Advance of Need**

- 4.33 The Council is under borrowed on 31st March 2026 and has not borrowed in advance of its needs during 2025/26.

### **Debt Rescheduling**

- 4.34 The Council did not undertake any rescheduling activities during 2025/26.

## **5.0 How has evidence been used to inform the report, including the views of others?**

- 5.1 This report has been prepared on the basis of internal and external evidence sources to ensure it meets the requirements of the CIPFA Code of Practice on Treasury Management (the Code), the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) and the Welsh Government (WG) revised guide on Local Government Investments (April 2010). The financial data presented is extracted from the Council's financial ledger and subject to established internal control and reconciliation processes.
- 5.2 The Head of Finance has undertaken a review of the report to provide assurance on its accuracy, interpretation of data, and compliance with the Council's financial governance framework. In addition, the Council's external treasury management advisors (Arlingclose) have been consulted, providing specialist technical input and independent commentary on market conditions, performance, and risk considerations.

## **6.0 What are the next steps if the recommendations are approved?**

- 6.1 The unaudited accounts will be provided to Audit Wales, with the audit undertaken over the summer period. The audited accounts will subsequently be presented to Council for approval.
- 6.2 The Quarter 1 Treasury Management monitoring report for 2026/27 will be prepared and submitted to Cabinet for consideration in September 2026.

## **7.0 How does this report support Vale 2030 and Reshaping?**

7.1 Investment income contribution to the income generation stream within the reshaping programme.

## **8.0 How does this demonstrate the Five Ways of Working?**

8.1 The Treasury Management and Investment Strategy ensures that the financial plans of the Council are sustainable into the future and do not adversely impact on future generations.

8.2 The Treasury and Investment Strategy underpins the financial management of the Council and its ability to achieve its well-being objectives as set out in the Corporate Plan.

## **Resources**

### **9.0 Finance**

9.1 Money is borrowed for capital purposes and interest is charged to revenue accounts.

### **10.0 Workforce**

10.1 There are no direct employment issues relating to this report.

### **11.0 Legal and Equalities**

#### **11.1 Does an Equalities Impact Assessment need to be completed? If not, why?**

An Equalities Impact Assessment has not been completed because this report relates to the continuation and enhancement of an existing operational system managing the Council's cash balances. It does not propose any change to eligibility criteria or substantive policy affecting residents. Accordingly, no full Equality Impact Assessment is considered necessary at this stage.

11.2 Compliance with the Local Government Act 2003 and CIPFA's "Code of Practice for Treasury Management in the Public Services" is mandatory.

### **12.0 Key Contacts**

#### **12.1 Who are the primary officers to contact with any comments and/or queries on the report?**

|                                                                                                                                          |                                                                                                                                                                                     |
|------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Lead Officer:<br>Matthew Bowmer<br>Head of Finance<br><a href="mailto:mbowmer@valeofglamorgan.gov.uk">mbowmer@valeofglamorgan.gov.uk</a> | Democratic Services Officer<br>Matt Swindell<br>Cabinet and Committee Services Officer.<br><a href="mailto:m1swindell@valeofglamorgan.gov.uk">m1swindell@valeofglamorgan.gov.uk</a> |
|------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

## **Appendices**

Appendix A – The UK Economy and Interest Rates 2025/2026.

Appendix B – The Liability Benchmark.

## **Background Document**

CIPFA's Code of Practice for Treasury Management in the Public Services” (2021 Edition), “The Prudential Code” (2021 Edition) and WG guidance on Local Authority investments.

1.1



# Annual Treasury Management Report 2025/26

## Appendix A

## The UK Economy and Interest Rates 2025/2026

### 1.39

#### Spread of PWLB Rates 2025/2026

|                  | <b>1 Year</b> | <b>5 Year</b> | <b>10 Year</b> | <b>25 Year</b> | <b>50 Year</b> |
|------------------|---------------|---------------|----------------|----------------|----------------|
| <b>Low</b>       | 4.45%         | 4.76%         | 5.33%          | 5.98%          | 5.66%          |
| <b>Low Date</b>  | 27/02/2026    | 02/03/2026    | 02/03/2026     | 04/04/2025     | 04/04/2025     |
| <b>High</b>      | 5.48%         | 5.67%         | 6.08%          | 6.63%          | 6.44%          |
| <b>High Date</b> | 23/03/2026    | 23/03/2026    | 27/03/2026     | 27/03/2026     | 27/03/2026     |
| <b>Average</b>   | 4.72%         | 5.02%         | 5.59%          | 6.26%          | 6.02%          |
| <b>Spread</b>    | 1.03%         | 0.91%         | 0.75%          | 0.65%          | 0.78%          |
|                  |               |               |                |                |                |

**1.48 Interest rates forecast throughout 2025/26.  
Forecast Rates May 2025**

|                     | Current | Jun 25 | Sep 25 | Dec 25 | Mar 26 | Jun 26 | Sep 26 | Dec 26 | Mar 27 | Jun 27 | Sep 27 | Dec 27 | Mar 28 |
|---------------------|---------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Bank Rate           |         |        |        |        |        |        |        |        |        |        |        |        |        |
| Upside Risk         | 0.00    | 0.00   | 0.25   | 0.50   | 0.50   | 0.50   | 0.50   | 0.50   | 0.50   | 0.50   | 0.50   | 0.50   | 0.50   |
| Central Case        | 4.25    | 4.25   | 4.00   | 3.75   | 3.75   | 3.75   | 3.75   | 3.75   | 3.75   | 3.75   | 3.75   | 3.75   | 3.75   |
| Downside Risk       | 0.00    | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      |
|                     | 0.00    | 0.25   | 0.25   | 0.50   | 0.75   | 1.00   | 1.00   | 1.00   | 1.00   | 1.00   | 1.00   | 1.00   | 1.00   |
|                     |         |        |        |        |        |        |        |        |        |        |        |        |        |
| 3 Month Market Rate |         |        |        |        |        |        |        |        |        |        |        |        |        |
| Upside Risk         | 0.00    | 0.00   | 0.25   | 0.50   | 0.50   | 0.50   | 0.50   | 0.50   | 0.50   | 0.50   | 0.50   | 0.50   | 0.50   |
| Central Case        | 4.25    | 4.25   | 4.00   | 3.85   | 3.85   | 3.85   | 3.85   | 3.85   | 3.85   | 3.85   | 3.85   | 3.85   | 3.85   |
| Downside Risk       | 0.00    | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      |
|                     | 0.00    | 0.25   | 0.25   | 0.50   | 0.75   | 1.00   | 1.00   | 1.00   | 1.00   | 1.00   | 1.00   | 1.00   | 1.00   |
|                     |         |        |        |        |        |        |        |        |        |        |        |        |        |
| 5 year Gilt         |         |        |        |        |        |        |        |        |        |        |        |        |        |
| Upside Risk         | 0.00    | 0.55   | 0.60   | 0.65   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   |
| Central Case        | 4.11    | 4.10   | 4.10   | 4.05   | 4.00   | 3.95   | 3.95   | 4.00   | 4.05   | 4.10   | 4.10   | 4.10   | 4.10   |
| Downside Risk       | 0.00    | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      |
|                     | 0.00    | 0.55   | 0.60   | 0.65   | 0.70   | 0.75   | 0.80   | 0.85   | 0.90   | 0.95   | 1.00   | 1.05   | 1.10   |
|                     |         |        |        |        |        |        |        |        |        |        |        |        |        |
| 10 Year Gilt        |         |        |        |        |        |        |        |        |        |        |        |        |        |
| Upside Risk         | 0.00    | 0.55   | 0.60   | 0.65   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   |
| Central Case        | 4.64    | 4.50   | 4.40   | 4.35   | 4.35   | 4.35   | 4.35   | 4.35   | 4.35   | 4.35   | 4.35   | 4.35   | 4.35   |
| Downside Risk       | 0.00    | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      |
|                     | 0.00    | 0.55   | 0.60   | 0.65   | 0.70   | 0.75   | 0.80   | 0.85   | 0.90   | 0.95   | 1.00   | 1.05   | 1.10   |
|                     |         |        |        |        |        |        |        |        |        |        |        |        |        |
| 20 Year Gilt        |         |        |        |        |        |        |        |        |        |        |        |        |        |
| Upside Risk         | 0.00    | 0.55   | 0.60   | 0.65   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   |
| Central Case        | 5.27    | 5.00   | 4.85   | 4.75   | 4.75   | 4.75   | 4.75   | 4.75   | 4.75   | 4.75   | 4.75   | 4.75   | 4.75   |
| Downside Risk       | 0.00    | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      |
|                     | 0.00    | 0.55   | 0.60   | 0.65   | 0.70   | 0.75   | 0.80   | 0.85   | 0.90   | 0.90   | 0.90   | 0.90   | 0.90   |
|                     |         |        |        |        |        |        |        |        |        |        |        |        |        |
| 50 Year Gilt        |         |        |        |        |        |        |        |        |        |        |        |        |        |
| Upside Risk         | 0.00    | 0.55   | 0.60   | 0.65   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   |
| Central Case        | 4.60    | 4.60   | 4.55   | 4.45   | 4.45   | 4.45   | 4.45   | 4.45   | 4.45   | 4.45   | 4.45   | 4.45   | 4.45   |
| Downside Risk       | 0.00    | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      |
|                     | 0.00    | 0.55   | 0.60   | 0.65   | 0.70   | 0.75   | 0.80   | 0.85   | 0.90   | 0.90   | 0.90   | 0.90   | 0.90   |





## Forecast Rates March 2026

|                     | Current | June 26 | Sep 26 | Dec 26 | Mar 27 | Jun 27 | Sept 27 | Dec 27 | Mar 28 | Jun 28 | Sept 28 | Dec 28 | Mar 29 |
|---------------------|---------|---------|--------|--------|--------|--------|---------|--------|--------|--------|---------|--------|--------|
| Bank Rate           |         |         |        |        |        |        |         |        |        |        |         |        |        |
| Upside Risk         | 0.00    | 0.75    | 1.00   | 1.50   | 1.50   | 1.50   | 1.25    | 1.25   | 1.00   | 0.75   | 0.75    | 0.75   | 0.75   |
| Central Case        | 3.75    | 3.75    | 3.75   | 3.75   | 3.75   | 3.75   | 3.75    | 3.75   | 3.75   | 3.75   | 3.75    | 3.75   | 3.75   |
| Downside Risk       | 0.00    | 0.00    | 0.00   | -      | -      | -      | -       | -      | -      | -      | -       | -      | -      |
|                     |         |         |        | 0.25   | 0.25   | 0.25   | 0.50    | 0.75   | 1.00   | 1.25   | 1.50    | 1.50   | 1.50   |
|                     |         |         |        |        |        |        |         |        |        |        |         |        |        |
| 3 Month Market Rate |         |         |        |        |        |        |         |        |        |        |         |        |        |
| Upside Risk         | 0.00    | 0.75    | 1.00   | 1.50   | 1.50   | 1.50   | 1.25    | 1.25   | 1.00   | 0.75   | 0.75    | 0.75   | 0.75   |
| Central Case        | 3.79    | 3.80    | 3.80   | 3.80   | 3.80   | 3.80   | 3.80    | 3.80   | 3.80   | 3.80   | 3.80    | 3.80   | 3.80   |
| Downside Risk       | 0.00    | 0.00    | 0.00   | -      | -      | -      | -       | -      | -      | -      | -       | -      | -      |
|                     |         |         |        | 0.25   | 0.25   | 0.25   | 0.50    | 0.75   | 1.00   | 1.25   | 1.50    | 1.50   | 1.50   |
|                     |         |         |        |        |        |        |         |        |        |        |         |        |        |
| 5 year Gilt         |         |         |        |        |        |        |         |        |        |        |         |        |        |
| Upside Risk         | 0.00    | 0.75    | 1.00   | 1.50   | 1.50   | 1.50   | 1.25    | 1.25   | 1.00   | 0.75   | 0.75    | 0.75   | 0.75   |
| Central Case        | 4.46    | 4.45    | 4.40   | 4.35   | 4.30   | 4.30   | 4.30    | 4.30   | 4.30   | 4.30   | 4.30    | 4.30   | 4.30   |
| Downside Risk       | 0.00    | -       | -      | -      | -      | -      | -       | -      | -      | -      | -       | -      | -      |
|                     |         | 0.30    | 0.40   | 0.50   | 0.50   | 0.50   | 0.75    | 0.85   | 0.95   | 1.20   | 1.25    | 1.25   | 1.25   |
|                     |         |         |        |        |        |        |         |        |        |        |         |        |        |
| 10 Year Gilt        |         |         |        |        |        |        |         |        |        |        |         |        |        |
| Upside Risk         | 0.00    | 0.75    | 1.00   | 1.50   | 1.50   | 1.50   | 1.25    | 1.25   | 1.00   | 0.75   | 0.75    | 0.75   | 0.75   |
| Central Case        | 4.89    | 4.85    | 4.80   | 4.75   | 4.70   | 4.70   | 4.70    | 4.70   | 4.70   | 4.70   | 4.70    | 4.70   | 4.70   |
| Downside Risk       | 0.00    | -       | -      | -      | -      | -      | -       | -      | -      | -      | -       | -      | -      |
|                     |         | 0.30    | 0.40   | 0.50   | 0.50   | 0.50   | 0.75    | 0.85   | 0.95   | 1.20   | 1.25    | 1.25   | 1.25   |
|                     |         |         |        |        |        |        |         |        |        |        |         |        |        |
| 20 Year Gilt        |         |         |        |        |        |        |         |        |        |        |         |        |        |
| Upside Risk         | 0.00    | 0.75    | 1.00   | 1.25   | 1.25   | 1.25   | 1.25    | 1.25   | 1.00   | 0.75   | 0.75    | 0.75   | 0.75   |
| Central Case        | 5.47    | 5.45    | 5.40   | 5.35   | 5.30   | 5.30   | 5.30    | 5.30   | 5.30   | 5.30   | 5.30    | 5.30   | 5.30   |
| Downside Risk       | 0.00    | -       | -      | -      | -      | -      | -       | -      | -      | -      | -       | -      | -      |
|                     |         | 0.30    | 0.40   | 0.50   | 0.50   | 0.50   | 0.75    | 0.80   | 0.90   | 1.00   | 1.20    | 1.20   | 1.20   |
|                     |         |         |        |        |        |        |         |        |        |        |         |        |        |
| 50 Year Gilt        |         |         |        |        |        |        |         |        |        |        |         |        |        |
| Upside Risk         | 0.00    | 0.75    | 1.00   | 1.25   | 1.25   | 1.25   | 1.25    | 1.25   | 1.00   | 0.75   | 0.75    | 0.75   | 0.75   |
| Central Case        | 5.08    | 5.10    | 5.05   | 5.00   | 4.95   | 4.95   | 4.95    | 4.95   | 4.95   | 4.95   | 4.95    | 4.95   | 4.95   |
| Downside Risk       | 0.00    | -       | -      | -      | -      | -      | -       | -      | -      | -      | -       | -      | -      |
|                     |         | 0.30    | 0.40   | 0.50   | 0.50   | 0.50   | 0.75    | 0.80   | 0.90   | 1.00   | 1.20    | 1.20   | 1.20   |

## 1.48

### Spread of Interest Rates 2025/26

|                  | <b>Bank Rate</b> | <b>Sonia</b> | <b>7 Day</b> | <b>1 Month</b> | <b>3 Months</b> | <b>6 Months</b> | <b>12 Months</b> |
|------------------|------------------|--------------|--------------|----------------|-----------------|-----------------|------------------|
| <b>High</b>      | 4.50%            | 4.46%        | 4.53%        | 4.52%          | 4.47%           | 4.52%           | 4.83%            |
| <b>High Date</b> | 01/04/25         | 07/05/25     | 22/04/25     | 03/04/25       | 01/04/25        | 01/04/25        | 20/03/26         |
| <b>Low</b>       | 3.75%            | 3.72%        | 3.74%        | 3.67%          | 3.70%           | 3.76%           | 3.77%            |
| <b>Low Date</b>  | 18/12/25         | 22/12/25     | 04/03/26     | 27/02/26       | 27/02/26        | 27/02/26        | 26/02/26         |
| <b>Average</b>   | 4.95%            | 4.01%        | 4.05%        | 4.06%          | 4.11%           | 4.17%           | 4.17%            |
| <b>Spread</b>    | 0.75%            | 0.74%        | 0.79%        | 0.85%          | 0.77%           | 0.76%           | 1.06%            |



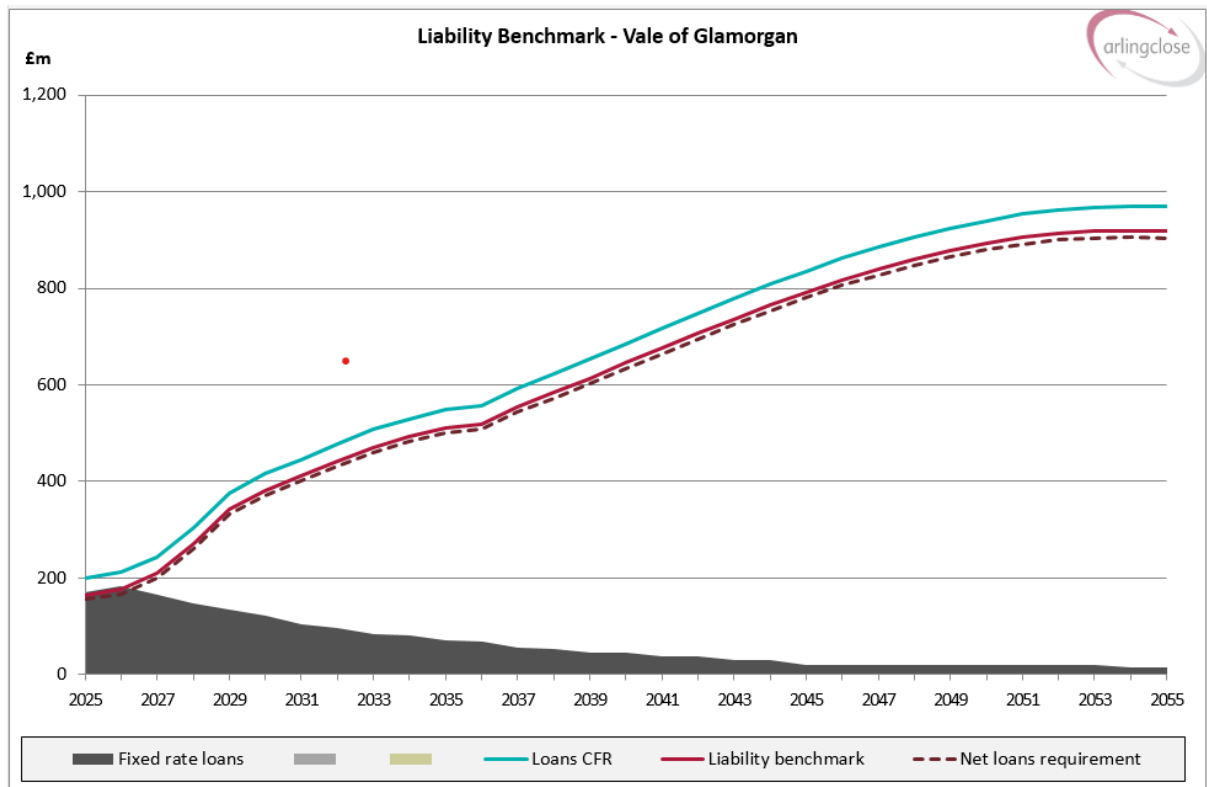
# Annual Treasury Management Report 2025/26

## Appendix B

### 3.47 The Liability Benchmark

- The revised prudential code (December 2021) requires the Council to adopt a debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement.
- The Council is required to provide a comparison of the existing loan portfolio against the committed borrowing needs. This is to provide evidence that it has a strong grasp of both its existing debt maturity profile and how MRP and other cash flows affect the future debt requirement.
- This indicator should cover as a minimum the forthcoming financial year and the following two years. However, CIPFA strongly recommend that it is produced for at least ten years and should ideally cover the full debt maturity profile.
- The presentation should be in the form of a chart covering the following four areas:
  - Existing Loan Debt (current external debt borrowing portfolio split by type of loan and presented as a stacked bar chart).
  - Loans CFR (excluding any part of the CFR relating to other long-term liabilities).
  - Net loans requirement (loan debt less Treasury Management Investments at the last financial year end and projected into the future based on approved prudential borrowing, planned MRP and other major cash flow forecasts).
  - Liability Benchmark (net loans requirement plus any short term liquidity allowance).
- The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance. In its simplest form, it is calculated by deducting the amount of resources available for investment on the balance sheet (reserves, cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day to day cash flow.
- CIPFA recommends that the optimum position for external borrowing should be at the level of the Liability Benchmark where all balance sheet resources are used to maximise internal borrowing.
- The chart below shows the long-term borrowing impact of the current 30 year capital programme. For illustration, the assumption here is that no new external borrowing is undertaken during this period under review which would not be the case.

**Graph A - LIABILITY BENCHMARK GRAPH INCLUDING 30 YEAR HOUSING BUSINESS PLAN**



## Liability Benchmark (Includes 30 Year Business Plan)

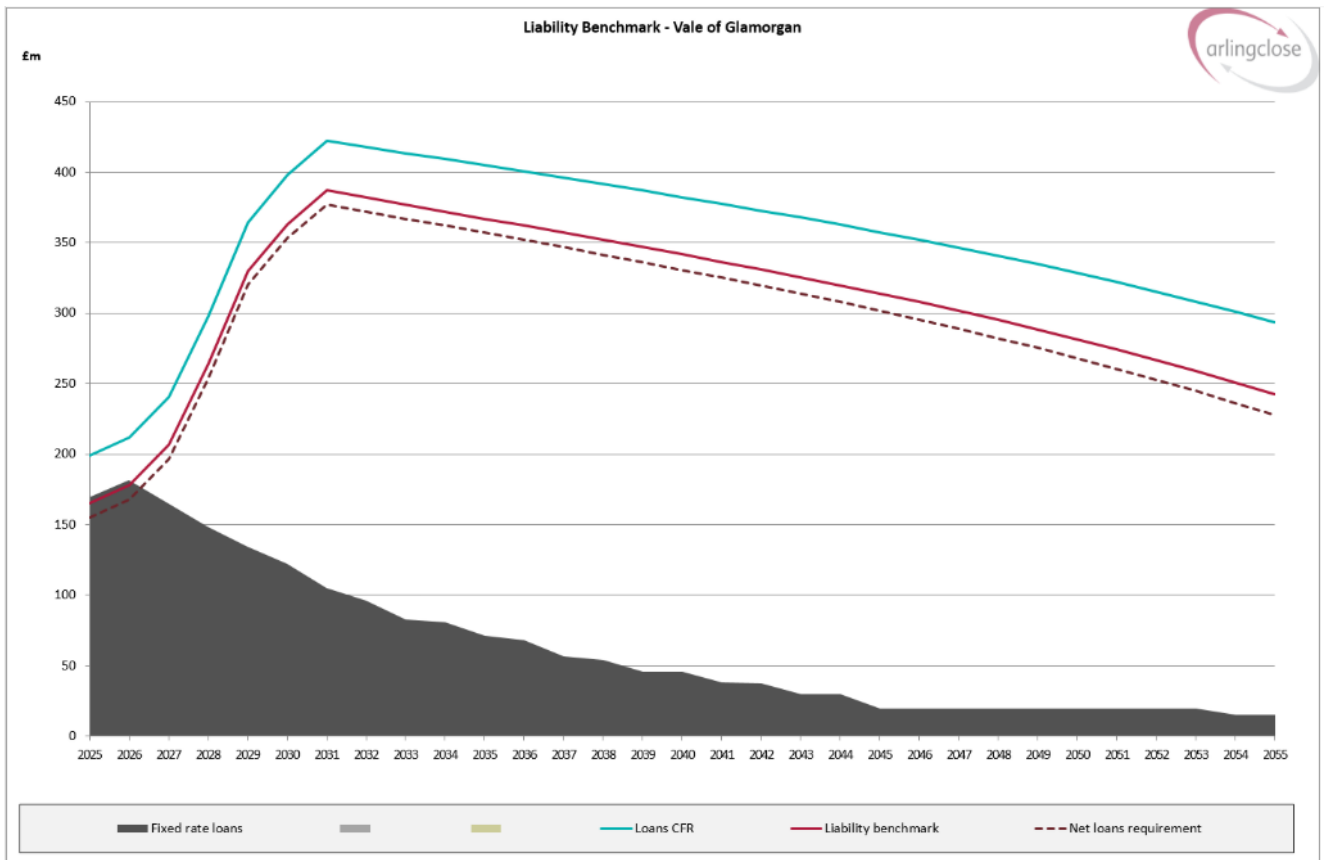
| Year    | Projected CFR | Projected External debt | Under/Over Borrowing |
|---------|---------------|-------------------------|----------------------|
|         | £m            | £m                      | £m                   |
| 2025/26 | 210.128       | 181.871                 | 28.257               |
| 2026/27 | 243.799       | 164.870                 | 78.929               |
| 2027/28 | 304.601       | 148.152                 | 156.449              |
| 2028/29 | 372.033       | 135.545                 | 236.488              |
| 2029/30 | 407.211       | 124.064                 | 283.147              |
| 2030/31 | 429.350       | 107.594                 | 321.756              |
| 2031/32 | 462.483       | 98.967                  | 363.516              |
| 2032/33 | 491.145       | 86.502                  | 404.643              |
| 2033/34 | 512.848       | 85.021                  | 427.827              |
| 2034/35 | 533.367       | 75.535                  | 457.832              |
| 2035/36 | 540.582       | 72.403                  | 468.179              |
| 2036/37 | 576.522       | 60.931                  | 515.591              |
| 2037/38 | 607.034       | 58.435                  | 548.599              |
| 2038/39 | 637.538       | 50.354                  | 587.184              |
| 2039/40 | 669.146       | 50.271                  | 618.875              |
| 2040/41 | 701.154       | 42.186                  | 658.968              |
| 2041/42 | 731.877       | 42.099                  | 689.778              |
| 2042/43 | 762.467       | 34.009                  | 728.458              |
| 2043/44 | 791.777       | 33.917                  | 757.860              |
| 2044/45 | 819.650       | 23.823                  | 795.827              |
| 2045/46 | 845.916       | 23.823                  | 822.093              |
| 2046/47 | 869.177       | 23.823                  | 845.354              |
| 2047/48 | 888.771       | 23.823                  | 864.948              |
| 2048/49 | 907.426       | 23.823                  | 883.603              |
| 2049/50 | 923.580       | 23.823                  | 899.757              |
| 2050/51 | 937.203       | 23.823                  | 913.380              |
| 2051/52 | 946.786       | 23.823                  | 922.963              |
| 2052/53 | 951.279       | 23.823                  | 927.456              |
| 2053/54 | 953.857       | 19.628                  | 934.229              |
| 2054/55 | 952.523       | 19.628                  | 932.895              |

- The chart shows that external borrowing falls below the liability benchmark. For as long as usable reserve balances are available the Council will maintain this under borrowed position.

- This means that the capital borrowing need of the Council will not be being fully financed with external loan debt as cash supporting the Council's reserves, balances and cash flow will be used as an interim measure to finance the Council's borrowing requirement. This is considered prudent as interest rates are predicted to fall over the short term. Council reserve balances are projected to reduce over the period under review and the Council will need to borrow externally up to and above the LB (as not all reserve balances can be used to finance capital expenditure) in order to finance the capital programme, it has committed to throughout the 30 year period
- The Council's current investments balances are provided in this report. These investments are expected to reduce further as reserves are utilised.
- The Council have forecast that in the worst-case scenario a buffer of £20M will be required to manage the day-to-day cash flow and therefore this amount is included as part of the treasury management liquidity benchmark. The value of this buffer will need to be kept under review in the context of the current inflationary factors.
- The graph (graph B) below shows the approved five-year capital program, with the subsequent 25 year HRA business plan removed.

# LIABILITY BENCHMARK GRAPH INCLUDING 5 YEAR HOUSING BUSINESS PLAN

## Graph B



## Liability Benchmark (Includes 5 Year Business Plan)

| Year    | Projected CFR | Projected External debt | Under/Over Borrowing |
|---------|---------------|-------------------------|----------------------|
|         | £m            | £m                      | £m                   |
| 2025/26 | 210.128       | 181.871                 | 28.257               |
| 2026/27 | 243.799       | 164.870                 | 78.929               |
| 2027/28 | 304.601       | 148.152                 | 156.449              |
| 2028/29 | 372.033       | 135.545                 | 236.488              |
| 2029/30 | 407.211       | 124.064                 | 283.147              |
| 2030/31 | 429.350       | 107.594                 | 321.756              |
| 2031/32 | 431.214       | 98.967                  | 332.247              |
| 2032/33 | 433.011       | 86.502                  | 346.509              |
| 2033/34 | 434.741       | 85.021                  | 349.720              |
| 2034/35 | 436.404       | 75.535                  | 360.869              |
| 2035/36 | 438.000       | 72.403                  | 365.597              |
| 2036/37 | 439.529       | 60.931                  | 378.598              |
| 2037/38 | 440.991       | 58.435                  | 382.556              |
| 2038/39 | 442.386       | 50.354                  | 392.032              |
| 2039/40 | 443.714       | 50.271                  | 393.443              |
| 2040/41 | 444.975       | 42.186                  | 402.789              |
| 2041/42 | 446.169       | 42.099                  | 404.070              |
| 2042/43 | 447.296       | 34.009                  | 413.287              |
| 2043/44 | 448.356       | 33.917                  | 414.439              |
| 2044/45 | 449.349       | 23.823                  | 425.526              |
| 2045/46 | 450.275       | 23.823                  | 426.452              |
| 2046/47 | 451.134       | 23.823                  | 427.311              |
| 2047/48 | 451.926       | 23.823                  | 428.103              |
| 2048/49 | 452.651       | 23.823                  | 428.828              |
| 2049/50 | 453.309       | 23.823                  | 429.486              |
| 2050/51 | 453.900       | 23.823                  | 430.077              |
| 2051/52 | 454.424       | 23.823                  | 430.601              |
| 2052/53 | 454.881       | 23.823                  | 431.058              |
| 2053/54 | 455.271       | 19.628                  | 435.643              |
| 2054/55 | 455.594       | 19.628                  | 435.966              |

Graph B shows a position similar to graph A including the 30-year HRA business plan, but removes the uncertainty surrounding the borrowing requirement beyond the five-year period.