

Appendix A

Annual Treasury Management Outturn Report 2025/26

Contents

Annual Treasury Management Review 2025/26	4
Executive Summary	5
Recommendations	5
Introduction and Background.....	6
1. The Authority's Capital Expenditure and Financing	6
2. The Authority's Overall Borrowing Need	7
3. Treasury Position as of 31st March 2026	9
4. The Strategy for 2025/26	13
5. Borrowing Outturn.....	18
6. Investment Outturn.....	19
7. The Economy and Interest Rates	20
8. Other Issues	22

ABBREVIATIONS USED IN THIS REPORT

This is an optional area which clients may wish to include in their report if they feel that members would appreciate having this list of abbreviations and definitions.

CE: Capital Economics - is the economics consultancy that provides MUFG Corporate Markets Treasury Limited, with independent economic forecasts, briefings and research.

CFR: capital financing requirement - the Authority's annual underlying borrowing need to finance capital expenditure and a measure of the Authority's total outstanding indebtedness.

CIPFA: Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

CPI: consumer price index – the official measure of inflation adopted as a common standard by the UK and countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

MHCLG: the Ministry for Housing, Communities and Local Government - the Government department that directs local authorities in England.

ECB: European Central Bank - the central bank for the Eurozone

EU: European Union

EZ: Eurozone - those countries in the EU which use the euro as their currency

Fed: the Federal Reserve System, often referred to simply as "the Fed," is the central bank of the United States. It was created by the Congress to provide the nation with a stable monetary and financial system.

FOMC: the Federal Open Market Committee – this is the branch of the Federal Reserve Board which determines monetary policy in the USA by setting interest rates and determining quantitative easing/tightening policy. It is composed of 12 members - the seven members of the Board of Governors and five of the 12 Reserve Bank presidents.

GDP: gross domestic product – a measure of the growth and total size of the economy.

G7: the group of seven countries that form an informal bloc of industrialised democracies - the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom - that meets annually to discuss issues such as global economic governance, international security, and energy policy.

Gilts: gilts are bonds issued by the UK Government to borrow money on the financial markets. Interest paid by the Government on gilts is called a coupon and is at a rate that is fixed for the duration until maturity of the gilt, (unless a gilt is index linked to inflation); while the coupon rate is fixed, the yields will change inversely to the price of gilts i.e., a rise in the price of a gilt will mean that its yield will fall.

HRA: housing revenue account.

IMF: International Monetary Fund - the lender of last resort for national governments which get into financial difficulties.

MPC: the Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing/tightening.

MRP: minimum revenue provision - a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

PFI: Private Finance Initiative – capital expenditure financed by the private sector i.e., not by direct borrowing by a local authority.

PWLB: Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

QE/QT: quantitative easing – is an unconventional form of monetary policy where a central bank creates new money electronically to buy financial assets, such as government bonds, (but may also include corporate bonds). This process aims to stimulate economic growth through increased private sector spending in the economy and also aims to return inflation to target. These purchases increase the supply of liquidity to the economy; this policy is employed when lowering interest rates has failed to stimulate economic growth to an acceptable level and to lift inflation to target. Once QE has achieved its objectives of stimulating growth and inflation, QE will be reversed by selling the bonds the central bank had previously purchased, or by not replacing debt that it held which matures. This is called quantitative tightening. The aim of this reversal is to ensure that inflation does not exceed its target once the economy recovers from a sustained period of depressed growth and inflation. Economic growth, and increases in inflation, may threaten to gather too much momentum if action is not taken to ‘cool’ the economy.

RPI: the Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation – Consumer Price Index. The main differences between RPI and CPI is in the way that housing costs are treated and that the former is an arithmetical mean whereas the latter is a geometric mean. RPI is often higher than CPI for these reasons.

SONIA: the Sterling Overnight Index Average. Generally, a set of indices for those benchmarking their investments. The benchmarking options include using a forward-looking (term) set of reference rates and/or a backward-looking set of reference rates that reflect the investment yield curve at the time an investment decision was taken.

TMSS: the annual treasury management strategy statement reports that all local authorities are required to submit for approval by the Full Council before the start of each financial year.

VRP: a voluntary revenue provision to repay debt, in the annual budget, which is additional to the annual MRP charge, (see above definition).

Annual Treasury Management Review 2025/26

Purpose

This Authority 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 Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

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

- an annual treasury strategy in advance of the year.
- a mid-year, (minimum), treasury update report.
- an annual review following the end of the year describing the activity compared to the strategy, (this report).

In addition, this Authority has received quarterly treasury management update reports.

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Authority's policies previously approved by members.

This Authority confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Overview & Scrutiny Committee before they were reported to the Full Council.

Executive Summary

During 2025/26, the Authority complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential and treasury indicators	31.03.25 Actual £m	2025/26 Forecast £m	31.03.26 Actual £m
Capital Expenditure	25.724	38.280	13.112
Capital Financing Requirement:	17.544	22.573	17.794
Short-term Borrowing (under 1 year)	2.000	1.000	5.000
Long-term Borrowing (over 1 year)	5.000	5.000	0.000
Total External Debt	7.000	5.000	5.000
Short-term Investments (under 1 year)	5.317	7.822	15.397
Long-term Investments (over 1 year)	20.000	20.000	20.000
Non-treasury Investments (Housing Loans)	1.853	1.640	1.756
Total Investments	27.170	29.462	37.153
Net Borrowing/(Investments)	(20.170)	(24.462)	(32.153)

Other prudential and treasury indicators are to be found in the main body of this report. The Section 151 Officer also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit (the authorised limit) was not breached.

This report notes that the capital financing requirement as at the 31.03.25 has been reduced from the figure in the 2024/25 outturn report of £18.379m to £17.544m. This is to where additional capital receipts income was received after completion of the prior year report. This capital receipt was income relating to the 2024/25 accounting year and so could be allocated in retrospect to reduce in-year borrowing costs and future year MRP costs. This has also been reflected in the tables. As a consequence of this, the MRP charge for the 2024/25 was also changed and has also been reflected in the tables below.

Recommendations

The Authority is recommended to:

1. Approve the actual 2025/26 prudential and treasury indicators in this report
2. Note the annual treasury management report for 2025/26

Introduction and Background

This report summarises the following:

- Capital activity during the year,
- Impact of this activity on the Authority's underlying indebtedness, (the Capital Financing Requirement),
- The actual prudential and treasury indicators,
- Overall treasury position identifying how the Authority has borrowed in relation to this indebtedness, and the impact on investment balances,
- Summary of interest rate movements in the year,
- Detailed debt activity,
- Detailed investment activity.

1. The Authority's Capital Expenditure and Financing

The Authority undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.) which has no resultant impact on the Authority's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

General Fund	31 March 2025 Actual (£m)	2025/26 Budget (£m)	31 March 2026 Actual (£m)
Capital expenditure	25.702	38.280	13.112
Capital Receipts	1.071	2.953	0.995
Grants	21.507	26.509	10.680
Contributions	1.240	1.717	0.510
Reserves	1.079	1.468	0.325
Revenue Contribution to Capital (RCCO)	0.000	0.020	0.015
Total Financed in year	24.897	32.667	12.525
Unfinanced capital expenditure (Borrowing)	(0.805)	(5.613)	(0.587)

2. The Authority's Overall Borrowing Need

The Authority's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Authority's indebtedness. It represents the 2025/26 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Authority's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Authority's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies or utilising temporary cash resources within the Authority.

Reducing the CFR – the Authority's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Authority is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Authority's 2025/26 MRP Policy, (as required by MHCLG Guidance), was approved as part of the Treasury Management Strategy Report for 2025/26.

The Authority's CFR for the year is shown below, and represents a key prudential indicator.

CFR: General Fund	31 March 2025 Actual (£m)	2025/26 Budget	31 March 2026 Actual (£m)
Opening balance	16.999	17.544	17.544
Add unfinanced capital expenditure (from above financing table)	0.805	5.613	0.587
Add Finance Leases *	0.310	0.247	0.247
Less MRP	(0.507)	(0.522)	(0.522)
Less Finance Lease repayments	(0.063)	(0.062)	(0.062)
Closing balance	17.544	22.820	17.794

The authority has made no voluntary application of capital receipts (VRP) in 2025/26.

Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Authority should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2024/25) plus the estimates of any additional capital financing requirement for the current (2025/26) and next two financial years. This essentially means that the Authority is not borrowing to support revenue expenditure. This indicator allowed the Authority some flexibility

to borrow in advance of its immediate capital needs. The table below highlights the Authority's gross borrowing position against the CFR. The Authority has complied with this prudential indicator.

CFR vs Gross Borrowing Indicator £m	31.3.25 Actual	2025/26 Budget	31.3.26 Actual
Gross borrowing position	7.000	5.000	5.000
CFR	17.544	22.820	17.794
Under / (over) funding of CFR	10.544	17.820	12.794

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Authority does not have the power to borrow above this level. The table below demonstrates that during 2025/26 the Authority has maintained gross borrowing within its authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the Authority during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

Treasury Limits Indicator (£m)	2025/26
Authorised limit	40.000
Maximum gross borrowing position during the year	7.000
Operational boundary	30.000
Average gross borrowing position	5.000

The above table shows that the maximum borrowing undertaken by the authority did not exceed the authorised limit. It also shows that the average borrowing position was below the operational boundary.

3. Treasury Position as of 31st March 2026

The Authority's treasury management debt and investment position is organised by the treasury management service to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Authority's Treasury Management Practices.

At the end of 2025/26, the Authority 's treasury position was as follows:

DEBT PORTFOLIO	31 March 25 Principal (£m)	Rate/ Return (%)	Average Duration (Days)	31 March 26 Principal (£m)	Average Rate/Return (£m)	Average period (Days)
Fixed rate funding, short-term borrowing:						
Local Authority Borrowing	2.000	5.44	34	0.000	0.00	0
Police Authority Borrowing	0.000	0.00	0	0.000	0.00	0
Fire Authority Borrowing	0.000	0.00	0	0.000	0.00	0
Pension Fund Borrowing	0.000	0.00	0	0.000	0.00	0
Housing Authority Borrowing	0.000	0.00	0	0.000	0.00	0
Fixed rate funding, long-term borrowing:						
PWLB	5.000	5.39	28	5.000	6.35	365
Total debt	7.000	5.43	31	5.000	6.35	365
CFR (from table above)	17.544			17.794		
Over / (under) borrowing	(10.544)			(12.794)		
Total investments	27.170	4.95		37.453	6.35	
Net debt	(16.626)			(24.659)		

The maturity structure of the debt portfolio was as follows:

Debt Comparison £m	31 March 2025 Actual	31 March 2026 Actual
Under 12 months	2.000	5.000
12 months and within 24 months	5.000	0.000
24 months and within 5 years	0.000	0.000
5 years and within 10 years	0.000	0.000
10 years and within 20 years	0.000	0.000
20 years and within 30 years	0.000	0.000
30 years and within 40 years	0.000	0.000
40 years and within 50 years	0.000	0.000
Total Borrowing	7.000	5.000
Authorised Limit	40.000	40.000
Borrowing Limit Exceeded?	No	No

During 2025/26 the Council renewed a £5m long-term loan with the PWLB (Central Government Public Works Loans Board) running from the 1st of May 2025 to 1st of May 2026, secured at an interest rate of 4.59%.

The Treasury has identified through its cash flow monitoring that external borrowing of £5m was required throughout the whole fiscal year. Any extra borrowing above this sum was only required on a short-term basis caused by the timing differences between the Council's expenditure and sources of income.

To avoid interest rate risk, a PWLB long-term loan was secured instead of renewing short-term borrowing on an ad-hoc basis. Relying on short-term borrowing throughout the fiscal year leaves the Council vulnerable to fluctuations in the economy and subsequent unknown interest rate hikes. The PWLB loan was secured for one year only, to allow for a potential decrease in interest rates at the end of 2025/26 and avoid locking the Council into a long-term loan with a high fixed rate of interest. Interest rates have been declining in recent years which matches the forecast from the Treasury and the Council's Treasury Advisors. This downwards interest rate trend is expected to continue during 2026/27.

Overall, the Council's borrowing requirement has decreased by £2.0m between fiscal year ends. This is from keeps a strong management of the Council's cashflow, payment run processing and appropriate financing of the Council's capital programme by accountants and managers (limiting use of forward-funding projects etc.)

The Council's investment portfolio was as follows:

INVESTMENT PORTFOLIO	31 March 2025		31 March 2026	
	Actual (£m)	Percentage of Portfolio	Actual (£m)	Percentage of Portfolio
Treasury investments				
Money Market Funds	5.317	19%	15.397	42%
Total managed in house	5.317	19%	15.397	42%
Strategic Bond Funds	5.000	18%	5.000	13%
Equity Income Funds	4.000	15%	4.000	11%
Property Funds	5.000	18%	5.000	13%
Multi-Asset Income Funds	6.000	21%	6.000	16%
Total managed externally	20.000	72%	20.000	53%
TOTAL TREASURY INVESTMENTS	25.317	91%	35.397	95%
Non-Treasury investments				
LN0001 – Broadland Housing	1.615	6%	1.346	4%
LN0002 – Homes for Wells	0.133	1%	0.110	0%
LN0003 – Homes for Wells	0.041	1%	0.039	0%
LN0004 – Homes for Wells	0.064	1%	0.061	0%
LN0005 – Homes for Wells		New 25/26	0.200	1%
TOTAL NON-TREASURY INVESTMENTS	1.853	9%	1.756	5%
TOTAL ALL INVESTMENTS	27.170	100%	37.153	100%

The maturity structure of the investment portfolio was as follows:

COUNTERPARTY / INVESTMENT	Redemption Period	Investment Value 31 March 2026 (£m)
Aberdeen Standard / MMF	CALL	3.200
Blackrock / MMF	CALL	3.447
DWS / MMF	CALL	2.350
Federated Investors (UK) LLP / MMF	CALL	3.200
Goldman Sachs / MMF	CALL	0.000
Invesco AIM / MMF	CALL	3.200
CCLA (UK) Public Sector Deposit Fund / MMF	CALL	0.000
CCLA / Local Authorities Mutual Investment Trust	T + 6 months	5.000
M&G Securities / UK Income Distribution Fund	T + 3 days	2.000
Ninety-One / Diversified Income Fund	T + 3 days	3.000
Schroder Unit Trusts / Income Maximiser Fund	T + 4 days	2.000
Threadneedle / Strategic Bond Fund	T + 4 days	3.000
M&G Securities / Strategic Corporate Bond Fund	T + 3 days	2.000
Aegon Asset Management / Diversified Income Fund	T + 3 days	3.000
Broadland Housing (Housing Loan)	FIXED (Long-term housing loan)	1.346
Homes for Wells (Housing Loan)	FIXED (Long-term housing loan)	0.410
TOTAL		37.153

The Council has seven same day Money Market Fund (MMF) accounts which can be used to invest/redeem surplus cash around its daily cash requirements. For these MMF's there is no gain/loss on principal invested, they are secure but consequently provide a lower interest rate than alternative types of investment. Typically, interest rates match the current Bank of England Monetary Policy Committee set base rate or are slightly below. The cash balances invested in these counterparties fluctuate daily between £0.5m and £20m, the above table shows the balances at the outturn position.

The Council finished the year with seven investments in Pooled funds. These are intended for long-term investing to generate a higher interest return than the Council MMFs. The principal invested in Pooled Funds is more at risk than with MMFs as they are subject to gains/loss on fair value (change in sale price).

The Council has only invested in counterparties approved by its treasury advisors with thorough credit rating checks. All the Council's Pooled Fund investments are income funds, not accumulating funds.

The Council currently has five outstanding loans with Housing Associations (loans issued to support the provision of affordable housing in the district). These loans are agreed at the PWLB central government borrowing rate to ensure the Council is not funding private businesses at a cost to the authority.

To support the above investment portfolio, the below table summarises the interest earned on the average amounts of the Council's investments during the last two fiscal years. The purpose of this table is to give members an idea of the rate of return on the Council's portfolio for each type of investment.

INVESTMENT INTEREST (£m)	31 March 2025			31 March 2026		
	Average Amount Invested	Interest Earnt (£m)	Average interest rate	Average Amount Invested	Interest Earnt (£m)	Average interest rate
Money Market Funds	5.722	0.262	4.58%	14.328	0.584	4.08%
Total managed in house	5.722	0.262	4.58%	14.328	0.584	4.08%
Strategic Bond Funds	5.000	0.196	3.93%	5.000	0.217	4.35%
Equity Income Funds	4.000	0.222	5.54%	4.000	0.239	5.96%
Property Funds	5.000	0.317	6.34%	5.000	0.285	5.69%
Multi-Asset Income Funds	6.000	0.303	5.04%	6.000	0.294	4.90%
Total managed externally (Pooled Funds)	20.000	1.038	5.19%	20.000	1.035	5.18%
TOTAL TREASURY INVESTMENTS	25.722	1.300	5.05%	34.328	1.619	4.72%

Non-Treasury Investments (£m)	31 March 2025			31 March 2026		
	Actual Amount Invested	Interest Earnt (£m)	Loan interest rate	Actual Amount Invested	Interest Earnt (£m)	Loan interest rate (Fixed)
LN0001 - Broadland Housing Association	1.615	0.069	3.80%	1.346	0.059	3.80%
LN0002 - Homes for Wells	0.133	0.005	3.00%	0.110	0.007	3.00%
LN0003 – Homes for Wells	0.041	0.002	5.50%	0.039	0.002	5.50%
LN0004 – Homes for Wells	0.064	0.004	5.50%	0.061	0.004	5.50%
LN0005 – Homes for Wells			New 25/26	0.200	0.000	6.08%
Total Loans	1.853	0.080	3.95%	1.756	0.072	4.07%

The Council currently only issues loans to Housing Providers as part of the Corporate Plan objective to provide affordable housing in North Norfolk. No other forms of loans have been issued. Consequently, the aim of these loans is not to provide a financial return to the Council. The interest rate of these loans is agreed at the central government PWLB rate. This is to ensure that the Council is not potentially borrowing money in the future to fund private businesses or paying borrowing interest on to fund.

The non-treasury investments (housing loans) are amortised loans where an element of principal and interest is repaid at agreed instalment dates. This allows the lender to repay the loan over time, lowering interest costs towards the end of the loan duration (the interest is calculated based on the most recent ending balance of the loan at each repayment interval). This approach allows for clearer financial reporting and risk management for both the borrower and the Council.

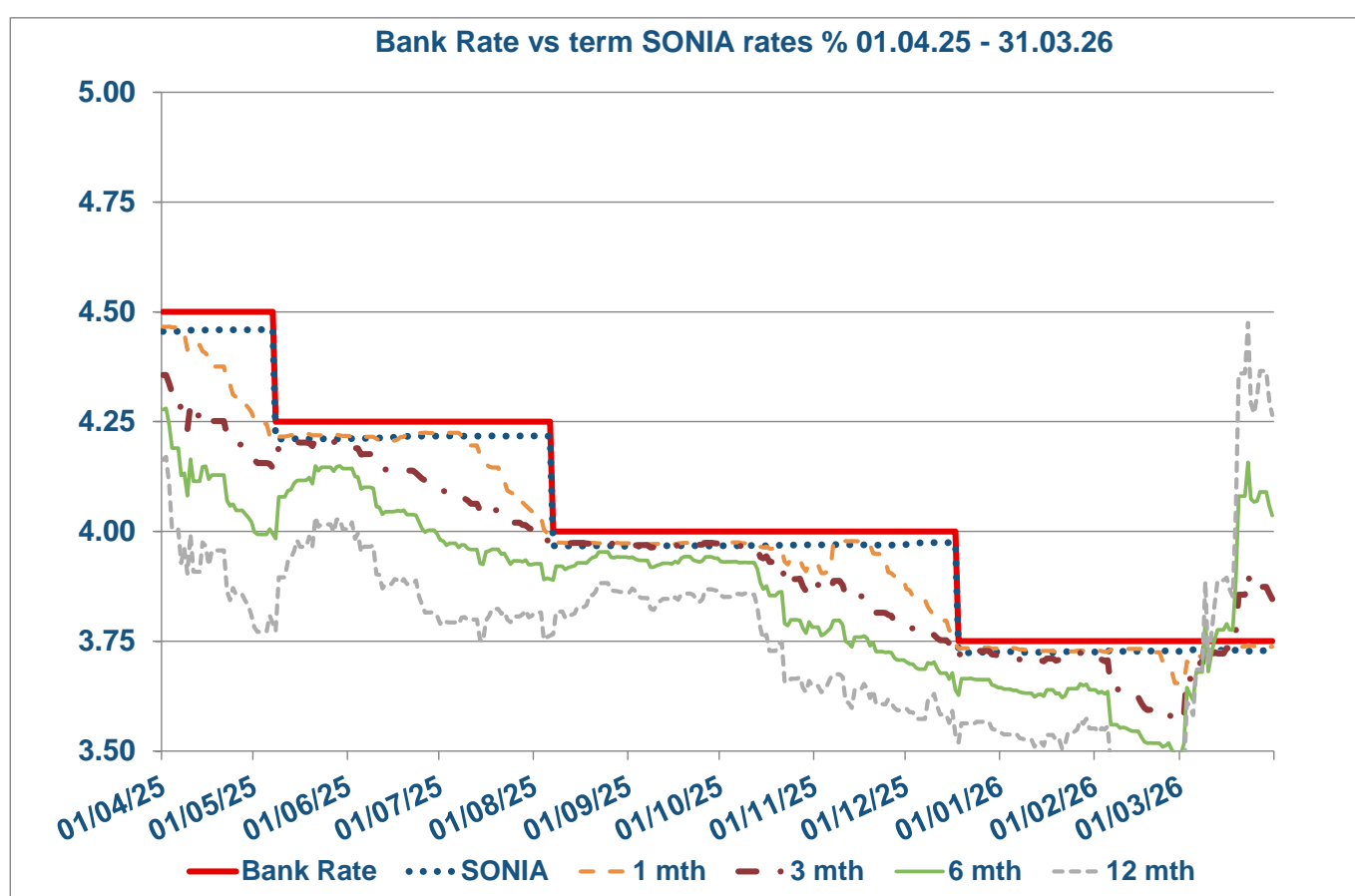
4. The Strategy for 2025/26

The Treasury strategy for managing the Council’s interest rate risk was to continue its PWLB loan of £5m (long-term borrowing) to reduce the authorities need to take out continuous short-term borrowing. This in turn reduced the interest rate risk to the authority. If the cashflow requirement identified an additional borrowing need beyond the £5m loan, it was policy to only take out short-term borrowing for the shortest possible duration to minimise any unplanned additional borrowing interest costs to the authority.

This process has been followed throughout the year and has led to a greater ability to forecast year end borrowing costs, which has in turn allowed the Authority to accurately forecast the required year-end funding required to meet external borrowing costs throughout the financial year

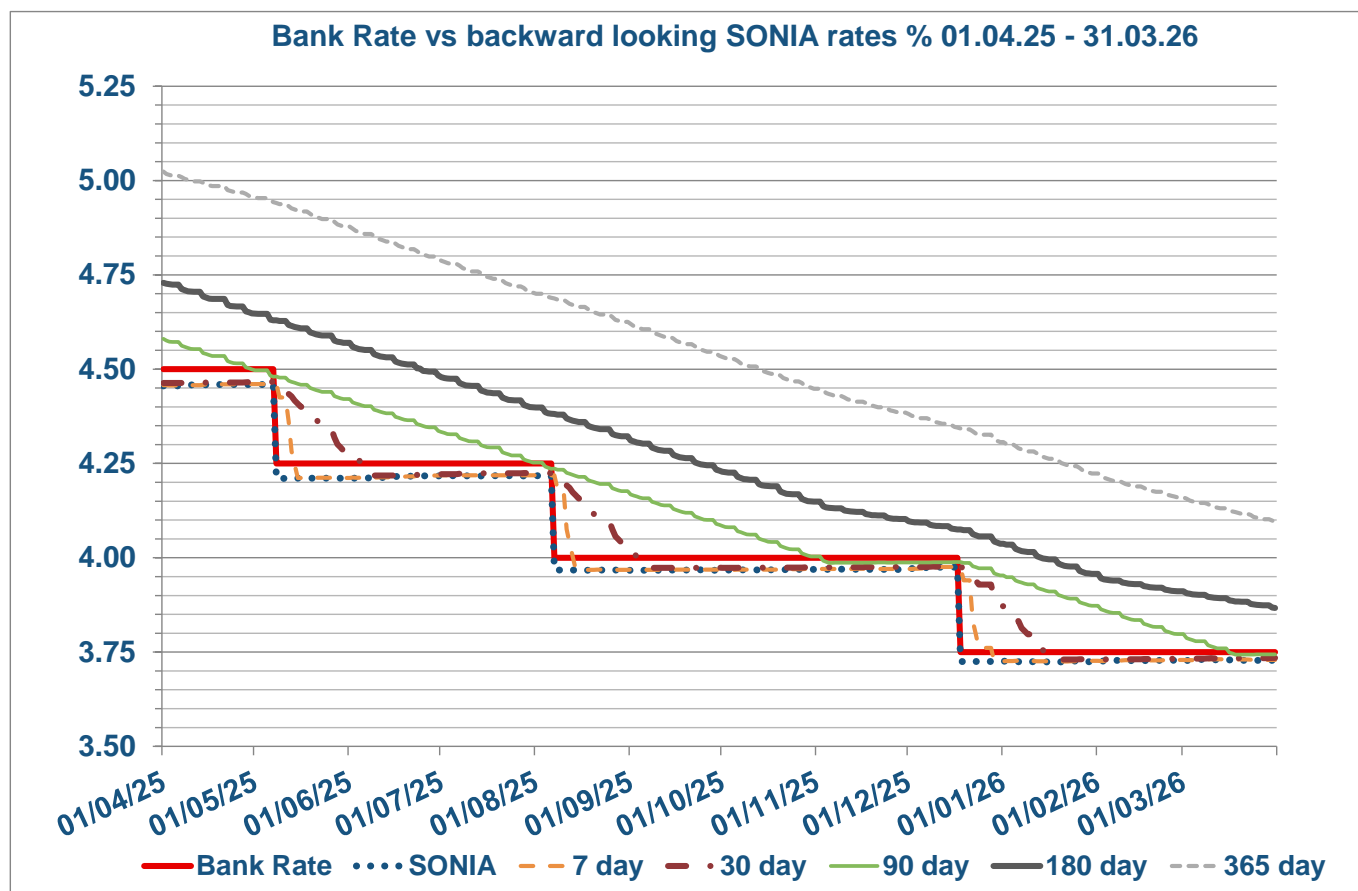
4.1 Investment strategy and control of interest rate risk

Investment Benchmarking Data – Sterling Overnight Index Averages (Term) 2025/26



FINANCIAL YEAR TO QUARTER ENDED 31/03/2026						
	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
High	4.50	4.46	4.47	4.36	4.28	4.47
High Date	01/04/2025	07/05/2025	03/04/2025	02/04/2025	02/04/2025	23/03/2026
Low	3.75	3.72	3.65	3.57	3.49	3.40
Low Date	18/12/2025	22/12/2025	27/02/2026	27/02/2026	27/02/2026	27/02/2026
Average	4.04	4.01	3.98	3.94	3.87	3.77
Spread	0.75	0.74	0.81	0.79	0.79	1.08

Investment Benchmarking Data – Sterling Overnight Index Averages (Backward-looking) 2025/26



FINANCIAL YEAR TO QUARTER ENDED 31/03/2026							
	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	4.50	4.46	4.46	4.47	4.58	4.73	5.02
High Date	01/04/2025	07/05/2025	28/04/2025	06/05/2025	01/04/2025	01/04/2025	01/04/2025
Low	3.75	3.72	3.73	3.73	3.74	3.87	4.09
Low Date	18/12/2025	22/12/2025	22/01/2026	21/01/2026	18/03/2026	31/03/2026	31/03/2026
Average	4.04	4.01	4.02	4.05	4.13	4.26	4.55
Spread	0.75	0.74	0.74	0.74	0.84	0.86	0.93

4.2 Borrowing strategy and control of interest rate risk

During 2025/26, the Authority maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Authority’s reserves, balances and cash flow was used as an interim measure. This strategy was prudent as near-term investment rates have been lower than medium to long-term borrowing costs. The latter are expected to fall a little through 2026 and 2027 in the light of economic growth concerns and the eventual dampening of inflation. The Authority has sought to minimise the taking on of long-term borrowing at elevated levels (>5%) and has focused on a policy of internal and temporary borrowing, supplemented by short-dated borrowing (<5 years on a maturity loan structure/ <10 year on an equal instalments of principal (EIP) loan structure) as appropriate.

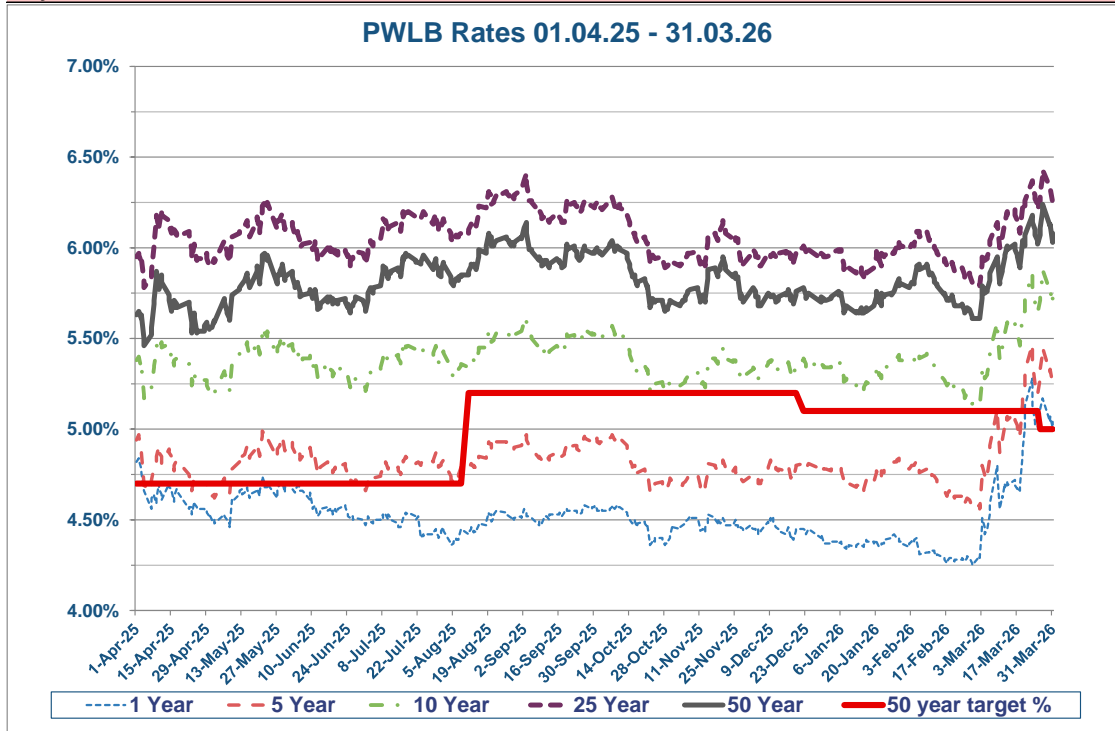
Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Treasury therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:

- If it had been felt that there was a significant risk of a sharp FALL in long and short-term rates (for instance, due to a marked increase of risks around a relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.
- If it had been felt that there was a significant risk of a much sharper RISE in long and short-term rates than initially expected, arising from the stickiness of inflation in the major developed economies, then the portfolio position would have been re-appraised. Fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

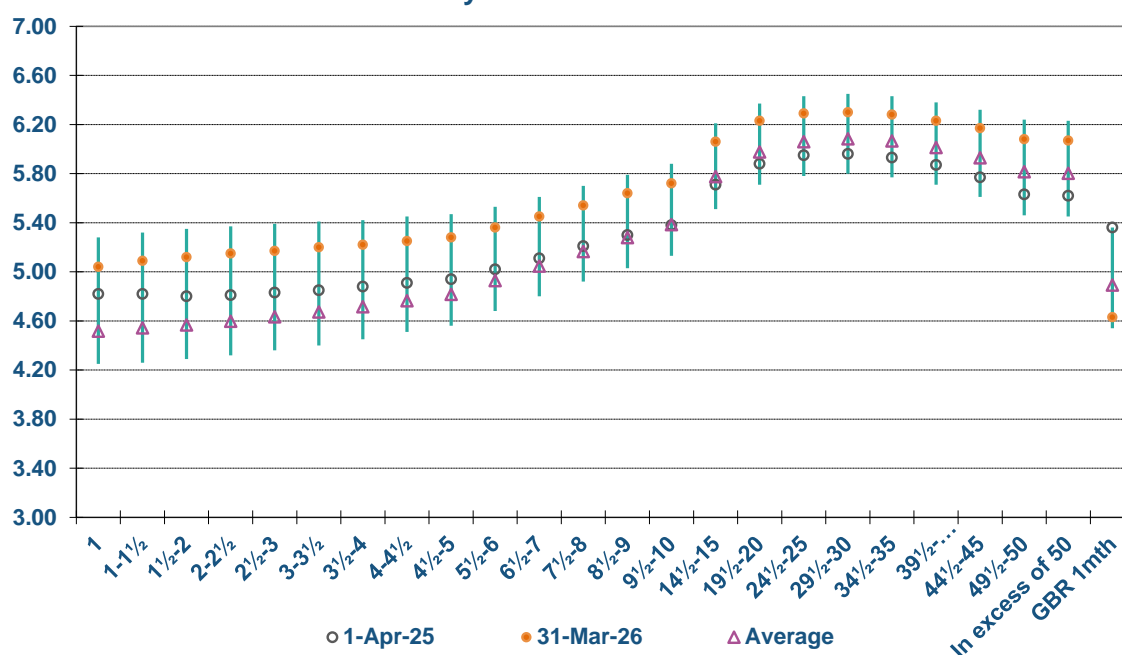
Interest rate forecasts initially suggested gradual reductions in short, medium and longer-term fixed borrowing rates during 2025/26. Bank Rate did reduce to 3.75% as anticipated, but the initial expectation of significant rate reductions across the whole curve did not transpire, primarily because inflation concerns were very elevated in March 2026. At the start of April 2026, the market expected Bank Rate to increase over the coming months to 4% or 4.25%, from 3.75%, whilst all parts of the curve have also risen substantially through March. A significant fall in inflation will be required to underpin any material movement lower in the longer part of the curve.

Forecasts at the time of approval of the treasury management strategy report for 2025/26 were as follows:

MUG Corporate Markets Interest Rate View 25.03.26												
	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28	Mar-29
BANK RATE	3.75	3.75	3.75	3.75	3.75	3.50	3.50	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	4.00	3.90	3.80	3.80	3.70	3.50	3.50	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	4.20	4.10	4.00	3.90	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.50
12 month ave earnings	4.60	4.50	4.40	4.20	4.20	4.00	4.00	3.80	3.80	3.80	3.80	3.80
5 yr PWLB	5.00	5.00	4.90	4.80	4.60	4.40	4.20	4.20	4.10	4.10	4.10	4.10
10 yr PWLB	5.50	5.50	5.40	5.30	5.10	4.90	4.70	4.70	4.60	4.60	4.60	4.60
25 yr PWLB	6.00	6.00	5.90	5.80	5.60	5.40	5.20	5.20	5.20	5.20	5.10	5.10
50 yr PWLB	5.80	5.80	5.70	5.50	5.40	5.20	5.00	5.00	5.00	5.00	4.90	4.90



PWLB Certainty Rate Variations 01.04.25 to 31.03.26



HIGH/LOW/AVERAGE PWLB RATES FOR 2025/26

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.25%	4.56%	5.13%	5.78%	5.46%
Date	27/02/2026	27/02/2026	02/03/2026	04/04/2025	04/04/2025
High	5.28%	5.47%	5.88%	6.43%	6.24%
Date	23/03/2026	23/03/2026	27/03/2026	27/03/2026	27/03/2026
Average	4.52%	4.82%	5.38%	6.06%	5.81%
Spread	1.03%	0.91%	0.75%	0.65%	0.78%

PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations, and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years.

However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid, then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. Rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. More recently, the Middle East conflict is likely to see inflation spike higher from late spring 2026 through to early 2027.

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.

Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows:

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)*
- **Local Infrastructure Rate** is gilt plus 60 basis points (G+60bps)
- **HRA Borrowing rate** is gilt plus 40 basis points (G+40bps)
*NNDC borrows at the PWLB Certainty Rate.

As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.

5. Borrowing Outturn

Treasury Borrowing - The following is a record of all borrowing undertaken by the authority in 2025/26 with the interest payable being a revenue expense to the Council.

Lender	Principal £m	Interest Rate Type	Interest Rate %	Borrowing Duration	Interest payable in 2025/26 (£)
Public Works Loans Board	5.000	Fixed	5.39	28	23,622
Public Works Loans Board	5.000	Fixed	4.59	335	210,637
Causeway Coast and Glen Borough Council	2.000	Fixed	6.35	14	4,871
Total					239,130

Borrowing in advance of need

The Authority has not borrowed more than, or in advance of its needs, purely to profit from the investment of the extra sums borrowed.

Rescheduling

No debt rescheduling was done during the year as the approximate 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

Early Repayments

The Council did not make early repayment of any agreed loans during 2025/26.

6. Investment Outturn

Investment Policy – the Authority’s investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Authority. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc).

The investment activity during the year conformed to the approved strategy, and the Authority had no liquidity difficulties.

Investments held by the Authority

- The Authority maintained an average balance of £36,059 of internally managed funds.
- The internally managed funds earned an average rate of return of 4.69%
- The comparable performance indicator is the average overnight SONIA rate, which was 4.01%.
- This compares with a budget assumption of £29.463m investment balances earning an average rate of 3.00%.
- Total investment income was £1.690m compared to a budget of £1.418m.

7. The Economy and Interest Rates

UK Economy

As with 2024/25, UK inflation has proved somewhat stubborn throughout 2025/26. Having started the financial year at 3.5% y/y (April), the CPI measure of inflation peaked at 3.8% from July to September, before dipping to 3% in January and February. Core inflation picked up to 3.2% in February, from 3.1%, and the recent upward pressure on energy costs could see CPI inflation breach 4.5% later this year.

Against this backdrop, the continued lack of progress in ending the Russian invasion of Ukraine, and the potentially negative implications for global growth as a consequence of the implementation of US tariff policies, Bank Rate reductions look limited for the remainder of 2026 (as they do in the euro-zone). Bank Rate currently stands at 3.75%.

Moreover, borrowing has becoming more expensive in 2025/26. Gilt yields have risen materially in March 2026, more than reversing the falls earlier in the financial year. Additionally, the public finances have remained under pressure. The higher-than-expected public net sector borrowing of £14.3bn in February was £2.2bn above last February's outturn. But that borrowing overshoot was mainly due to timing effects relating to the £13.0bn government debt interest payment. That came in as the highest payment since June 2025, causing a 12.3% y/y jump in spending. On the flip side, sitting at £8.1bn, tax revenues were also higher than last February, largely on the back of solid growth in self-employment incomes in 2024/25, boosting self-assessment income tax receipts and stronger capital gains tax receipts.

However, the combination of some energy price support and pressures from higher inflation amid the ongoing energy price shock, higher interest rates and a weaker economy will ultimately put borrowing on an upward trend. With the rise in energy prices possibly pushing the Retail Prices Index inflation up to a peak of 5.7%, debt interest repayments will increase by about £10bn. A weaker growth profile, higher inflation, higher interest rates and gilt yields could erode about £11bn of the Chancellor's £23.6bn headroom.

The loosening in the labour market continues to bear down on wage growth. The 3myy growth rate of average earnings including bonuses slowed from 4.2% in December to 3.9% in January. Meanwhile, excluding bonuses, private earnings growth continued to fall from 3.4% to 3.3%.

The table below provides a snapshot of the conundrum facing central banks: inflation pressures remain, labour markets are still relatively tight by historical comparisons, and central banks are also having to react to a fundamental re-ordering of economic and defence policies driven largely by the US administration.

	UK	Eurozone	US
Bank Rate	3.75%	2.0%	3.5%-3.75%
GDP	0.1%q/q Q4 (1.0%/y/y)	+0.2%q/q Q4 (1.2%/y/y)	0.7% Q4 Annualised
Inflation	3.0%/y/y (Feb)	1.9%/y/y (Feb)	2.4%/y/y (Feb)
Unemployment Rate	5.2% (Jan)	6.2% (Jan)	4.4% (Feb)

The Bank of England sprung no surprises in their March meeting, leaving Bank Rate unchanged at 3.75% by a vote of 9-0, but suggesting rates may need to rise if inflation picks up markedly. The vote could best be described as moderately hawkish. The MPC stated it "stands ready to act as necessary" and "is alert to the increased risk of domestic inflationary pressures through second-round effects in wage and price-setting". Even so, we suspect the committee is likely to put equal weight on higher inflation and weaker growth, particularly the poor macroeconomic backdrop prior to the energy shock, keeping interest rates at 3.75% this year.

10-year Gilt yields have been exceptionally volatile in the final weeks of 2025/26, troughing at around 4.23% in late February before shooting up to 5.00% (and well through that on an intraday basis). That spike was driven by the outbreak of war in the Middle East, which prompted a dramatic reassessment of investors' Bank of England policy rate expectations. Having been pricing in rate cuts in late-February, as many as four rate hikes were discounted by late-March. The 10-year yield ended the quarter at 4.92% with around 65bp of rate hikes priced in over the coming

year. In addition to more hawkish monetary policy expectations, part of this increase in yields probably reflected an increase in term premia amid concerns that the government may react by loosening the fiscal purse strings.

As for equity markets, the FTSE 100 experienced another volatile quarter, surging to an all-time high of around 10,900 in late February, leaving it up 10% from the start of 2026, before giving back most of those gains in March after the outbreak of the Middle East conflict. That pullback leaves the index at around 10,176 at the end of the quarter. For context it was at 8,582 at the start of April. The £ has stayed relatively resilient also at \$1.33, strengthening from \$1.29 back in April.

US Economy

Despite a weak finish to 2025, the US economy has generally been the strongest among the developed economies, but with uncertainties growing surrounding President Trump's central economic tenet of being able to apply tariffs on an ad-hoc basis, and bend the FOMC Fed Funds rate decision-making to his will, there is something of a stalemate in place at present over when, and if, rates will be cut further in 2026.

Inflation is currently stuck at around 2.5%, unemployment is only a little above 4%, and tax refunds are in the process of being facilitated for many households. But will those refunds be – at least partially – offset by higher gasoline prices?

The S&P500 started April 2025 at 5,633 and finished March 2026 at 6,528 having peaked at just over 7,000. The 10-year Treasury yield finished March at 4.30% having been 4.17% back at the start of April, and during the year has been both above 4.50% and below 4.00%.

Eurozone Economy

The Eurozone economy has run in parallel with that of the UK. A slightly stronger finish to 2025 (GDP of 0.2% q/q) than that of the UK cannot hide the fact that the economy has been negatively impacted by German economic stagnation until late in 2025. France has also struggled against a difficult political backdrop but managed to post GDP growth of 0.3% for October to December.

With Eurozone headline inflation close to 2%, the ECB has been able to reduce its Deposit Rate to 2%. Whether it rises from that low point will very much be driven by how energy prices trend over the coming months. The Euro has appreciated against the dollar from 1.08 at the start of April 2025 to 1.16 at the end of March.

8. Other Issues

A. IFRS 9 fair value of investments

Following the consultation undertaken by the Ministry of Housing, Communities and Local Government (MHCLG) on IFRS 9, the Government has extended the mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to 31st March 2029, except for any new pooled investments from 1st April 2024. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override for the Government to keep the override under review and to maintain a form of transparency.

This is beneficial to the authority. Previously the long-term Pooled Fund investments had a significant fair value gain, however during the COVID pandemic the values of all shares globally fell sharply in value during the tough economic times. Although share prices have slowly recovered since, as at the end of 2025/26, the Council's long-term investments have an overall fair value gain of £0.458m against an initial total value of £20m (£20.458m). If the IFRS9 statutory override had not been extended to 2029, the authority would have been required to set aside a treasury reserve to the value of any fair value loss.

B. Changes in risk appetite

The Treasury Strategy has not changed risk appetite during the year 2025/26. The focus of the Treasury Strategy is to safeguard taxpayers' money by investing in low-risk counterparties and maintaining a diverse portfolio, and then secondly to generate a return on investments. All borrowing is undertaken at the lowest rates available.

C. Counterparty limits

The counterparty limits have not changed during 2025/26 as set out in the Treasury Strategy 2025/26.

D. IFRS 16

From 1st April 2024, a new International Financial Report Standard, IFRS 16, came into effect for Local Authorities. IFRS 16 introduces a new 'Right of Use' asset class to the balance sheet from 2024/25 and onward and recognises the corresponding lease liability. The standard was primarily intended to bring transparency to leases in the financial statements of companies, by reducing the number of off-balance sheet leases, to enable informed comparisons within business sectors.

The impact from the 1st of April 2024, has meant any current or new operational leases, not exempt due to certain conditions, will now be recognised on the balance sheet as a 'Right of Use' asset with a corresponding lease liability. This has financial implications for the Council's Treasury Management Strategy, its Capital Programme, and its Financial Statements.