Annual Treasury Management Review 2025/26

Committee considering report:	Audit & Risk Committee
Date of Committee:	28 July 2026
Portfolio Member:	Councillor Iain Cottingham
Date Portfolio Member agreed report:	2 July 2026
Report Author:	George Winterbourne

1 Purpose of the Report

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2025/26. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the TM Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

2 Recommendation(s)

Members are informed that this report is presented for noting only.

3 Implications and Impact Assessment

Implication	Commentary
Financial:	During 2025/26, gross external borrowing increased by £37.5m, from £267.2m to £304.7m, reflecting borrowing undertaken to support the approved capital programme, the use of Exceptional Financial Support and wider cash flow requirements. As at 31 March 2026, the Council's net borrowing after investments has a weighted average rate of 3.92%. This remained below prevailing PWLB certainty rates at year end, which were materially higher across comparable maturities. The Council's borrowing strategy has therefore helped manage financing costs while maintaining flexibility in a volatile interest rate environment. George Winterbourne, Service Lead – Finance & Strategic Assets

Implication	Commentary			
Human Resource:	Not applicable			
Legal:	This report fulfils the requirement under the TM Code to produce an annual Treasury Management Outturn Report.			
Risk Management:	All investments are undertaken with a view to minimise the risk of financial loss. The Investment and Borrowing Strategy approved by the Council sets an approved counterparty list and limits for the treasury function to operate in to mitigate this risk.			
Property:	Not applicable			
Policy:	Not applicable			
	Positive	**Neutral**	**Negative**	**Commentary**
Equalities Impact:				
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		
Environmental Impact:		X		
Health Impact:		X		
ICT Impact:		X		

Implication	Commentary			
Digital Services Impact:		X		
Council Strategy Priorities:	X			The treasury function supports the delivery of the Council Strategy through the financing of the Council's approved Capital Programme and monitoring of Council cash flows.
Core Business:		X		
Data Impact:		X		
Consultation and Engagement:	Shannon Coleman-Slaughter - Service Director: Finance, Property and Procurement (Section 151 Officer)			

4 Executive Summary

4.1 The Council's Investment and Borrowing Strategy for 2025/26 was approved by Council in February 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 impact of changing interest rates.

4.2 The Council'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. Flexibility to renegotiate loans should the Council's long-term plans change is considered a secondary objective. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

4.3 Both the TM Code and government guidance also 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.

4.4 The economic environment during 2025/26 was challenging, with heightened market volatility driven by global geopolitical developments, including the introduction of US trade tariffs in April 2025 and escalating conflict in the Middle East from February 2026. These factors contributed to sustained upward pressure on gilt yields and, in turn, increased Public Works Loan Board (PWLB) borrowing rates. For example, the PWLB 25-year certainty rate for annuity loans rose from approximately 5.8% in May 2025 to around 6.2% in May 2026, reflecting the higher and more volatile cost of long-term borrowing during the period.

4.5 Despite these difficult market conditions, the Council maintained a prudent treasury management position. Borrowing requirements were managed through a combination of external borrowing and the use of internal cash balances. This approach minimised borrowing costs and reduced exposure to higher interest rates. The Council's historic borrowing portfolio and active cashflow management contributed to an average borrowing rate of 3.92% during the year.

4.6 The table below sets out the impact of capital expenditure during 2025/26 and compares this to the previous financial year:

	24/25 Actual £'000	25/26 Actual £'000
Capital Expenditure	41,056	44,186
General Fund Capital Financing Requirement	319,711	349,773
External debt	(267,242)	(304,732)
PFI and IFRS 16 Lease Liability	(9,441)	(11,838)
Gross borrowing	(276,682)	(316,570)
Investments	17,306	14,034
Net borrowing	(259,376)	(302,536)

4.7 Overall, borrowing undertaken during the year remained within the limits approved in the Treasury Management Strategy. The Council complied with all treasury management prudential indicators and operational limits during 2025/26, as detailed in Appendix C.

5 Supporting Information

The Council's capital expenditure and financing

5.1 Capital expenditure is a key prudential indicator. The Provisional Capital Outturn is £44.2m of expenditure against an approved expenditure programme of £60.9m. Of the £44.2m capital expenditure incurred, £15.0m was funded by the Council. The remaining £29.2m was financed from external sources, primarily grants, the Community Infrastructure Levy (CIL) and Section 106 contributions. Further details of the capital expenditure incurred during 2025/26 can be found in the Council's 2025/26 Financial Performance: Provisional Outturn Report.

5.2 The table below discloses the actual spend compared to budget and prior year and how this was financed, including Exceptional Financial Support (EFS). This process exists to support councils facing unmanageable financial pressures.

5.3 The Council has been supported by EFS since 2024/25. The provisional balance capitalised for 2025/26 is £16.8m. This will be subject to external audit as part of the statutory audit and MHCLG review process.

	24/25 Actual £'000	25/26 Budget £'000	25/26 Actual £'000
Capital Expenditure	41,056	72,978	44,186
Exceptional Finance Support	13,000	3,000	16,800
Total Capital Expenditure	**54,056**	**75,978**	**60,986**
Financed in year (External funds and Other Contributions)	23,400	37,900	29,188
Capital expenditure Financed by borrowing	17,656	35,200	14,996
Capital Expenditure: EFS	13,000	3,000	16,800
Expenditure financed by borrowing	**30,656**	**38,200**	**31,796**

5.4 As at 31 March 2026, the Council recognised £22.4m of leased assets that had been capitalised on-balance sheet following the application of IFRS 16 *Leases* in the previous financial year. Associated lease liabilities of £3.9m were also recognised at the same date, split between short- and long-term obligations.

Capital Financing Requirement

5.5 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). The CFR represents a key element of the Council's capital strategy, reflecting the level of capital expenditure that has not yet been financed by capital receipts, capital grants, or revenue contributions. The CFR increases where capital expenditure is incurred without immediate financing and reduces over time through the application of Minimum Revenue Provision (MRP). The movement in the Council's CFR during 2025/26 is as follows:

	31/03/2026 Actual £'000
Opening CFR	319,711
Capital expenditure	14,996
IFRS 16 Impact on Assets	4,882
EFS 2025/26	16,800
Minimum Revenue Provision	(6,616)
Closing CFR	**349,773**

5.6 The table above shows that EFS is a significant driver of the increase in the Council's CFR. This is expected to continue over the medium term. Across the next two financial years, approximately 17% of the forecast increase in the CFR relates to capital expenditure, with the remaining 83% attributable to EFS.

To ensure that borrowing levels are prudent within the medium term, the Council should ensure that its external borrowing requirement (i.e. the liability benchmark) does not exceed the total of the CFR for the current (2025/26) and next two financial years. The table below highlights the Council's gross borrowing position against the CFR for 2025/26 and estimates for the next two financial years:

	31/03/2025 Actual £'000	31/03/2026 Actual £'000	31/03/2027 Forecast £'000	31/03/2028 Forecast £'000
Loans Capital Financing Requirement (CFR)	310,300	337,938	380,487	422,280
Less: Balance sheet resources	(60,334)	(47,239)	(21,370)	3,090
Net loans requirement	**249,966**	**290,699**	**359,117**	**425,370**
Plus: Liquidity allowance[1]	10,000	14,034	10,000	10,000
Liability benchmark	**259,966**	**304,733**	**369,117**	**435,370**

5.7 The liability benchmark indicates that borrowing remains within the Council's prudent borrowing limit and below the CFR in 2025/26 and 2026/27. However, based on current estimates, the liability benchmark is projected to exceed the CFR in 2027/28. This suggests that the Council is expected to fully utilise its internal cash resources over the medium term. As a result, the Council will become increasingly reliant on external borrowing to support both its capital programme and liquidity requirements, thereby exposing it to heightened interest rate and refinancing risks. Consideration will therefore need to be given to the timing and structure of longer-term borrowing to mitigate these risks and ensure ongoing affordability and sustainability. The position will continue to be closely monitored as part of the Council's treasury management and capital planning processes.

Treasury position as at 31 March 2026

5.8 The Council utilises its own internal resources (i.e. usable reserves and working capital) to fund the CFR and reduce how much external borrowing is required. On 31 March 2026, the Council had net borrowing of £290.7 million (i.e. gross external borrowing of £304.7m less net investments £14.0m) arising from its revenue and capital income and expenditure. These factors are summarised in the table below:

Balance Sheet Summary	31/03/2025 Actual £'m	31/03/2026 Actual £'m
General Fund CFR	319.7	349.8
Less: Other Debt Liabilities (Waste Private Finance Initiative and IFRS 16)	(9.4)	(11.8)
Loans CFR	**310.3**	**338.0**
External Borrowing	(267.2)	(304.7)
Internal Borrowing	**(43.0)**	**(33.3)**
Usable Reserves	41.7	39.3
Working Capital	18.6	7.9
Net Investments	**17.3**	**14.0**

[1] The liquidity allowance for 31/03/2026 of £14.0m reflects the actual cash and cash equivalents position at year-end rather than the minimum allowance of £10m that is used for forecasting.

5.9 A breakdown of the Council's borrowing position as at the 31 March 2026 is shown in Appendix A. Loans were drawn to fund the Council's underlying need to borrow (the CFR) and refinance maturing debt. Borrowing decisions are not linked to specific capital schemes and are instead informed by detailed cash flow modelling and the overall treasury management strategy.

Borrowing activity

5.10 As at 31 March 2026, the Council held £297.7m of PWLB loans and £7m of Local Council loans. These are summarised in the table below along with the corresponding weighted average cost of capital and weighted average maturity:

	31/03/25 Actual £m	Net Movement £m	31/03/26 Actual £m	31/03/26 Weighted Average Rate %	31/03/26 Weighted Average Maturity (Years)
PWLB	(247.0)	(50.7)	(297.7)	3.92	16.9
Non-PWLB	(0.2)	0.2	0.0	N/a	N/a
Local Authorities (Short-Term)	(20.0)	13.0	(7.0)	4.22	0.3
Total Borrowing	(267.2)	(37.5)	(304.7)	3.93	16.5
Cash and Cash Equivalents	17.3	(3.3)	14.0	3.82	
Net Borrowing (after investments)	**(249.9)**	**(40.8)**	**(290.7)**	**3.92**	

5.11 Short-term loans represent 24.36% of the Council's total borrowing (£230.5m long-term and £74.2m short-term).[2]

5.12 In accordance with the TM Code, borrowing is not directly attributable to specific expenditure, as it is managed on a pooled cash basis. The net increase in borrowing of £40.8m during 2025/26 reflects a combination of financing for Council-funded capital expenditure of £15.0m, together with short-term support for day-to-day expenditure pressures, including the use of Exceptional Financial Support (£16.8m) and the impact of Dedicated Schools Grant (£8.9m) deficits.

5.13 The borrowing strategy has focused on securing shorter-term loans, typically 12–18 months, to limit exposure to long-term interest rate risk and retain flexibility to refinance should market rates fall. This approach has supported active management of borrowing costs and contributed to the relatively low weighted average rate (3.92%) compared to prevailing long-term PWLB certainty rates at year end.

5.14 However, increased geopolitical uncertainty and inflationary pressures due to the conflict in the Middle East have heightened interest rate risk. As a result, the Council will review its treasury management and borrowing strategy for 2026/27 to

[2] These short- and long-term loan balances represent cash loans only and therefore exclude other liabilities, such as PFI-related borrowing.

ensure it remains appropriate in a more volatile interest rate environment, balancing cost, risk, and flexibility.

Other debt activity

5.15 Although not classified as borrowing, the Council also has a Private Finance Initiative (PFI) liability in respect of the Padworth Waste Recycling Facility. This debt, which is included in the total borrowing shown on the Council's balance sheet, stood at £7.9m as at 31 March 2026 compared to £8.9m as at 31 March 2025. Repayments of this debt are included in the monthly waste contract charges, which are paid from the revenue budget for waste management.

Prudential Indicators: Treasury position and financial control:

5.16 The Council is responsible for ensuring that its capital financing remains prudent, sustainable and affordable over the long term. Prudential indicators play a key role in monitoring and controlling this position by providing a framework for assessing whether borrowing levels remain within approved limits and are aligned with the Council's financial capacity.

5.17 During 2025/26, the Council complied with all approved prudential indicators. Further information on these indicators, including how they are calculated and monitored, is provided in Appendix C.

Treasury performance for year 2025/26

5.18 The Council monitors the financial performance of its treasury management activities; the tables below set out the overall performance of borrowing and investments during 2025/26:

<u>Borrowing performance:</u>

	25/26 Interest Cost Budgeted £'000	25/26 Interest Cost Actual £'000	(Over)/Under £'000	Actual Interest Rate @ 31/03/26 %
Short term borrowing	(578)	(753)	(175)	4.22
Public Works Loan Board	(11,475)	(9,282)	2,193	3.93
Total Borrowing	**(12,053)**	**(10,035)**	**(2,018)**	**3.93**
PFI and Finance Leases	(543)	(543)	(0)	6.10
Total Interest Cost	**(12,596)**	**(10,578)**	**(2,018)**	**3.92**

Investment performance:

5.19 The Council's investment position as at the 31 March 2026 is shown in Appendix B. During 2025/26, the Council's total investment balances earned an average rate of return of 3.96%. The comparable performance indicator is the Sterling Overnight Index Average (SONIA) rate, which was 3.73%. Total investment income was £0.9m compared to a budget of £0.5m.

Non-treasury management investments

5.20 The definition of investments in the TM Code covers all the financial assets of the Council as well as other non-financial assets, which the Council holds primarily for financial return. This is replicated in the Investment Guidance issued by the Ministry of Housing, Communities and Local Government (MCHLG), in which the definition of investments is further broadened to also include all such assets held partially for financial return. At 31 March 2026, the Council held £33.6m of such investments in directly owned property.

5.21 The commercial property portfolio is valued on an annual basis. On 31 March 2026, the value of this property portfolio had reduced in value by £0.4m over the course of 2025/26:

Names and address of property	Property type	Valuation at 31 March 2025 £'000	Valuation at 31 March 2026 £'000	Movement (Loss)/Gain £'000
Dudley Port Petrol Filling Station, Tipton	Petrol Filling Station	3,891	3,531	(361)
79 Bath Road, Chippenham	Retail Warehouse	8,779	8,620	(158)
Lloyds Bank, 104 Terminus Road, Eastbourne	Retail	1,614	1,560	(54)
303 High Street and 2 Waterside South, Lincoln	Retail	2,654	2,552	(102)
3&4 The Sector, Newbury Business Park	Office	10,770	10,929	159
Ruddington Fields Business Park, Mere Way, Nottin	Office	6,297	6,413	116
TOTAL		**34,004**	**33,604**	**(400)**

5.22 The estimated rate of return on these investments for 2025/26 is summarised in the table below. The calculation is based on the property valuation as at 31 March 2026 (£33.604m), with net income reflecting the revenue outturn position as at the same date.

Directly owned Property: Commercial property	£'000
Loss on change in market value during 2025/26 (see table above)	(400)
Rental income (less operational cost)	2,789
Net Income	**2,389**
Rate of return excluding MRP and Interest (Net income ÷ property valuation)	**7.03%**
MRP costs	(943)
Interest Costs	(1,533)
Net income less MRP & interest	(87)
Rate of return, after MRP and interest (Net income less MRP & interest ÷ property valuation)	**(0.26%)**

5.23 The Council holds a further £13.7m of investment property where the purchase has not been directly funded through borrowing. Asset valuations are as follows:

Names and address of property	Property type	Valuation at 31 March 2025 £'000	Valuation at 31 March 2026 £'000	Movement (Loss)/Gain £'000
The Stone Building, The Wharf, Newbury	Café	25	52	27
Rainbow Nursery, Priory Road, Hungerford	Children's Nursery	94	92	(2)
Clappers Farm/Beech Hill Farm, Grazeley	Tenanted Smallholding	1,157	911	(246)
Bloomfield Hatch Farm, Grazeley	Tenanted Smallholding	485	477	(9)
Shaw Social Club, Almond Avenue, Shaw	Community Centre	219	215	(4)
Swings n Smiles, Lower Way, Thatcham	Children's Day Centre	273	255	(18)
Units 1 to 7, Kennet Enterprise Centre, Hungerford	Industrial	542	527	(14)
London Road Industrial Estate, Newbury	Industrial	9,103	11,150	2,047
TOTAL		**11,897**	**13,678**	**1,781**

5.24 The estimated rate of return on these investments for 2025/26 is summarised in the table below. The calculation is based on the property valuation as at 31 March 2026 (£13.7m), with net income reflecting the revenue outturn position as at the same date.

Directly owned Property: Investment Properties	**£'000**
Gain on change in market value during 2025/26	1,781
Rental income (less Operational cost)	203
Net Income	**1,984**
Rate of return[3] **(Net income ÷ property valuation)**	**16.68%**

5.25 The rates of return shown above exclude changes in property values. Direct property investment carries both valuation and income risks, including void periods and reduced rental income, which can adversely affect overall returns.

5.26 In accordance with the Council's policy, the strategic approach to the investment portfolio has increasingly focused on longer-term asset disposals, alongside continued active portfolio management. The Council will, where appropriate, consider the disposal of assets to generate capital receipts. These receipts may be applied to support the capital programme, reduce capital financing costs, and/or fund transformation initiatives aimed at delivering sustainable future savings. This approach will be carefully balanced against the potential long-term loss of income arising from the disposal of revenue-generating assets, ensuring that decisions represent a robust value-for-money outcome.

5.27 Considering its EFS position, the Council does not maintain sinking funds in respect of these assets. Consequently, the General Fund remains exposed to potential fluctuations in income and any unplanned expenditure associated with the investment property portfolio.

[3] There is no borrowing on these investments and therefore no MRP and Interest

Proposals

5.28 No proposals are made within this report.

6 Other options considered

Not applicable.

7 Conclusion

The Section 151 Officer is satisfied that the treasury management practices during 2025/26 have operated in compliance with the adopted TM Code and the Council's approved Investment and Borrowing Strategy.

8 Appendices

Appendix A – The Council's borrowing position as at 31 March 2026

Appendix B – The Council's investment position as at 31 March 2026

Appendix C – Prudential indicators: treasury position and financial control

Appendix D – The economy and interest rates