Gedling Borough Council

Report to Cabinet

Subject: Annual Treasury Activity Report 2025/26

Date: 25 June 2026

Author: Chief Finance Officer

Wards Affected

All

Purpose

To inform Members of the outturn in respect of the 2025/26 Prudential Code Indicators, and to advise Members of the outturn on treasury activity, both as required by the Council's Treasury Management Strategy.

Key Decision

This is not a key decision.

Recommendation:

That:

1. Members approve the Annual Treasury Activity Report for 2025/26 and refer it to Full Council for approval, as required by the regulations.

1 Background

1.1 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury review of its 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 Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.2 For 2025/26 the minimum reporting requirements were that the Full Council should receive the following reports:

- An Annual Treasury Management Strategy Statement (TMSS) in advance of the year. This was considered by Cabinet on 13 February 2025 and subsequently approved by Full Council on 5 March 2025.

- A Mid-Year Treasury Update report. In accordance with best practice, Members will note that, as in previous years, triannual monitoring reports for treasury activity have been provided and that this exceeds the minimum requirements.

- An Annual Review following the end of the year describing the activity compared to the strategy. This report is in fulfilment of this requirement.

1.3 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. The Annual Treasury Activity Report provides details of the outturn position for treasury activities during the year, and highlights compliance with the Council's policies, previously approved by Members.

1.4 The Council has complied with the requirement under the Code to give prior scrutiny to all the above treasury management reports by submitting them to Cabinet before they are reported to Full Council.

1.5 Member training on treasury management issues is undertaken by the Chief Financial Officer as it is needed in order to support Members' scrutiny role. In addition, the Council's treasury advisers, MUFG Asset Services (MUFG), periodically deliver more detailed training sessions for Members at the request of the Chief Financial Officer.

2 Proposal

2.1 <u>Summary of the economy and interest rates during 2025/26</u>

2.1.1 During 2025/26, the UK economy remained weak but resilient, with only modest growth. Real GDP increased by around 0.1% quarter-on-quarter and 1.0% year-on-year, while retail sales showed some recovery towards the end of the period. Inflation remained above the Bank of England's 2% target, with CPI at around 3.5%, peaking at 3.8% during the summer before easing slightly. Labour market conditions softened, with vacancies falling and wage growth slowing, although pay continued to rise faster than inflation.

2.1.2 In response to this backdrop, the Bank of England reduced Base Rate by 0.75 percentage points over the year, moving from 4.50% at the start of 2025/26 to 3.75% by December 2025. Rate cuts were made in May, August and December 2025, after which rates were held steady into early 2026 because of ongoing inflation concerns.

2.1.3 Treasury Management advisors, MUFG, provided their quarterly forecast of interest rates. MUFG's outlook indicates that market conditions are likely to remain cautious over the medium term, with interest rates expected to ease only gradually rather than fall sharply. While Bank Rate was reduced to 3.75% in December 2025, the forecast suggests that inflationary pressures, uncertainty in energy markets and only modest economic growth will continue to limit the pace of further cuts. On this basis, MUFG expects Bank Rate to remain at 3.75% into early 2026, reduce to 3.50% during 2026/27 and reach 3.25% by late 2027 into 2028.

2.1.4 For the Council, this points to a continuing need to balance security and liquidity with opportunities to secure favourable short-term investment returns, whilst carefully monitoring the timing of any future borrowing decisions as longer-term rates are expected to remain relatively elevated.

2.2 **<u>The Council's overall Treasury position at 31 March 2026</u>**

The Council's debt and investment position is organised to ensure adequate liquidity for revenue and capital activities, security of investment, and to manage risks within all treasury management activities. At the beginning and end of 2025/26, the treasury position was as follows:

Treasury position:	1 April 25 £000s	31 March 26 £000s
Total external debt	10,812	10,812
Capital Financing Requirement (CFR)	16,293	18,443
Over/(under) borrowing to CFR	(5,481)	(7,632)
Total external debt	10,812	10,812
Total investments	(11,690)	(12,540)
Net debt/(investment)	(878)	(1,728)

Full details of the Council's borrowing and investments can be found at Appendix 1.

2.3 The Council's Borrowing Requirement

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR) and is a gauge of the Council's indebtedness.

The CFR results from the Council's capital activity, and the resources it uses to pay for that capital spending, and represents unfinanced expenditure that has not yet been paid for from revenue or other resources.

CFR:	1 April 2025 (Actual) £000s	31 March 2026 (Orig.Est TMSS) £000s	31 March 2026 (Actual) £000s
Capital Financing Requirement	16,293	21,226	18,443

The 2025/26 variance on the CFR is due to deferrals and savings on the 2025/26 capital programme, both of which reduced the borrowing requirement in that year, and to amendments on the capital programme during 2025/26, including the deferral of schemes to 2026/27.

2.4 PWLB Borrowing rates in 2025/26

The Public Works Loans Board (PWLB) rates are based on, and determined by, UK Government Bond (gilts) yields plus a specified margin determined by HM Treasury.

Gilt yields have been volatile through 2025/26. The low point for long-term rates of 25 and 50 years' duration was reached early in April 2025 whilst the low points for short and medium dated rates were reached in early 2026, prior to the outbreak of the Middle East conflict. At the close of 31 March 2026, the 1-year PWLB Certainty rate was 5.04% whilst the 5, 10, 25 and 50 year rates were 5.28%, 5.72%, 6.29% and 6.08% respectively.

2.5 <u>The Council's borrowing outturn for 2025/26</u>

2.5.1 There were no new loans taken out during 2025/26. No loans were redeemed during the year.

2.5.2 The Council did not borrow more than, or in advance of its needs, <u>purely</u> to profit from the investment of the extra sums borrowed and will not do so.

2.5.3 Total outstanding debt at 31 March 2026 was £10.812m. All loans held are repayable on maturity and are at fixed rates.

2.5.4 There was no rescheduling of PWLB debt undertaken during the year due to the significant differential between PWLB new borrowing rates and premature repayment rates making such action unviable.

2.5.5 No temporary borrowing was arranged for cash-flow purposes during 2025/26.

2.6 <u>Investment rates in 2025/26</u>

Investment returns were still strong throughout course of 2025/26, although did start to reduce the final half due to the fall in interest rates.

2.7 <u>The Council's Investment outturn for 2025/26</u>

2.7.1 The Council's investment policy is governed by MHCLG guidance and implemented by the Annual Investment Strategy, which formed part of the TMSS approved by Council on 5 March 2025. This policy sets out the approach for selecting investment counterparties. For 2025/26 the Chief Financial Officer adopted the MUFG Asset Services (MUFG) credit rating methodology, a sophisticated modelling approach utilising credit ratings from all three of the main rating agencies to give a suggested maximum duration for investments. Accordingly, it does not place undue reliance on any one agency's ratings. The methodology subsequently applies an "overlay" to take account of positive and negative credit watches and/or credit outlook information, which may increase or decrease the suggested duration of investments. It then applies a second overlay based on the credit default swap spreads for institutions, the monitoring of which has been shown to give an early warning of likely changes in credit ratings. The methodology also incorporates sovereign ratings to ensure selection of counterparties from only the most creditworthy countries. The 2025/26 TMSS Strategy permitted the use of any UK counterparties, <u>subject</u> to their individual credit ratings under the MUFG methodology. It also permitted the use of counterparties from other countries with a minimum sovereign rating of AA-.

2.7.2 Whilst credit ratings advice is taken from the treasury advisers, the ultimate decision on what is prudent and manageable for the Council is taken by the Chief Financial Officer under the approved scheme of delegation.

2.7.3 No changes to the TMSS for 2025/26 approved by Council on 5 March 2025 were made during the year.

2.7.4 The Council's investment priorities in 2025/26 remained the security of capital and good liquidity. Whilst the Council always seeks to obtain the optimum return (yield) on its investments, this is at all times commensurate with proper levels of security and liquidity. During the year it remained appropriate either to keep investments short–term to cover cash-flow needs, or to take advantage of fixed periods up to twelve months with a small number of selected counterparties.

During 2025/26, significant use was made of the Council's three Money Market Funds (MMFs). These are AAA rated investment vehicles which allow the pooling of many billions of pounds worth of assets into highly diversified funds, thus reducing risk. The equated rates of return achieved on these funds during 2025/26 was 4.15%.

2.7.5 An investment of £1m was made in the CCLA Local Authority Property Fund (LAPF) on 30 November 2017. This is a local government investment scheme approved by the Treasury under the Trustee Investments Act 1961 (section 11). The dividend received for 2025/26 was £41,479 or an equated rate of 4.15% which is treated as revenue income. The investment has allowed the Council to introduce a property element into its investment portfolio without the risks associated with the direct purchase of assets. The main risk around Property Funds is the preservation of the capital sum. However evidence suggests that over time the property market has been a positive long-term investment and it is accordingly anticipated that this investment will be held on a long-term basis to minimise any risk.

2.7.6 The property fund investment purchased a number of units, determined by the unit price on the entry date. This valued the initial investment of £1m at £936,770, setting the implied entry fee at £63,230, or 6.32%. The certified value of the property fund investment at 31 March 2026 was £893,935 (down marginally from £893,994 at the end of March 2025) reflecting aloss in value of £59 during the 2025/26 year from. Following changes to accounting arrangements, all movements in the valuation of pooled investment funds must be charged to the Comprehensive Income and Expenditure account (CIES). However, a statutory override is in place up until the 2028/29 financial year, to ensure that the impact of these on the General Fund is neutralised. Accordingly, the difference of £106,065 between the £1m investment and the certified 31 March 2026 value of £893,935 is held in the Pooled Investment Funds Adjustment Account.

2.7.7 Investment interest of £749,332 (including dividends of £41,479 on the property fund) was generated in the year, representing an equated rate of 4.06%.

2.7.8 Investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties. Investment counterparty limits for 2025/26 were set in the TMSS at £3m, or £4m for Money Market Funds (due to them being by definition highly diversified investment vehicles). A limit of £3m was set for investments with the CCLA PSDF money market fund in recognition of the pre-existing property fund investment of £1m (ie. a total of £4m with the counterparty). A limit of £4m was set for investments with Santander as they offer the Council preferential rates on their 95 and 180 day notice accounts and provide 60 days notice of any change. No limit was set with the Debt Management Office as this represents investment with central government. The Chief Financial Officer has delegated authority to vary the limits as appropriate and to report any change to Cabinet at the next quarterly report. No changes to limits were reported during 2025/26.

2.7.9 The Annual Treasury Activity Report for the year ended 31 March 2026 is attached at Appendix 1 in accordance with the TMSS.

2.8 Compliance with Prudential and Treasury Indicators

2.8.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limit. The Council's approved Prudential and Treasury Indicators (affordability limits) are included in the Treasury Management Strategy Statement (TMSS) approved by Council on 5 March 2025.

2.8.2 During the financial year 2025/26 the Council has at all times operated within the Prudential and Treasury Management Indicators set out in the Council's TMSS, and in compliance with the Council's Treasury Management Practices. A summary of the outturn position at 31 March in respect of each of the 2025/26 Prudential and Treasury Management Indicators is shown at Appendix 2.

a) <u>Prudential Indicators:</u>

i) <u>Capital Expenditure</u>

Capital expenditure for 2025/26 totalled £5,448,183. This differs to the approved indicator of £6,413,400 due variations to the capital programme during 2025/26 which include the deferral of schemes to 2026/27.

ii) <u>Capital Financing Requirement (CFR)</u>

The CFR represents the historic outstanding capital expenditure which has not yet been paid for from capital or revenue resources, and is essentially a measure of the Council's underlying borrowing need. The CFR does not increase indefinitely since the minimum revenue provision (MRP) is a statutory annual revenue charge for the economic consumption of capital assets.

At 31 March the projected closing CFR for 2025/26 is £18,443,491. This differs to the approved indicator of £21,226,000 due to the slippage of the programme.

iii) <u>Gearing ratio</u>

The concept of gearing compares the total underlying borrowing need (the CFR) to the Council's total fixed assets, and can provide an early indication when debt levels are rising relative to long term assets held.

The Council's gearing ratio at 31 March 2026 is 45% which is in line with the approved indicator and remains broadly comparable with the average gearing ratio for councils of a similar size.

iv) <u>Ratio of Financing Costs to Net Revenue Stream</u>

This indicator identifies the trend in the cost of borrowing net of investment income against the net revenue stream. Financing costs represent the element of the Council's budget to which it is committed even before providing <u>any</u> services.

The outturn of 4.62% for service-related expenditure is higher than the approved indicator of 2.55% due to reduced Minimum Revenue Provision (MRP) costs for 2025/26.

v) <u>Maximum gross debt</u>

The Council must ensure that its gross debt does not, except in the short term, exceed the opening capital financing requirement, plus estimates of any additional CFR for 2025/26 and the following two financial years. This allows flexibility for early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes. Gross debt at 31 March 2026 was £10.812m which was well within the approved indicator.

vi) Ratio of internal borrowing to CFR

The Council is currently maintaining an "internal borrowing" position, ie. The underlying borrowing need (CFR) has not yet been fully funded with loan debt as cash supporting the Council's reserves and balances is being used as a temporary measure.

The current projected outturn for internal borrowing is 45%, which is slightly higher than the approved indicator of 41%.

(b) Treasury Management Indicators:

The Treasury Management indicators are based on limits, beyond which activities should not pass without management action, and the Council has operated within these limits at all times during 2025/26. They include two key indicators of affordability and four key indicators of prudence and Appendix 2 demonstrates the outturn position compared to each limit.

Affordability

i) Operational boundary for external debt

This is the limit above which external debt is not "normally" expected to pass. In most cases this would be a similar figure to the CFR but may be lower or higher depending on the level of actual debt. The Operational Boundary has not been exceeded during 2025/26.

ii) Authorised limit for external debt

This limit represents a control on the "maximum" level of borrowing and is the statutory limit determined under s3(1) of the Local Government Act 2003. It represents the limit beyond which external debt is prohibited.

The Authorised limit must be set, and revised if necessary, by Full Council. It reflects a level of external debt which, whilst neither desirable nor sustainable in the longer term, could be afforded in the short term. The Government retains an option to control either the total of all Councils' plans, or a specific Council, although this power has not yet been exercised. The Authorised Limit has not been exceeded during 2025/26.

Prudence

iii) Maximum new principal sums to be invested during 2025/26 for periods in excess of 365 days - such investments are classified as a "non-specified". This indicator is subject to the overall limit for non-specified investments set annually in the TMSS. The Council made no new non-specified investments during 2025/26 and at 31 March 2026 held only one such investment in the form of the £1m investment in the CCLA property fund.

iv) Upper limits for the maturity structure of borrowing are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing. These limits have not been exceeded in 2025/26.

v) Prior to the 2017 revisions to the Treasury Management Code there was a requirement to set indicators for the Council's maximum exposure to fixed and variable interest rates for net borrowing (ie. external borrowing less investments). This requirement has now been removed in favour of a statement in the TMSS stating how interest rate exposure is managed and monitored by the Council, and this statement for 2025/26 is reproduced below:

The Council has a general preference for fixed rate borrowing in order to minimise uncertainty and ensure stability in the charge to revenue, however it is acknowledged that in certain circumstances, some variable rate borrowing may be prudent, for example if interest rates are expected to fall. The Council's investments are generally for cashflow purposes and accordingly a mix of fixed and variable rates will be used to maximise flexibility and liquidity. Interest rate exposure will be managed and monitored on a daily basis by the Chief Financial Officer.

Local indicators for the proportions of fixed and variable rate loans, have been retained by the Council for information purposes.

2.8 Other Issues affecting Treasury Management in 2025/26

2.8.1 IFRS9

Following the consultation undertaken by the Ministry of Housing, Communities and Local Government (MHCLG) on IFRS9 the Government introduced a mandatory statutory Override requiring local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This override was extended to 1st April 2029 for existing investments. Any new pooled investments will therefore be subject to IFRS 9 and will require a reserve to cover any unrealised movements, no new investments were taken out in 2025/26.

The Council is required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override, in order for the Government to keep the override under review and to maintain a form of transparency. This reserve is still in place and is named the CCLA Property Management Fund Reserve.

2.8.1 Changes in risk appetite and counterparty limits

The CIPFA Code and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite, eg. the use of certain investment instruments, this should be brought to Members' attention.

The Council remains averse to risk with the investment of its surplus cash, and has continued to maintain strict limits on the maximum investment with any one counterparty. The only exception to this is investment with the Debt Management Office, whereby the Council is effectively lending to central government.

No specific changes have been made with regard to risk appetite during the year.

2.8.2 Sovereign limits

The UK's sovereign rating was downgraded from AA to AA- in March 2020, reflecting a significant weakening of the UK's public finances caused by the coronavirus pandemic. As discussed at 2.8.1 above the current Treasury Strategy permits the use of any UK counterparties, subject to their individual credit ratings under the MUFG methodology. It also permits the use of counterparties from other countries with a minimum sovereign rating of AA-.

2.8.3 IFRS16

IFRS 16 is an accounting standard relating to leases which will bring almost all leases on to the balance sheet, while requiring authorities to recognise a "right of use asset" and a lease liability. This came into force for local authorities from 1 April 2024.

The Council has reviewed its leases and they are considered exempt from balance sheet recognition as they are deemed either a shot-term lease or low value asset.

2.8.4 Prudential Code

The CIPFA Prudential Code and Treasury Management Code (both updated in 2021) have placed greater importance on risk management.

Where a local authority changes its risk appetite (for example, moving surplus cash into or out of certain types of investment funds or other investment instruments) then this change in risk appetite should be brought to Members attention in treasury management update reports.

There have been no changes in risk appetite and there are no other significant treasury management issues that have arisen since approval of the TMSS on 5 March 2025 that need to be brought to the attention of Members.

There are a number of risks inherent within any treasury management strategy, the most significant risks include:

- Reporting is not compliant with statutory guidelines
- Investment and borrowing activity is outside the approved TM framework.
- Long term borrowing is taken at rates that are not advantageous
- Investment of principal sums with insecure counterparties.
- Investment returns are volatile and may not meet budgeted amounts.
- Borrowing is not affordable.

These risks are mitigated by the controls included in the TMSS.

3 Alternative Options

3.1 An alternative option is to fail to present an Annual Treasury Activity Report. However, this would contravene the requirement of the Council's Treasury Management Strategy Statement (TMSS).

4 Financial Implications

4.1 Financial implications are detailed in the body of this report.

5 Legal Implications

5.1 The legal implications are detailed in the body of the report.

6 Equalities Implications

6.1 There are no equalities implications arising from this report.

7 Carbon Reduction/Environmental Sustainability Implications

7.1 There are no carbon reduction/environmental sustainability implications arising from this report.

8 Local Government Reorganisation Implications

8.1 Local Government Reorganisation continues to create uncertainty for Gedling Borough Council in planning for the medium term, as the Council does not yet know which future unitary arrangement it will become part of. The Government's decision is expected in July 2026 and until that is confirmed, there remains limited clarity over the future operating model, service alignment, governance arrangements and longer-term financial assumptions. In the meantime, the Council is continuing to manage its current budgets and services prudently while seeking to maintain flexibility and prepare for transition as far as possible.

9 Appendices

Appendix 1. Treasury Activity Report 2025/26 for year ended 31 March 2026

Appendix 2. Prudential and Treasury Management Indicators for 2025/26.

10 Background Papers

10.1 None identified.

11 Reasons for Recommendations

11.1 To comply with the requirements of the Council's Treasury Management Strategy Statement.

Statutory Officer approval:

Approved by: Chief Financial Officer

Date: 12 June 2026

Approved by: Monitoring Officer

Date: 12 June 2026