Appendix 1 - Treasury Management Outturn Report 2025/26

1. Introduction

1.1. The Council has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Council to approve, as a minimum, treasury management semi-annual and annual reports.

1.2. This report includes the requirement in the 2021 Code, Mandatory from 1st April 2023, of reporting the treasury management prudential indicators.

1.3. The Council's treasury management strategy for 2025/26 was approved at a full Council meeting on 3rd 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 remains central to the Council's treasury management strategy.

2. External Context (provided by the Council's treasury management advisor, Arlingclose)

Economic background

2.1. 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.

2.2. 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.

2.3. 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.

2.4. 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.

2.5. 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.

2.6. 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.

2.7. 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.

2.8. 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.

2.9. 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.

2.10. 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.

2.11. 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

2.12. 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.

2.13. 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.

2.14. 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

2.15. 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.

2.16. 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.

2.17. 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.

2.18. 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.

2.19. 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.

2.20. 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. Local Context

3.1. On 31 March 2026, the Council had net borrowing of £1,213.4m arising from its revenue and capital income and expenditure. The Capital Financing Requirement (CFR) measures the underlying need to borrow for capital purposes. A breakdown of the CFR is summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.03.25 Actual £m	**31.03.26 Actual £m**
General Fund CFR	792.1	828.1
HRA CFR	626.8	736.9
Total CFR[1]	**1,418.9**	**1,565.0**
Less: Other debt liabilities[2]	(73.3)	(45.0)
Borrowing CFR - comprised of:	**1,258.0**	**1,520.0**
External borrowing	981.3	1,213.4
Internal borrowing	364.4	306.6

[1]subject to audit
[2]finance leases, PFI liabilities and transferred debt that form part of the Council's total debt

3.2. The Council continued to pursue its long-standing strategy of keeping borrowing and investments below their underlying levels, also known as internal borrowing. This approach aims to manage both interest rate risk and refinancing risk. The goal is to minimise interest costs and provide flexibility when deciding whether the Council should take on new borrowing from external sources.

3.3. The treasury management position on 31 March 2026 and the change over the year is shown in Table 2 below.

Table 2: Treasury Management Summary

Type of Borrowing/Investment	31.03.25 Balance £m	Movement £m	31.03.26 Balance £m	31.03.26 Weighted Av. Rate %
Long-term borrowing	906.3	290.1	1,196.4	3.79%
Short-term borrowing	75.0	-58.0	17.0	4.27%
Total borrowing	**981.3**	**232.1**	**1,213.4**	**3.80%**
Short-term investment	0.0	0.0	0.0	0.00%
Cash and cash equivalents	13.6	67.7	81.3	3.75%
Total investments	**13.6**	**67.7**	**81.3**	**3.75%**
Net borrowing	**967.6**	**195.8**	**1,132.1**	

4. Borrowing Activity

4.1. 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.

4.2. The Council has not invested in assets primarily for financial return or that are not primarily related to the functions of the Council and it has no plans to do so in the future.

Borrowing strategy during the period

4.3. As outlined in the treasury management strategy, the Council's primary objective when borrowing is 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 flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. The Council's borrowing strategy continues to address the key issue of affordability without compromising longer-term stability of the debt portfolio.

4.4. Gilt yields slightly decreased over most of the period; 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.

4.5. 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 the 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% - 7.0% being seen.

4.6. On 15 June 2023, a new HRA PWLB rate was made available to qualifying authorities. The 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, providing a window of opportunity for HRA-related borrowing and to replace the Authority's loans relating to the HRA maturing during this time frame.

4.7. As part of its strategy for funding previous and current years' capital programmes, the Council held £1,213.4 million in loans on 31 March 2026, an increase of £232.1 million compared to 31 March 2025.

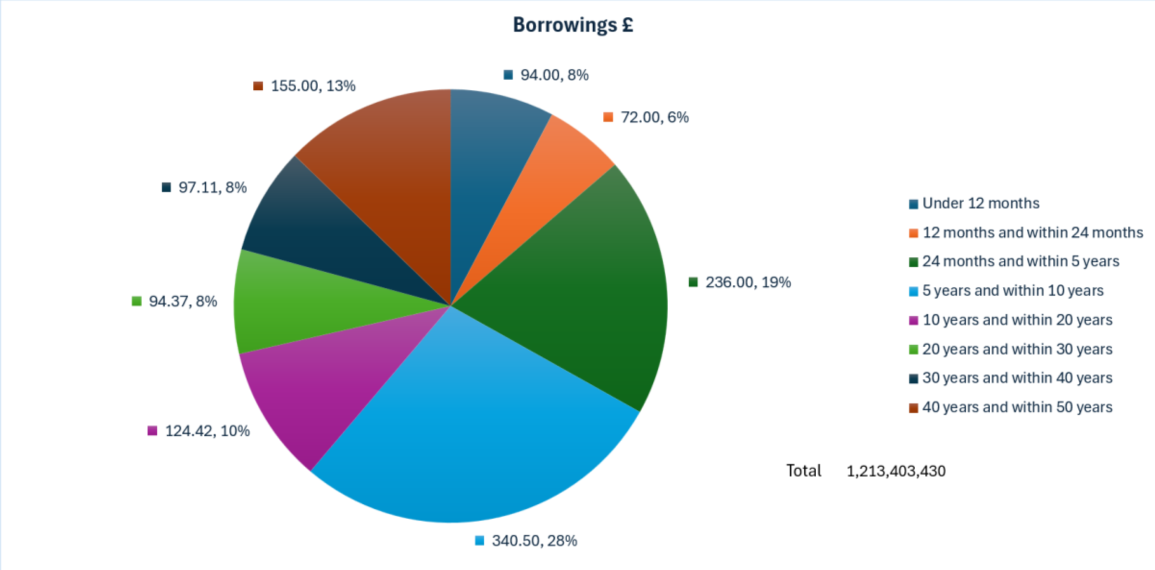
4.8. The outstanding loans on 31 March 2026 are summarised in Table 3.

Table 3: Borrowing Position

Type of Borrowing	31.03.25 Balance £m	Net Movement £m	31.03.26 Balance £m	31.03.26 Weighted Ave. Rate %	31.03.26 Weighted Ave. Maturity years
Public Works Loan Board	806.3	340.1	1,146.4	3.75%	15.8
Banks (LOBO)	100.0	-50.0	50.0	4.73%	25.0
Local authorities	75.0	-58.0	17.0	4.27%	0.2
Total borrowing	**981.3**	**232.1**	**1,213.4**	**3.80%**	**16.8**

4.9. The Council has a significant capital programme that extends into the foreseeable future. A large proportion of this programme will need to be financed by borrowing. This borrowing will be undertaken by the Council during the current and upcoming years. The Council's borrowing decisions are not based on any single outcome for interest rates, and it maintains a balanced portfolio of short and long-term borrowing. Given the Council's financial position and reliance on EFS, during summer 2026, the Council will be reviewing its capital programme to identify schemes that can be paused / slowed down given that interest rates remain high, reliance on EFS remains high and forecast year on year increase on borrowing is not sustainable.

4.10. The maturity profile of the Council's borrowings on 31st March 2026 is shown in the chart below.



LOBO Loans

4.11. On 1st April 2025 the Authority held £100m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate and terms or to repay the loan at no additional cost.

4.12. During year the Council was able to successfully negotiate the repayment of £50m of those loans at a significant discount to the market value which was valued at £57m on 31st March 2025, by Arlingclose. The £7m represents a premium for the embedded options above face value. It is estimated that the early redemption of the loans will result in a cost saving to the Council of £227,000 over the next 3 years, inclusive of fees and charges, due to replacement borrowing from the PWLB being at a lower rate. The 3-year timeframe being the next option date of 2028.

4.13. As market interest rates have risen, there is an increased probability of call options on the LOBOs being exercised by lenders.

4.14. All LOBO loans the Council held at year end have call dates within the next 12 months. The Council continues to engage with treasury management advisors, Arlingclose, to assess the likelihood of the options being exercised. If the option is exercised, the Council plans to repay the loan at no additional cost. In doing so, the Council will use any available cash or borrow from other local authorities or the PWLB to repay the LOBO loans.

4.15. Table 4 below details the Councils LOBO position as at 31st March 2026.

Table 4: LOBO Position

Lender Name	End Date	Original Principal £'000	Interest rate	LOBO Frequency Yr	Next Call Date
FMS Wertman	10/04/2053	20,000	4.75%	0.5	10/04/2026
FMS Wertman	10/04/2053	20,000	4.75%	0.5	10/04/2026
Dexia Credit Local	10/04/2043	10,000	4.75%	0.5	10/04/2026
Total borrowing		**50,000**			

5. Treasury Investment Activity

5.1. The CIPFA Treasury Management Code now defines treasury management investments as investments that result from the Council's cash flows or treasury risk management activity. These investments represent balances that are invested until the cash is required for business operations.

5.2. The Council holds significant invested funds, which represent income received in advance of expenditure, as well as balances and reserves held. Throughout the period, the Council's investment balances ranged between £13.6m and £184.3m due to timing differences between income and expenditure. The investment position on 31 March 2026 is shown in Table 5 below.

Table 5: Treasury Investment Position

Type of Investment	31.03.25 Balance £m	Net Movement £m	31.03.26 Balance £m	31.03.26 Weighted Ave. Rate %	31.03.26 Weighted Ave. Maturity
Debt Management Office	0.0	31.3	31.3	3.70%	1 day
Money Market Funds	13.6	36.4	50.0	3.78%	1 day
Total Investments	**33.9**	**67.7**	**81.3**	**3.75%**	**1 day**

5.3. Both the CIPFA Code and government guidance require the Council to invest its funds prudently, taking into account the security and liquidity of its treasury investments before seeking the optimum rate of return or yield. The Council aims to strike an appropriate balance between risk and return when making treasury investments, while minimising the risk of incurring losses from defaults and receiving unsuitably low investment income.

5.4. As demonstrated by the comparative borrowing and investment values in this report, 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.

5.5. 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. The rates on DMADF deposits ranged between 3.70% and 4.45% and money market rates between 3.6% and 4.5%.

5.6. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 6 below.

Table 6: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Ave. Maturity (Days)	Rate of Return
LBH @ 31.03.2025	4.95	A+	100%	1	4.52%
LBH @ 31.03.2026	4.30	AA-	62%	1	3.75%
Similar Local Authorities	4.62	A+	80%	192	4.29%
All Local Authorities	4.60	A+	64%	10	4.46%

Scoring:
AAA = highest credit quality = 1; D = lowest credit quality = 26
Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security
Bail-in exposure: the degree to which an investor's, creditor's, or depositor's funds are legally at risk of being written down or converted into equity to absorb a failing financial institution's losses.

6. Treasury Performance

6.1. The Council measures the financial performance of its treasury management activities in terms of its impact on revenue budget as shown in Table 7 below.

Table 7: Treasury Performance

	Actual	Budget	Over/under

Borrowing costs	£m	£m	£m
General Fund borrowing	17.3	19.2	(1.9)
HRA borrowing	24.4	26.2	(1.8)
Total borrowing costs	**41.7**	**45.4**	**(3.7)**
Treasury investment income	**(3.2)**	**(2.0)**	**(1.2)**

6.2. The overall underspend is a combination of both lower borrowing costs and increased income from investments as balances have been higher on occasions in the year compared to the cashflow forecast when the budget was set. The £2.4m adverse movement since Quarter 3 is a result of higher than forecast payments in the final quarter, which is not uncommon given the nature of capital spend and the end of year also sees high volumes of invoices settled before the accounts are closed. There has also been a steady increase in borrowing costs across the year.

7. Non-Treasury Investments

7.1. The definition of investments in CIPFA's revised 2021 Treasury Management Code includes all the financial assets of the local authority, as well as other non-financial assets that the local authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes or (made explicitly to further service objectives) or for commercial purposes (made primarily for financial return).

7.2. The Investment Guidance, issued by the Ministry of Housing, Communities & Local Government (MHCLG) and Welsh Government, broadens the definition of investments to include all assets held partially or wholly for financial return.

8. Compliance

8.1. The Corporate Director of Finance and Resources reports that all treasury management activities carried out during the period complied fully with the principles in the Treasury Management Code and the Council's approved Treasury Management Strategy with the exception of lease levels in comparison to the Operational Boundary and Authorised Limit as detailed below, which was also reported in the Quarter 3 monitoring report earlier in the year.

8.2. Compliance with the authorised limit and operational boundary for external debt is demonstrated in Table 8 below.

Table 8: Debt Limits

	31.03.26 Actual £m	2025/26 Operational Boundary £m	2025/26 Authorised Limit £m	Complied?
Borrowing	1,213.4	1,673.1	1,723.1	Yes
PFI and Finance Leases	45.0	12.7	13.9	No
Total debt	1,258.4	1,685.8	1,737.0	Yes

8.3. Although not classed as borrowing, the Council's PFI balances and finance leases decreased during the financial year.

8.4. The operational boundary is a management tool for in-year monitoring. Therefore, it is not significant if the operational boundary is breached on occasion due to variations in cash flow, and this is not considered a compliance failure. However, the council's overall debt remained below this limit throughout the entire financial year.

9. Treasury Management Indicators

9.1. As required by the 2021 CIPFA Treasury Management Code, the Council monitors and measures the following treasury management prudential indicators.

Security

9.2. The Council has adopted a voluntary measure to assess its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. To calculate this score, a value is assigned to each investment based on its credit rating (AAA=1, AA+=2, etc.), and the arithmetic average is taken, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	31.03.25 Actual	2025/26 Target	Complied?
Portfolio average credit score	AA-, 4.30	Above A, 6.0 or lower	Yes

Liquidity

9.3. The Council has adopted a voluntary measure to monitor its exposure to liquidity risk. This is done by tracking the amount of cash available to meet unexpected payments over a rolling three-month period, without borrowing additional funds.

	31.03.25 Actual/£m	2025/26 Target/£m	Complied?
Total cash available within 3 months	81.3	30.0	Yes

Interest Rate Exposures

9.4. 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 interests was:

	31.03.26 Actual	2025/26 Target	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	£0.7m	£2m	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	£0.7m	£2m	Yes

9.5. The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

9.6. For context, the change in PWLB interest rates during the period:

	31.03.26 %	31.12.25 %
Bank Rate	3.75	3.75
1-year PWLB certainty rate, maturity loans	5.04	4.37
5-year PWLB certainty rate, maturity loans	4.28	4.78
10-year PWLB certainty rate, maturity loans	5.72	5.34

20-year PWLB certainty rate, maturity loans	6.23	5.88
50-year PWLB certainty rate, maturity loans	6.08	5.69

Maturity Structure of Borrowing

9.7. This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	31.3.26 Actual	£m	2025/26 Upper Limit	2025/26 Lower Limit	Complied?
Under 12 months	7.7%	94.00	50%	0%	Yes
12 months and within 24 months	5.9%	72.00	40%	0%	Yes
24 months and within 5 years	19.4%	236.00	40%	0%	Yes
5 years and within 10 years	28.1%	340.50	40%	0%	Yes
10 years and within 20 years	10.3%	124.42	40%	0%	Yes
20 years and within 30 years	7.8%	94.37	40%	0%	Yes
30 years and with 40 years	8.0%	97.11	50%	0%	Yes
40 years and within 50 years	12.8%	155.00	50%	0%	Yes
50 years and above	0.0%	0.00	40%	0%	Yes
Total	**100.0%**	**1213.40**			

9.8. 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.

9.9. In the past, the Council has extensively used short-term borrowing (less than 1 year in duration) from other local authorities as an alternative to longer-term borrowing from the PWLB. This was due to lower interest rates at the time, resulting in revenue savings.

9.10. However, short-term borrowing exposes the Council to refinancing risk. This is the risk that rates will rise quickly over a short period of time, and will be at significantly higher rates when loans mature and new borrowing is required. With this in mind, the Council has set a limit on the total amount of short-term local authority borrowing as a proportion of all borrowing.

	31.03.26 Actual	2025/26 Limit	Complied?
Upper limit on short-term borrowing from other local authorities as a percentage of total borrowing	1.40%	20%	Yes

Principal Sums Invested for Periods Longer than a year

9.11. 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	nil	nil	nil
Limit on principal invested beyond year end	£5m	£5m	£5m
Complied?	**Yes**	**Yes**	**Yes**