REPORT of
DIRECTOR OF FINANCE

to
STRATEGY AND RESOURCES COMMITTEE
23 JULY 2026

TREASURY MANAGEMENT OUTTURN 2025/26

1. PURPOSE OF THE REPORT

1.1 To report on the Council's investment activity for the financial year 2025/26 in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code and the Council's Treasury Management Policy and Treasury Management Practices.

2. RECOMMENDATIONS

(i) That the committee notes the full compliance with all treasury management indicators during the course of the year, and the positive result from investment income secured;

(ii) That the Committee notes the alignment between the Treasury Management Outturn, the Budget Outturn for 2025/26, and the 2025/26 (pre-audit) accounts, which provides confirmation of the overall reported position.

3. SUMMARY OF KEY ISSUES

3.1 Background

3.1.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires that authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end).

3.1.2 The Council's Treasury Management Strategy for 2025/26 was presented to the Strategy and Resources Committee on 23 January 2025 and subsequently approved by the Council on 13 February 2025.

3.1.3 During 2025/26, the Council had an average of £22.5m invested. This report covers treasury management activity and the associated monitoring and control of risk.

3.1.4 The 2021 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by the Council covering capital expenditure and financing, treasury management and non-treasury investments. The Councils Capital Strategy, complying with CIPFA's requirement, was approved by the Council on 13 February 2025.

3.1.5 Council officers have fully complied with the treasury management strategy approved by councillors in February 2025 including the prudential indicators included within it.

3.2 **External Context**

3.2.1 The Council currently engages Link Group to provide treasury management consultancy and advice services. Geo-political volatility continues to impact interest rates and so borrowing costs and investment income. Included at **APPENDIX 1** is information prepared by Link providing an overview of the external economic environment.

3.3 **Local Context**

3.3.1 The Council did not hold any external debt during 2025/26, with the exception of a five-year hire purchase agreement entered into on the acquisition of two tractors in April 2023. The Council is currently under-borrowed to a value of £8.552m. This means that the Council is using internal cash resources to fund borrowing which would otherwise need to be externalised (e.g. through PWLB borrowings). This value is attributable to the cost of waste collection vehicles and investment in the Blackwater Leisure Centre. These were agreed to be treated as internal borrowings initially, with the expectation of externalising that borrowing when necessary.

3.4 **Investment Activity (April 2025 – March 2026)**

3.4.1 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 treasury 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 returns.

3.4.2 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. Over the period from April 2025 to March 2026, the level of investments held by the Council has seen a decrease of £3m with total investments held on 31 March 2026 being £16.4m.

3.4.3 During 2025/26, the Bank of England decreased interest rates to reflect reducing inflation. This has in turn decreased interest returns on investments. The Council has £3m invested in the CCLA (Churches, Charities and Local Authorities) Local Authorities Property Fund and £2m in the Ninety-One Diversified Income Fund, which is a multi-asset fund. The falls in the capital values of the underlying assets were reflected in 31 March 2026 valuations of both funds. The Balance Sheet figure as at 31 March 2026 for long-term investments is recorded at fair value, £4,532k. The Council is using the alternative Fair Value through Profit and Loss (FVPL) accounting and must defer the funds' fair value gains and losses to the Financial Instruments Adjustment Account (which is an unusable reserve until 2025-26) and reflected in the movement in reserves statement.

3.4.4 The Council's £5m of externally managed pooled and property funds generated a total income return of £209k during 2025/26. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates. In the light of their performance over the medium/long-term and the Council's latest cash flow forecasts, investment in these funds has been maintained.

3.5 Performance – Budgeted Income and Outturn

3.5.1 Below are the average income returns obtained on the Authority's investments:

- Short Term investments – 3.75%;
- Investments in the Ninety-One Diversified Income fund – 4.2%;
- Investment in the Property Fund – 4.2%;
- Average of all investments – 4.6%.

3.5.2 The Authority's budgeted investment income for the year was £0.664m. The actual investment income for the year was £1.047m.

3.6 Compliance with Prudential Indicators and Treasury Management Strategy

3.6.1 3.14 All Prudential Indicators for 2025/26, have been complied with to date. **APPENDIX 1** reports on the Council's compliance with Prudential Indicators.

3.6.2 The Section 151 Officer reports that all treasury management activities undertaken during the second half of the year in review complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy, the above items excepted.

3.7 Outlook for 2026/27 (Summary of advice from Mitsubishi UFJ Financial Group (MUFG) Corporate Market)

3.7.1 The last interest rate forecast update was undertaken on 22 December 2025. At that juncture it looked as if domestic inflation would soften through the spring and summer and that the Monetary Policy Committee (MPC) would be in a strong position to reduce Bank Rate to 3.25% by this time 2027.

3.7.2 However, although tepid domestic growth remains a concern (0.1% q/q GDP for Q4 2025) and the current level of annual Consumer Price Index (CPI) inflation was recorded as 3% for February, the US/Israel conflict with Iran has somewhat derailed the prospect of looser monetary policy conditions for at least the next few months.

3.7.3 The primary reason for that sea-change in policy expectations is the energy supply-side shock impacting the world economy, with energy infrastructure coming under attack from both sides of the conflict. Consequently, with clear difficulties remaining as to whether oil can be safely moved via the Strait of Hormuz, and natural gas fields in Qatar, in particular, having suffered significant damage, these are the types of supply-side set back that cannot be rectified quickly.

3.7.4 Colleagues at Capital Economics have noted that the UK entered the energy price shock with household inflation expectations still elevated and CPI inflation far higher than the euro zone's rate of 1.9%. But the surge in oil prices has already caused the average petrol/diesel price to rise to 159p per litre, which probably raised CPI inflation by 0.3ppts in March. And petrol/diesel prices could rise by a further 9.8% in the coming weeks to 175ppl. Their working assumptions about gas prices suggest the Ofgem utility price cap may rise by 30% on 1 July, which would add an extra 1.0ppts to CPI inflation in July. And that's before the indirect boost from businesses passing on some of their energy costs in the prices of non-energy items. In their baseline scenario, they now think CPI inflation could rise to a peak of 4.6% in Q4 2026.

3.8 Although MUFG acknowledge there is upside risk to Bank Rate movements over the course of the coming months, with the energy price shock likely to extinguish growth and add to the already elevated unemployment rate (5.2%), it concurs with Capital Economics' central view that an extended interest rate pause is more likely than interest rate hikes.

3.9 Accordingly, the MUFG Corporate Markets forecast has been revised to reflect that the MPC is unlikely to feel comfortable with cutting rates until the likely rise in inflation has worked its way through the system over the next 12 months. The first Bank Rate reduction in the new forecast is set at Q3 2027. Forecasts will be updated if any material changes to the scenario outlined above occurs.

3.10 Medium to long-term gilt yields are already at multi-year highs and there is clear evidence that a deteriorating UK fiscal position has the potential to propel yields even higher. With CPI inflation due to rise above 4% in the coming months, not only will there be upward pressure on gilt yields from this source, but also additional budgetary considerations arising from the maintenance of the triple lock on pension and benefit payments. The April 2027 increase will be based on the September 2026 reading. Furthermore, debt interest costs will almost certainly be higher than when the Chancellor set out her Autumn Statement, and the Prime Minister will need to identify at what juncture the increase in defence spending to 3% of GDP is going to manifest itself.

4. CONCLUSION

4.1 In compliance with the requirements of the CIPFA Code of Practice, this report provides Members with a summary of the treasury management activity for the financial year 2025/26. As indicated in this report, none of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

5. IMPACT ON PRIORITIES AS SET OUT IN THE CORPORATE PLAN 2026 - 2028

5.1 **Delivering good quality services.**

5.1.1 Strong treasury management is required to ensure services can deliver on corporate objectives, which impact residents.

6. IMPLICATIONS

(i) **Impact on Customers** – None directly.

(ii) **Impact on Equalities** – None identified.

(iii) **Impact on Risk (including Fraud implications)** – This report is mainly about managing liquidity risk. A prudent approach continues to be taken in relation to investment activity with priority being given to security and liquidity over yield.

(iv) **Impact on Resources (financial)** – These are covered within this report.

(v) **Impact on Resources (human)** – None directly.

(vi) **Impact on Devolution / Local Government Reorganisation** – None directly.

Background Papers: None.

Enquiries to: Ben Jay, Director of Finance