

MEETING:	GOVERNANCE AND AUDIT COMMITTEE
DATE:	9 JULY 2026
TITLE:	TREASURY MANAGEMENT 2025/26
PURPOSE:	CIPFA's Code of Practice requires that a report on the results of the Council's actual treasury management is produced.
RECOMMENDATION:	RECEIVE THE REPORT FOR INFORMATION
AUTHOR:	DELYTH JONES-THOMAS, INVESTMENT MANAGER

Executive Summary

During the 2025/26 financial year the Council's treasury management activity remained within the limits originally set and total interest received on deposits was £1.7m which was higher than the budgeted level of £1.6m. There were no defaults by institutions in which the Council had deposited money.

1. Introduction

The Council's Treasury Management Strategy for 2025/26 was approved at Full Council on 6th March 2025.

The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's Treasury Management Strategy.

This report compares the actual performance against the strategy for the financial year 2025/26 and fulfils the Council's legal obligation under the Local Government Act 2003 to have regard for both the CIPFA Code and the Welsh Government's Investment Guidance.

2. External Context

Economic background: The financial year was largely dominated by two periods of significant uncertainty and volatility. The first being the US trade tariff 'Liberation Day' in April 2025 and the second was the US/Israel war with Iran at the end of February 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 'term premia' rise as investors demanded 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 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 Bank Rate to 3.75% in December 2025, the BoE's Monetary Policy Committee (MPC) voted 5-4 to hold rates in February 2026 and then unanimously to do so again in March. Until the war started, financial markets were expecting Bank Rate to be cut to 3.5% at the March meeting. However, the conflict in the Middle East quickly changed this. The MPC noted the risks to both inflation and growth and indicated they could move rates either up or down depending on the conditions. Financial markets quickly responded to this by pricing in rate hikes.

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.

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.

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

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.

Credit review: Arlingclose maintained its recommended maximum unsecured duration limit on most of the banks on its counterparty list at 6 months. The other banks remain on 100 days.

Earlier in the period, Fitch upgraded NatWest Group and related entities to AA- from A+ and placed Clydesdale Bank's long-term A- rating on Rating Watch Positive. Fitch later upgraded Clydesdale Bank and HSBC, but downgraded Lancashire CC and Close Brothers.

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.

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

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.

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. Year End Position

Balance Sheet Summary

At 31 March 2026 the Council had net investments of £15m arising from its revenue and capital activities. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The movements are summarised in the following table:

	31.3.25 Actual £m	2025/26 Movement £m	31.3.26 Actual £m
CFR	180	9	189
Less: Other debt liabilities	(6)	0	(6)
Borrowing CFR	174	9	183
Less: Usable reserves	(138)	(4)	(142)
Less: Working capital	(89)	33	(56)
Net borrowing/ (investment)	(53)	38	(15)

The Council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

Treasury Management Summary

	31.3.25 Balance £m	2025/26 Movement £m	31.3.26 Balance £m
Long- term borrowing	90.1	(20.7)	69.4
Short-term borrowing	4.0	0.5	4.5
PFI	5.5	0.8	6.3
Total borrowing	99.6	(19.4)	80.6
Short-term investments	(86.9)	39.6	(47.3)
Cash and cash equivalents	(66.0)	17.3	(48.7)
Total investments	(152.9)	56.9	(96.0)
Net borrowing/ (investment)	(53.3)	37.5	(15.4)

4. Borrowing Activity

At 31st March 2026, the Council held £74.3m of loans, a decrease of £20.2m on the previous year. No new long-term borrowing was undertaken in 2025, with existing loans maturing without replacement and a historical bank loan of £16.2m was repaid early at favorable terms. This strategy enabled the Council to reduce net borrowing costs (despite foregoing investment income) and reduce overall treasury risk.

The debt interest paid in 2025/26 was £4.6 million on an average debt portfolio of £84.4 million at an average interest rate of 5.45%.

The year-end borrowing position and the year-on-year change is summarised in the following table:

	31.3.25 Balance £m	2025/26 Movement £m	31.3.26 Balance £m	31.3.26 Rate %	31.3.26 WAM* years
PWLB	76.8	(3.7)	73.1	5.63	16.84
Bank (Fixed term)	16.2	(16.2)	0.0	n/a	n/a
Other	1.5	(0.3)	1.2	n/a	2.64
Total borrowing	94.5	(20.2)	74.3		

*Weighted average maturity

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

CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement

and so may lead to new borrowing, unless directly and primarily related to the functions of the Council. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes. The Council has no plans to invest primarily for financial return.

5. Treasury Investment Activity

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.

The Council has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balances have ranged between **£73.5 million and £159.8 million.**

Treasury Investment Position

	31.3.25 Balance £m	2025/26 Movement £m	31.3.26 Balance £m	31.3.26 Rate %	31.3.26 WAM* days
Banks & building societies (unsecured)	6.0	(4.8)	1.2	3.15	1.0
Local Authorities	25.0	(17.0)	8.0	5.35	44.9
Money Market Funds	65.0	(17.5)	47.5	3.80	1.0
Debt Management Office	45.0	(17.9)	27.1	3.71	8.8
Pooled Funds	11.9	0.3	12.2	5.74	365+
Total investments	152.9	(56.9)	96.0		

*Weighted average maturity

Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the optimum rate of return or yield. The Council'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.

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. The rates on DMADF deposits ranged between **3.68%** and **4.45%** and money market rates **between 3.72% and 5.54%.**

£12.2m of the Council's investments are held in externally managed strategic pooled equity, bond and property funds where short-term liquidity is a lesser consideration, and the objectives instead are regular revenue income and long- term price stability. These funds generated an income return of **5.74%** which is used to support services in year, and an unrealised capital gain of **£0.3m** in this financial year. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued stability in meeting the Council's medium to

long term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years but with the confidence that over a three-to five year period total returns will exceed cash interest.

Investment Benchmarking

	Credit Score	Credit Rating	Bail-in Exposure	WAM* (days)	Income Rate of Return
31.03.2025	4.67	A+	50%	22	4.82%
31.03.2026	4.50	A+	58%	46	4.49%
Similar LAs	4.38	AA-	40%	105	4.41%
All LAs	4.60	A+	64%	10	4.46%

*Weighted average maturity

6. Compliance Report

The section 151 officer reports that most of the treasury management activities undertaken during the year has complied with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in the following tables:

Debt Limits

	2025/26 Maximum	31.3.26 Actual	2025/26 Operational Boundary	2025/26 Authorised Limit	Complied
Borrowing	£94.5m	£74.3m	£190m	£200m	✓

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Investment Limits

	2025/26 Maximum	31.3.26 Actual	2025/26 Limit	Complied
The UK Government	£94.7m	£27.1m	Unlimited	✓
Local authorities & other government entities	£5m	£5m	£8m	✓
Secured investments	£0m	£0m	£8m	✓
Banks (unsecured)	£5m	£1.2m	£4m	x
Building societies (unsecured)	£0m	£0m	£4m	✓
Registered providers (unsecured)	£0m	£0m	£4m	✓
Money Market Funds	£10m	£8m	£8m	x
Strategic pooled funds	£5m	£5m	£8m	✓
Real estate investment trusts	£0m	£0m	£8m	✓
Other investments	£0m	£0m	£4m	✓

The limits imposed on two occasions were not fully complied with because historical limits had been followed. Measures are now in place to update the guidance immediately.

7. Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators:

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the time-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment and taking the arithmetic average, weighted by the length of each investment. Unrated investments are assigned a score based on their perceived risk.

	31.3.26 Actual	2025/26 Target	Complied
Portfolio average credit score	4.50	A score of 6 or lower	✓

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	31.3.26 Actual	2025/26 Target	Complied
Total cash available within 3 months	£83.8m	£10m	✓

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates was:

	31.3.26 Actual	2025/26 Limit	Complied
Upper limit on one year revenue impact of a 1% rise in interest rates	£780,309	£2,290,000	✓
Upper limit on one year revenue impact of a 1% fall in interest rates	£780,309	£2,290,000	✓

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

	31.3.26 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	6.16%	25%	0%	✓
12 months and within 24 months	1.76%	25%	0%	✓
24 months and within 5 years	2.26%	50%	0%	✓
5 years and within 10 years	31.92%	75%	0%	✓
10 years and above	57.91%	100%	0%	✓

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

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2025/26	2026/27	2027/28
Actual principal invested beyond year end	£13m	£0	£0
Limit on principal invested beyond year end	£40m	£20m	£20m
Complied	✓	✓	✓

8. Recommendation

To receive the report.