

TREASURY MANAGEMENT AND NON-TREASURY INVESTMENT OPERATIONS
2025/26 – Quarter 3

SUMMARY:

This report sets out the activities of the Treasury Management and non-Treasury Investment Operations for quarter 3 in the financial year 2025/26, and reports on compliance with Prudential Indicators.

RECOMMENDATIONS:

Members are requested to:

- (i) Make any recommendations, as appropriate, to the Cabinet on the contents of this report in relation to the treasury management and non-treasury investment operations carried out.

1. INTRODUCTION

- 1.1 This report sets out the Treasury Management and Non-Treasury Investment operation performance for Quarter 3 2025/26. This report is a statutory requirement under the CIPFA Code of Practice on Treasury Management.
- 1.1 Full Council approved the Annual Treasury Management Strategy and Non-Treasury Investment Strategy for the financial year 2025/26 in February 2025. The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management 2021 ("the Code") and is fully incorporated into the Council's adopted strategy.

2. PURPOSE

- 2.1 This report sets out compliance with the strategy and performance against Prudential Indicators to the end of December 2025 within appendices (1-4):

Appendix 1

- The **Treasury Management operations** which sets out how the Council's treasury service operated during the period to December 2025;
- The **Treasury Management Borrowing** which sets out the Council's borrowing during the period to December 2025, and;
- The **Treasury Management Investments** which sets out the Council's Treasury Management investment operations for the period to December 2025.

Appendix 2

- the **Prudential indicators** performance is compared to the indicators set out in the Annual Capital Strategy for the year 2025/26.

Appendix 3

- The list of borrowing counterparties as at end of December 2025.

Appendix 4

- Market commentary regarding from the Council's treasury management advisors Arlingclose

3 BACKGROUND

- 3.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) have issued guidance on the aims and requirements of a Capital Strategy focusing on a whole organisation approach to prudent, sustainable, and resilient local government investment.
- 3.2 CIPFA have also issued two professional Codes of Practice to which the Council is required to "have regard to". These Codes provide frameworks that are designed to support local strategic planning, local asset management planning and proper option appraisal:
- The Prudential Code – developed to support local authorities in taking decisions around their capital investment programmes. The objectives of the Prudential Code are to ensure, within a clear reporting framework, that a local authority's capital expenditure plans and investment plans are affordable and proportionate; that all external borrowing and other long-term liabilities are within prudent and sustainable levels; that the risks associated with investments for commercial purposes are proportionate to their financial capacity; and that treasury management decisions are taken in accordance with good professional practice.
 - The Treasury Management Code - Treasury Management is defined as 'The management of the organisation's borrowing, investments, and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks'.
- 3.3 The primary purpose of the treasury management operation is to ensure that cash flow is adequately planned, with cash being available when it is needed to deliver the Council's services. The secondary function of the treasury management operation is the funding of the Council's capital programme and manage cashflow requirements over a longer-term period.
- 3.4 Non-treasury investment operations should ensure that all investments made primarily for service reasons. Then, second to this, the function of investment management is to generate returns.
- 3.5 This quarterly report provides an additional update and includes the requirement in the 2021 Code of quarterly reporting of the treasury management prudential indicators.

4 CONCLUSIONS ON THE TREASURY MANAGEMENT AND NON-

TREASURY INVESTMENT OPERATIONS DURING Q2 2025/26

- 4.1 During quarter 3 the Council exceeded its TM limits for investment in counterparties. The TM strategy limit set on a single local authority and single money market fund is £6m. At the beginning of November the council had a significant cash holding in excess of the cash limit of £3m in our own bank (as per the treasury strategy) with all the councils money market funds accounts fully invested to the £6m limit, the decision was taken by the s151 to invest £10m (i.e. £4m over limit) with a local authority for a short term (3 months) at a favourable rate and the amount is due to be repaid on the 30th January. Whilst this does exceed our set £6m limit, every Local Authority has recourse to the PWLB to borrow and therefore there is considered zero risk of non-repayment.
- 4.2 Borrowing maturity is now starting to move towards longer term to give cost certainty, with 6% of our borrowing portfolio under 12 months maturity. This provides more interest rate stability on borrowing, which is in line with the MTFS rate of 4.78%.

5 KEY RISKS

- 5.1 The Council has borrowed 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 Authority's treasury management strategy.
- 5.2 The key risks to the Council's delivery of successful treasury and non-treasury investment options include:
 - Inflation levels
Inflation rates are now reducing after a prolonged period of increased levels.
 - Bank of England Base rate
Base rate has reduced to 3.75%. Expectations are that this will reduce further, however a slow reduction is anticipated.
 - Delivery of Capital Programme
Will impact borrowing requirements and timing will impact rates achievable for both borrowing and investments during the years

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Treasury Management Report Q3 2025/26

Introduction

The Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code). This quarterly report includes the requirement in the 2021 Code of quarterly reporting of the treasury management provides an update of the treasury management prudential indicators. The non-treasury prudential indicators are included in Appendix 2.

The Council's treasury management strategy for 2025/26 was approved at a meeting on 27th February 2025. The Authority has borrowed 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.

Local Context

On 31st March 2025, the Council had net borrowing of £127m 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) summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.25 Actual £m	31.3.26 Forecast £m
General Fund CFR	174.2	170.9
Less: Other debt liabilities*	0.6	0.6
Loans CFR	173.9	170.6
External borrowing**	166.0	149.0

* leases, PFI liabilities and transferred debt that form part of the Authority's total debt

** shows only loans to which the Authority is committed and excludes optional refinancing

The treasury management position at 31st December 2025 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.25 Balance £m	Movement £m	31.12.25 Balance £m	31.12.25 Rate %
Long-term borrowing				
- PWLB	62.0	65.0	127.0	4.75
- Other	2.0	10.0	12.0	4.58
Short-term borrowing	102.0	(82.0)	20.0	4.41
Total borrowing	166.0	(7.0)	159.0	
Long-term investments	16.0	(3.0)	13.0	5.07
Short-term investments	5.0	22.0	27.0	4.17
Cash and cash equivalents	18.0	(5.8)	12.2	4.16
Total investments	39.0	13.2	52.2	
Net borrowing	127.0	(20.2)	106.8	

Borrowing Strategy and Activity

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.

After substantial rises in interest rates since 2021 central banks have now begun to reduce their policy rates, albeit slowly. Except in the much long-term gilt yields have decreased slightly over the period, reflecting expectations of lower interest rates, a tepid economy and to some extent an improvement in the UK governments fiscal position following tax rises in the autumn budget.

The PWLB certainty rate for 10-year maturity loans was 5.38% at the beginning of the period and 5.34% at the end. The lowest available 10-year maturity certainty rate was 5.17% and the highest was 5.62%. Rates for 20-year maturity loans ranged from 5.71% to 6.30% during the period, and 50-year maturity loans from 5.46% to 6.14%. The cost of short-term borrowing from other local authorities has been similar to Base Rate during the period at 4.0% to 4.5%.

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.

The Authority currently holds £148m in commercial investments primarily for financial return that were purchased prior to the change in the CIPFA Prudential Code. Before undertaking further additional borrowing the Authority will review the options for exiting these investments.

Loans Portfolio

At 31st December the Authority held £159m of loans, (a decrease of £7m from the position as of 31st March 2025), as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 31st December are summarised in Table 3A below.

Table 3A: Borrowing Position

	31.3.25 Balance £m	Net Movement £m	31.12.25 Balance £m	31.12.25 Weighted Average Rate %
Public Works Loan Board	62.0	65.0	127.0	4.75
Local authorities (long-term)	2.0	10.0	12.0	4.58
Local authorities (short-term)	102.0	(82.0)	20.0	4.41
Total borrowing	166.0	(7.0)	159.0	

The average rate on the Authority's short-term loans at 31st December 2025 on £20m was 4.41%, this compares with 4.51% on £30m loans 3 months ago.

Table 3B: Long-dated Loans borrowed

	Amount £m	Rate %	Period (Years)
PWLB Maturity Loan	127.0	4.75	2-4
Horsham District Council	2.0	5.10	2
South Yorkshire Mayoral Combined Authority	5.0	4.45	3
Torbay Borough Council	5.0	4.50	4
Total borrowing	139.0		

The Council's new borrowing decisions to replace existing borrowing as current loans mature are determined by a cashflow projection.

Forward starting loans

No forward starting loans were obtained during Q3.

There remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below PWLB. The Authority will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.

Treasury Investment Activity

The CIPFA Treasury Management Code defines treasury management investments as those investments which arise from the Council'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 holds some invested funds, representing income received in advance of expenditure plus balances and reserves held. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.25 Balance £m	Net Movement £m	31.12.25 Balance £m	31.12.25 Income Return %
Banks & building societies	0.3	(0.2)	0.1	4.00
Local authorities and other govt entities	5.0	22	27.0	4.17
Money Market Funds	17.7	(5.5)	12.2	4.18
Other Pooled Funds				
- <i>Strategic bond funds</i>	6.0	0	6.0	4.97
- <i>Equity income funds</i>	5.0	0	5.0	8.52
- <i>Property funds</i>	3.0	(3.0)	-	-
- <i>Multi asset income funds</i>	2.0	0	2.0	6.00
Total investments	39.0	13.3	52.3	

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 income.

As demonstrated by the liability benchmark in this report, the Council 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 existing portfolio of strategic pooled funds will be maintained to diversify risk into different asset classes and boost investment income.

The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking - Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2025	5.14	A+	78%	7	5.65
31.12.2025	4.72	A+	100%	1	8.27
Similar LAs	4.55	A+	58%	53	4.70
All LAs	4.59	A+	60%	13	4.56

Externally Managed Pooled Funds

£13m of the Council's investments is invested in externally managed strategic pooled funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability.

Most asset classes achieved positive performance over the first half of the 2025/26 financial year, although conditions remained volatile and heavily influenced by political and macroeconomic developments.

The Authority has budgeted £540k income from these investments in 2025/26. Income received up to 31st December was £581k.

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 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 rates.

Statutory override

Further to consultations in April 2023 and December 2024 MHCLG wrote to finance directors in England in February 2025 regarding the statutory override on accounting for gains and losses in pooled investment funds. On the assumption that when published regulations follow this policy announcement, the statutory override will be extended up until the 1st April 2029 for investments already in place before 1st April 2024. The override will not apply to any new investments taken out on or after 1st April 2024. The Authority had set up a reserve of £1m to mitigate the impact of the

statutory override not being extended. Given current budgetary pressures and the extension of the override the authority decided to release £1m from this reserve.

Non-Treasury Investments

The definition of investments in the Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council 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 (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

Investment Guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) and Welsh Government also includes within the definition of investments all such assets held partially or wholly for financial return.

The Authority also held £155.9m of such investments in:

- directly owned property £148m
- loans to local businesses and landlords £6.5m
- Subsidiaries £1.4m

A full list of the Council's non-treasury investments is available.

Treasury Performance

The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates.

Compliance

The Section 151 Officer reports that all treasury management activities undertaken during the year complied fully with the principles in the Treasury Management Code and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Table 7: Investment Limits

	31.12.25 Actual	2025/26 Limit	Complied?
Any group of pooled funds under the same management	0	15m	Yes
Negotiable instruments held in a broker's nominee account	0	15m	Yes
Limit per non-UK country	0	6m	Yes

Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 8 below.

Table 8: Debt and the Authorised Limit and Operational Boundary

	31.12.25 Actual	2025/26 Operational Boundary	2025/26 Authorised Limit	Complied?

Borrowing	159.0	150.0	180.0	Yes
PFI and Finance Leases	0.6	1.8	2.0	Yes
Total debt	159.6	151.8	182.0	

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.

Treasury Management Prudential Indicators

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

1. Liability Benchmark

This indicator compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £21m. This incorporates £16m invested in strategic pooled funds, that cannot be sold at short notice, and an additional £5m liquidity buffer to manage short-term cashflow requirements. Whilst the £5m liquidity buffer has been maintained the pooled funds element has been reduced to £13m, due to the sale of some funds to mitigate the losses of a fund which was closing. The original £21m was set as the pooled funds were long term investments but had little impact on the liquidity for cashflow purposes hence the minimum level of cash held has not been increased. The updated minimum level of £18m will be reflected in the Treasury Management Strategy for 26/27.

	31.3.25 Actual	31.3.26 Forecast	31.3.27 Forecast	31.3.28 Forecast
Loans CFR	173.3	170.6	144.8	141.5
Less: Balance sheet resources	45.1	41.1	39.8	40.3
Net loans requirement	128.1	129.5	105.0	101.2
Plus: Liquidity allowance	21.0	18.0	18.0	18.0
Liability benchmark	149.1	147.5	123.0	119.2
Existing borrowing*	166.0	149.0	75.0	65.0

* shows only loans to which the Authority is committed and excludes optional refinancing

Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing, minimum revenue provision on new capital expenditure based on a variable year asset life and income, expenditure and reserves all increasing by inflation. This is shown in the chart below together with the maturity profile of the Council's existing borrowing.

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Position at 31 March	Actual	Forecasts	£m	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
Loans CFR	173.3	170.6	144.8	141.5	135.5	134.4	133.2	132.0	130.8	129.5	128.2	0.0	0.0	0.0
External borrowing	-166.0	-149.0	-75.0	-65.0	-25.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Internal (over) borrowing	7.3	21.6	69.8	76.5	110.5	134.4	133.2	132.0	130.8	129.5	128.2	0.0	0.0	0.0
Balance sheet resources	-45.1	-41.1	-39.8	-40.3	-40.5	-41.4	-42.4	-43.4	-44.4	-45.4	-46.4	0.0	0.0	0.0
Investments (new borrowing)	37.9	19.5	-30.0	-36.2	-70.0	-92.9	-90.9	-88.7	-86.4	-84.1	-81.8	0.0	0.0	0.0
Treasury investments	37.9	19.5	18.0	18.0	18.0	18.5	18.9	19.4	19.9	20.4	20.9	0.0	0.0	0.0
New borrowing	0.0	0.0	48.0	54.2	88.0	111.4	109.8	108.1	106.3	104.5	102.6	0.0	0.0	0.0
Net loans requirement	128.1	129.5	105.0	101.2	95.0	92.9	90.9	88.7	86.4	84.1	81.8	0.0	0.0	0.0
Liquidity allowance	21.0	18.0	18.0	18.0	18.0	18.5	18.9	19.4	19.9	20.4	20.9	0.0	0.0	0.0
Liability benchmark	149.1	147.5	123.0	119.2	113.0	111.4	109.8	108.1	106.3	104.5	102.6	0.0	0.0	0.0

Whilst borrowing may be above the liability benchmark, strategies involving borrowing which is significantly above the liability benchmark carry higher risk.

2. Maturity Structure of Borrowing

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

	Upper Limit (%)	Lower Limit (%)	31.12.25 Actual (%)	Complied?
Under 12 months	100	0	6	Yes
12 months and within 24 months	100	0	53	Yes
24 months and within 5 years	100	0	41	Yes
5 years and within 10 years	100	0	0	Yes
10 years and above	100	0	0	Yes

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.

3. Long-term Treasury Management Investments

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 prudential limits on the long-term treasury management limits are:

	2024/25	2025/26	2026/27
Limit on principal invested beyond year end	£30m	£30m	£20m
Actual principal invested beyond year end	£13m	£13m	£13m
Complied?	Yes	Yes	Yes

Long-term investments with no fixed maturity date include strategic pooled funds, real estate investment trusts and directly held equity but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Additional indicators

Security

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

	2025/26 Target	31.12.25 Actual	Complied?
Portfolio average credit rating	A+	A+	Yes
Portfolio average credit score	5	4.72	Yes

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.

	31.12.25 Actual	2025/26 Target	Complied?
Total cash available within 3 months	12.2	5	Yes

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk.

Interest rate risk indicator	2025/26 Target	31.12.25 Actual	Complied?
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£2m	£100k	Yes
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	£2m	£100k	Yes

CIPFA encourages the use of this indicator but does not require or recommend it; this is our recommended replacement indicator, which matches the one in the statement of accounts disclosure notes.

For context, the changes in interest rates during the quarter were:

	31/3/25	31/12/25
Bank Rate	4.50%	3.75%
1-year PWLB certainty rate, maturity loans	4.82%	4.37%
5-year PWLB certainty rate, maturity loans	4.94%	4.78%
10-year PWLB certainty rate, maturity loans	5.38%	5.34%
20-year PWLB certainty rate, maturity loans	5.88%	5.88%
50-year PWLB certainty rate, maturity loans	5.63%	5.71%

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

Prudential Indicators Q3 - 2025/26

The Council measures and manages its capital expenditure and borrowing with references to the following indicators.

It is now a requirement of the CIPFA Prudential Code that these are reported on a quarterly basis.

Capital Expenditure

The Council has undertaken and is planning capital expenditure as summarised below:

	2024/25 actual	2025/26 Budget	2026/27 Forecast	2027/28 Forecast
Capital expenditure	14.6	12.3	3.6	2.7

The main General Fund capital projects to date have included Union Yard, and Aldershot Crematorium.

Capital Financing Requirement

The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt.

	31.3.2025 actual	31.3.2026 forecast	31.3.2027 forecast
CFR	174.2	170.9	145.0

Gross Debt and the Capital Financing Requirement

Statutory guidance is that debt should remain below the capital financing requirement, except in the short term. The Authority has complied and expects to continue to comply with this requirement in the medium term as is shown below.

	31.3.2025 actual	31.3.2026 forecast	31.3.2027 forecast	Debt at 31.12.2025
Debt (incl. PFI & leases)	166.6	149.6	124.6	159.0
Capital Financing Requirement	174.2	170.9	145.0	

Debt and the Authorised Limit and Operational Boundary

The Council is legally obliged to set an affordable borrowing limit (also termed the Authorised Limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

	Debt at 31.12.25	2025/26 Authorised Limit	2025/26 Operational Boundary	Complied?
Borrowing	159.0	180.0	150.0	Yes
Leases	0.6	2.0	1.8	Yes
Total debt	159.6	182.0	151.8	Yes

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

Net Income from Commercial and Service Investments to Net Revenue Stream

The Council's income from commercial and service investments as a proportion of its net revenue stream has been and is expected to be as indicated below.

	2024/25 actual	2025/26 forecast	2026/27 forecast
Total net income from service and commercial investments	7.9	7.9	8.0
Proportion of net revenue stream	56.99%	56.54%	57.96%

Proportion of Financing Costs to Net Revenue Stream

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue.

The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

	2024/25 actual	2025/26 forecast	2026/27 forecast
Financing costs (£m)	7.0	6.9	6.5
Proportion of net revenue stream	50.59%	49.15%	46.85%

Treasury Management Indicators

These indicators (Liability Benchmark, Maturity Structure of Borrowing, Long-Term Treasury Management Investments) are within the Treasury Management Report Q3 2025/26 at Appendix 1.

LIST OF DEBT COUNTERPARTIES AS AT 31ST DECEMBER 2025

	Amount
PWLB	5,000,000
PWLB	5,000,000
South Yorkshire Mayoral Combined	5,000,000
PWLB	10,000,000
South Yorkshire Mayoral CA Police Fund	10,000,000
PWLB	15,000,000
PWLB	10,000,000
Torbay Borough Council	5,000,000
PWLB	20,000,000
PWLB	12,000,000
PWLB	20,000,000
PWLB	10,000,000
PWLB	15,000,000
PWLB	5,000,000
Bolton Metropolitan Borough Council	5,000,000
Thames Valley PCC	5,000,000
Horsham District Council	2,000,000
<hr/>	
	<u>159,000,000</u>

External Context

Economic background

Early in the first quarter was dominated by US trade tariffs and the negative impact on equity and bond markets. While this was reversed somewhat in the second quarter with equity markets making gains, it also saw a divergence in US and UK government bond yields. UK yields persisted at higher levels as investors demanded higher returns in the form of term premia due to the more uncertain UK fiscal and economic position.

The latter part of the period included the government's November autumn Budget. Despite much speculation and drip-feeding of potential policies in the weeks leading up to the event, what was ultimately announced was generally deemed more muted than had been anticipated, helping ease investors' fears of significantly higher government borrowing.

UK consumer price inflation (CPI) inflation was 3.2% in November 2025, down from 3.6% in the previous month and lower than the 3.5% expected, but still well above the Bank of England (BoE) target. Core CPI eased to 3.2% from 3.4%, against forecasts of it staying at 3.6%.

According to the Office for National Statistics (ONS), the UK economy expanded by 0.7% in the first quarter of the calendar year, by 0.3% in Q2 and by 0.1% in Q3. Of the subsequent monthly figures, the ONS estimated that GDP fell by 0.1% in October.

The labour market continued to ease over the period as unemployment rose, vacancies fell and inactivity remained flat. In the three months to October 2025, the unemployment rate rose to 5.1%, higher than the level previously expected by the BoE, while the employment rate slipped to 74.9%.

The Bank of England's Monetary Policy Committee (MPC) voted 5-4 to cut Bank Rate to 3.75% in December 2025, as was expected. Policymakers wanting a cut judged that disinflation was established while those preferring to hold Bank Rate at 4% argued that inflation risks remained sufficiently material to leave it untouched at this stage.

The November BoE Monetary Policy Report projected GDP would expand by a modest 0.2% in calendar Q4 2025. Estimates of inflation in the report were quickly out of date when CPI fell quicker than expected in November. Predictions of a modestly growing economy were echoed by the Office for Budget Responsibility in its Economic and Fiscal Outlook published with the Autumn Statement which revised down its estimate of annual GDP to around 1.5% between 2025 and 2030.

Arlingclose, the authority's treasury adviser, held a central view that Bank Rate would be cut further in 2025/26 with most BoE policymakers remaining more worried about weak GDP growth than higher inflation. In line with Arlingclose's central forecast, Bank Rate was reduced to 3.75% in December. Further cuts are expected in 2026, with the central forecast being that Bank Rate will be eased to around 3.25%.

The US Federal Reserve continued cutting rates, reducing Fed Funds Rate target range by 0.25% at its December meeting to 3.50%-3.75%. The meeting minutes noted that most policymakers judged that further rate cuts would be likely in 2026 if inflation continues to ease, however they were still divided in their assessment of the risks between inflation and unemployment.

The European Central Bank (ECB) held its key interest rates in December for a fourth consecutive meeting, maintaining the deposit rate at 2.0% and the main refinancing rate at 2.15%. The ECB maintained that future policy decisions will remain data-dependent, that inflation is close to its 2% target and that the euro area economy continues to expand despite a challenging global environment, including heightened geopolitical risks and trade tensions.

Financial markets

After declining sharply early in the period, sentiment in financial markets has been mostly buoyant, but risky assets remained volatile. Bond yields initially declined early in the period, but increasing uncertainty around the UK's economic and fiscal outlook caused medium and longer yields to rise. Yields remained elevated until the third quarter when the potential negative impact of the UK Budget were deemed less than expected and yields eased modestly.

Equity markets gained the previous declines seen in the April sell-off and have continued to rise, even in the face of ongoing uncertainty around the existence of an AI-related 'bubble' and concentration in US and global stock markets.

Over the period, the 10-year UK benchmark gilt yield started at 4.65% and ended at 4.48%. However, these nine months saw significant volatility with the 10-year yield hitting a low of 4.39% and a high of 4.82%. It was a similar picture for the 20-year gilt which started at 5.18% and ended at 5.11% with a low and high of 5.05% and 5.55% respectively. The Sterling Overnight Rate (SONIA) averaged 4.10% over the nine months to 31st December.

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.

In May, Moody's downgraded the United States sovereign long-term rating to Aa1 and affirmed OP Corporate's rating at Aa3. Moody's later upgraded Transport for London, Allied Irish Banks, Bank of Ireland, Toronto-Dominion Bank, DZ Bank, Nordea and HSBC and downgraded Close Brothers.

S&P upgraded Clydesdale Bank, Allied Irish Banks and Bank of Ireland, and assigned Warrington Council a BBB+ rating.

After spiking in April following the US trade tariff announcements, UK credit default swap (CDS) prices trended down before picking up modestly in October and November. They declined again in December and ended the year in line with levels seen in the first half of the year and most of 2024.

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.

At the end of the period CDS prices for all banks on Arlingclose's counterparty list remained within limits deemed satisfactory for maintaining credit advice at current durations.

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.