

3.0 TREASURY MANAGEMENT

Overview

- 3.1 This section of the report presents details of the Council's Treasury Management Activity during Q3 2025/26, changes to the Approved Lending List and other current policy issues and considerations.
- 3.2 Treasury Management in Local Government is governed by the CIPFA Code of Practice on Treasury Management in the Public Services and in this context is the management of the Council's borrowing, cash flows, its banking and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks. The Council has adopted the Code and complies with its requirements.
- 3.3 The CIPFA Code of Practice for Treasury Management recommends that Members should be informed of Treasury Management activities at least twice a year but preferably quarterly. This report ensures, therefore, that the Council is adopting Best Practice in accordance with CIPFA's Code of Practice.

Economic Update

- 3.4 The Council's treasury advisors, MUFG Corporate Markets (formally Link Group), summarised the key points associated with economic activity in Q3 2025/26 up to 31 December 2025:
 - A -0.1% m/m change in real GDP in October, leaving the economy no bigger than at the start of April;
 - The 3myy rate of average earnings growth excluding bonuses fall to 4.6% in October, having been as high as 5.5% earlier in the financial year;
 - CPI inflation fall sharply from 3.6% to 3.2% in November, with core CPI inflation easing to 3.2%;
 - The Bank of England cut interest rates from 4.00% to 3.75% in December, after holding in November;
 - The 10-year gilt yield fluctuated between 4.4% and 4.7%, ending the half year at 4.5%

A more detailed economic commentary on developments during Q3 2025/26 is included in **Appendix E**.

Interest Rate Forecasts

- 3.5 The current interest rate forecasts (22 December 2025) of MUFG Corporate Markets are as follows

MUFG Corporate Markets Interest Rate View 22.12.25													
	Mar-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	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	3.80	3.50	3.50	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	3.80	3.50	3.50	3.40	3.30	3.30	3.30	3.40	3.40	3.40	3.40	3.40	3.40
12 month ave earnings	3.90	3.60	3.60	3.50	3.40	3.50	3.50	3.50	3.50	3.50	3.60	3.60	3.60
5 yr PWLB	4.60	4.50	4.30	4.20	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10
10 yr PWLB	5.20	5.00	4.90	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60	4.60	4.70
25 yr PWLB	5.80	5.70	5.60	5.50	5.50	5.40	5.30	5.30	5.30	5.20	5.20	5.20	5.20
50 yr PWLB	5.60	5.50	5.40	5.30	5.30	5.20	5.10	5.10	5.10	5.00	5.10	5.00	5.00

* PWLB Rates are shown net of certainty rate 0.2% discount

- Money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.
- The MUFG Corporate Markets forecast for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

The forecast has proved robust over the period since December, setting out a central view that short and long-dated interest rates will start to fall once it is evident that the Bank of England has been successful in squeezing excess inflation out of the economy, despite a backdrop of stubborn inflationary factors. Nonetheless, the longer dated part of the forecast also reflects the increased level of Government borrowing over the term of the current Parliament and the weakness in the public finances.

Annual Investment Strategy

3.6 The Treasury Management Strategy Statement (TMSS) for 2025/26, which includes the Annual Investment Strategy, was approved by the Council on 14 February 2025. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

3.7 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using our suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

3.8 The investment activity up to Q3 2025/26 was as follows:

- Balance invested at 31 December 2025: £675.51m
- Average Daily Balance 2025/26 up to 31 December 2025: £748.42m
- Average Interest Rate Achieved up to 31 December 2025: 4.28%

3.9 These funds were available on a temporary basis and the level of funds available was mainly dependent on the timing of revenue receipts, receipt of grant and progress on the capital programme.

3.10 The average return to Q3 2025/26 compares with the backward looking SONIA rates as follows:

- 4.10% 7 day
- 4.07% 1 month
- 4.01% 3 months
- 3.93% 6 months
- 3.80% 12 months

3.11 It is also a key requirement of the CIPFA Code of Practice that annual Treasury Management Strategies should be kept under constant review throughout the year and reported to Members as appropriate. Although there continues to be uncertainty in the financial and banking market, both globally and in the UK, it is considered that the Strategy approved in February 2025 is still fit for purpose in the current economic climate.

Approved Lending List

3.12 The Approved Lending List as at 31 December 2025 is attached as **Appendix B**.

Debt and borrowing

3.13 The Council's external debt outstanding at 31 December 2025 and forecast position for 2025/26 is as follows:-

Detail	PWLB		Money Market Loans		Total	
	£m	%	£m	%	£m	%
At 31 March 2025	352.1	3.74	15.0	4.03	367.1	3.75
Loan Repayments	5.9		5.0		10.9	
New Loans Taken	0.0		0.0		0.0	
= Loans Outstanding at 31 December 2025	346.2	3.73	10.0	4.15	356.2	3.74
Further Scheduled In Year Repayments	5.7		0.0		5.7	
Forecast Additional Loans to be Taken	0.0		0.0		0.0	
= Estimated Loans Outstanding at 31 March 2026	340.5	3.73	10.0	4.15	350.5	3.74

3.14 Any change to the forecast debt outstanding by the end of 2025/26 will be largely determined by whether the borrowing requirement for 2025/26 is ultimately financed by external borrowing or internal borrowing.

3.15 Based on the Q3 Capital Plan update the total external borrowing requirement for 2025/26 is currently forecast to be:-

Detail	£m
2025/26 Borrowing Requirement Borrowing	
Capital Plan Borrowing Requirement	12.1
Adjustment for Company Loans	4.2
Revenue Provision for General Fund Debt Repayment (MRP)	-14.7
Revenue Provision for HRA Debt Repayment (MRP)	-1.2
External Borrowing Loan Repayments	-16.6
= Total 2025/26 Borrowing Requirement	-16.2

3.16 A value for money assessment would therefore indicate that value could be best obtained by avoiding/delaying new borrowing and continuing to use internal cash balances to finance new capital expenditure or to replace maturing external debt. This would maximise short term revenue savings and produce other benefits, but is not risk free.

3.17 This Internal capital financing option will therefore continue to be actively adopted on an ongoing basis in order to achieve short term revenue savings and mitigate the credit risk incurred by holding investments in the market.

3.18 New external borrowing rates (fixed interest maturity rates from the PWLB reflecting the 0.2% 'certainty discounts') during Q3 2025/26 were as follows:-

	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2025	4.82%	4.94%	5.38%	5.95%	5.63%
31/12/2025	4.37%	4.78%	5.34%	5.95%	5.71%
Low	4.36%	4.62%	5.17%	5.78%	5.46%
Low date	04/08/2025	02/05/2025	02/05/2025	04/04/2025	04/04/2025
High	4.84%	4.99%	5.62%	6.41%	6.14%
High date	02/04/2025	21/05/2025	03/09/2025	03/09/2025	03/09/2025
Average	4.52%	4.81%	5.38%	6.08%	5.82%
Spread	0.48%	0.37%	0.45%	0.63%	0.68%

Treasury and Prudential Indicators

3.19 It is a statutory duty for the Council to determine and keep under review its Affordable Borrowing Limits.

3.20 During the quarter ended 31 December 2025, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2025/26. The Corporate Director - Resources reports that no difficulties are envisaged for the current or future years in complying with these indicators.

3.21 The prudential and treasury Indicators are shown in Appendix F.

Impact of Treasury Management Activities on the Revenue Budget

3.22 Based on the Treasury Management activity at Q3 2025/26 and a forecast for the remainder of the year, the revenue impact is as follows:

At the close of Q3, the total Interest and Dividends forecast to be received at the end of the year is £28.6m. This exceeds the budget set by £3.7m. Delayed Bank rate drops have crystallised post Q2, with latest forecasts now expecting Bank Rate to be 0.5% higher in March 2026 than budget expectations, leading to greater returns. Additionally, invested cash balances are higher due to anticipated outflows being delayed, including rephasing within the capital plan

The forecast outturn for interest paid on long term borrowing is £13.4m, comprising of £10.1m General Fund Debt, and £3.3m HRA Debt.

The forecast outturn for the Minimum Revenue Provision (MRP) is £14.7m.

Capital Strategy

3.23 The Capital Strategy was included as part of the Council's Annual Treasury Management and Investment Strategy 2025/26, approved in February 2025. The Capital Strategy sets out how capital expenditure, capital financing and treasury management contribute to the provision of Corporate and service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. It sets out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

3.24 Alternative non-treasury investments are considered as part of the Capital Strategy. Given the technical nature of potential alternative investments and strong linkages to the Council's Treasury Management function, appropriate governance and decision making arrangements are needed to ensure robust due diligence in order to make recommendations for implementation. As a result, all investments are subject to consideration and where necessary recommendations of the Commercial Investment Board.

3.25 The alternative investments considered by the Commercial Investment Board are as follows:

Type of Investment	Invested as at 31/12/2025 £m	Rate of Return %
Alternative Treasury Instruments		
Money Market Funds	0.0	0.00
Enhanced Cash Funds	0.0	0.00
Certificates of Deposit (CDs)	0.0	0.00
Property Funds	12.3	3.30
Total Alternative Treasury Instruments	12.3	3.30
Alternative Investments		
Loans to Council Companies		
- Yorwaste	3.7	7.75
- Brierley Homes	25.4	9.75
- Brierley Homes, Second Loan	1.4	3.75
- First North Law	0.1	7.75
- NY Highways	9.0	10.25
- Broadacres Housing Association	31.6	4.27
- Bracewell Housing Ltd	0.7	9.25
- Align Property Services	0.5	9.75
Total Loans to Council Companies	72.4	7.12
Other Alternative Investments		
Spend to Save	0.0	0.00
Loans to Housing Associations	0.0	0.00
Local Economic Growth Projects	0.0	0.00
Solar Farm (or similar) Projects	0.0	0.00
Commercial Investments	26.7	5.40
Total Other Alternative Investments	26.7	5.40
Total Alternative Investments	111.4	6.36

3.26 The position on Property Funds at 31 December is as follows:-

In Year Performance

Fund	Bwd Investment Valuation	Valuation as at 31/12/25	In Year Performance Q3 2025/26			
			Capital Gain / (Loss)		Revenue Return	
			£000	%	£000	%
Blackrock	4,840.3	4,866.7	26.4	0.5	113.5	2.7
Threadneedle	4,737.6	4,814.2	76.5	1.6	173.8	4.3
Fidelity	2,774.4	2,621.4	-152.9	-5.5	114.9	4.9
Total	12,352.3	12,302.3	-50.0	-0.4	402.2	3.9

Total Fund Performance

Fund	Investment £k	Valuation as at 31/12/2025	Total Performance			
			Capital Gain / (Loss)		Revenue Return	
			£000	%	£000	%
Blackrock	5,505.5	4,866.7	-638.8	-11.6	854.9	15.5
Threadneedle	5,366.3	4,814.2	-552.2	-10.3	1,178.0	22.0
Fidelity	3,000.0	2,621.4	-378.6	-12.6	789.1	26.3
Total	15,871.8	12,302.3	-1569.6	-9.9	2,822.0	17.8

3.27 While Property Funds continue to provide a revenue return as noted in the table above, the funds have experienced some capital losses.

3.28 Property funds are long term investments and valuations can, therefore, rise as well as fall, over the period they are held. In order to mitigate any potential future loss, funds will be set aside to ensure there is no impact on the General Fund until units in the funds are sold.

3.29 Given the volatility and risk within the market, all property funds will be reviewed in terms of their strategies to mitigate risk within their portfolios, in the context of the longer term nature of these investments. Should any changes to these investments be considered necessary, these will be reported to the Executive and to Council if required.

3.30 The position on Commercial Property investments and Alternative Property Investments at 31 December 2025 is as follows:-

Commercial Properties			Performance		
Property	Investment £k	Valuation as at 31/03/25	Total Capital Gain / (Loss)		Forecasted Return
	£000	£000	£000	%	%
Bank Unit in Stafford Town Centre	876.0	525.0	(351.0)	(40.0)	4.54*
Co-op Store in Somercotes	1,497.3	1,170.0	(327.3)	(22.0)	6.00
Total	2,373.3	1,695.0	(678.3)	(29.0)	5.46

*The Forecasted in year revenue return for Stafford Bank does not include the payment received in year for the surrender of the remainder of the lease. This payment amounted to £306k

Alternative Property Investments			Performance		
Property	Investment £k	Valuation as at 31/03/2025	Total Capital Gain / (Loss)		Forecasted Return
	£000	£000	£000	%	%
Harrogate Royal Baths	9,504.0	6,300.0	(3,204.0)	(33.7)	1.59
Scarborough Travellodge	14,828.0	15,300.0	472.0	3.18	7.84
Total	24,332.0	21,600.0	(2,732.0)	(11.2)	5.40

3.31 Commercial Property is a long term investment and valuations can, therefore, rise as well as fall, over the period they are held. In order to mitigate any potential future loss funds will be set aside to ensure that there is no impact on the General Fund at the point of any future sale.

3.32 The Council continues to review potential commercial investments, but will now consider any potential investment opportunities alongside the implications for PWLB borrowing going forward, however, the 2025/26 Capital Plan does not include any plans to purchase commercial assets primarily for yield.

Other Loans

3.33 The Council has also provided the following loan facilities:-

Lender	Date Advanced	Original Loan	Interest Rate	Loan Outstanding as at 31/12/2025	Revenue Return (as at 31/12/2025)	
		£000	%	%	£000	%
Settle Pool	Sep-22	135.0	6.00	79.6	1.3	6.00

3.34 Settle Area Swimming Pool is a charity run swimming pool service for the local Settle area. In December 2023, discussions with the charity operating the pool led to a revision of the payment plan on the Long Term Loan provided by the council to support the operation of the pool. The revised arrangement has been provided at a commercial rate of 6%, and schedules the loan to be fully repaid by 2032/33.

RECOMMENDATIONS

3.36 That Executive

- i. notes the position on the Council's Treasury Management activities during the third quarter of 2025/26
- ii. refers this report to the Audit Committee for their consideration as part of the overall monitoring arrangements for Treasury Management.

TREASURY MANAGEMENT APPENDICES

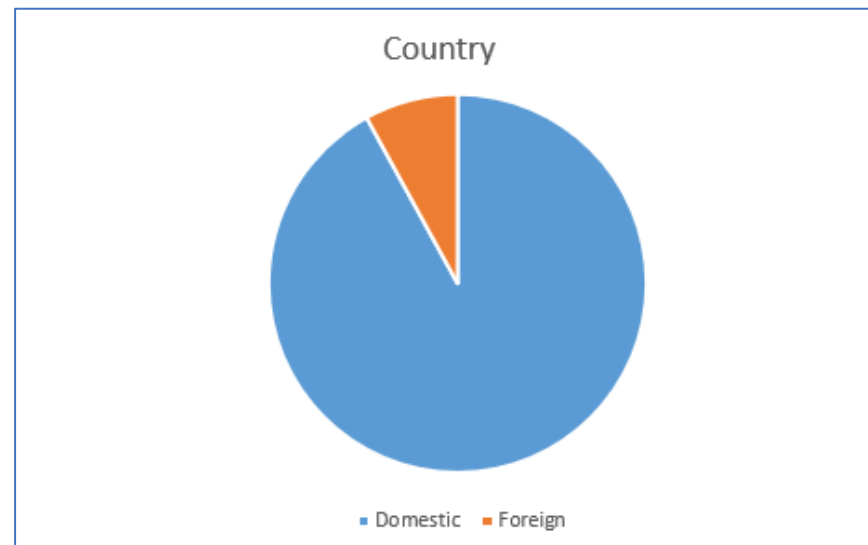
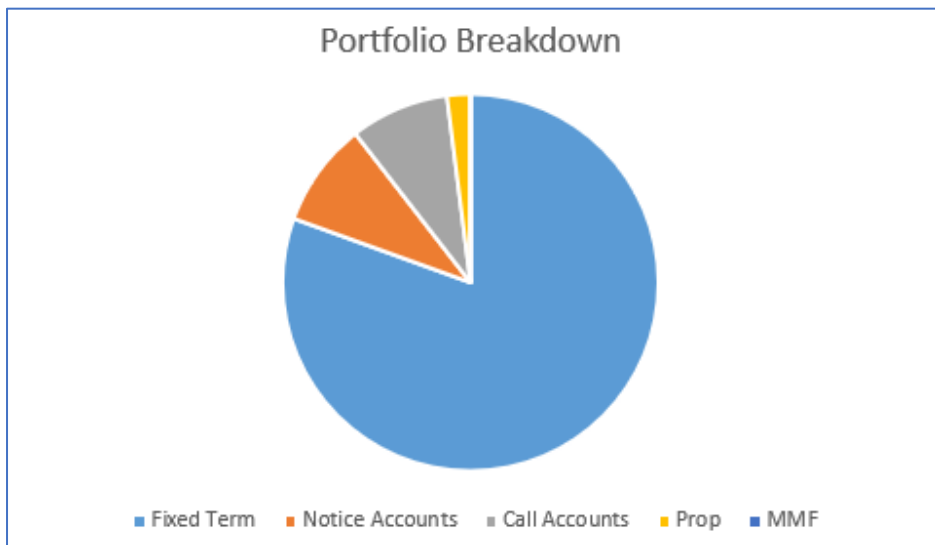
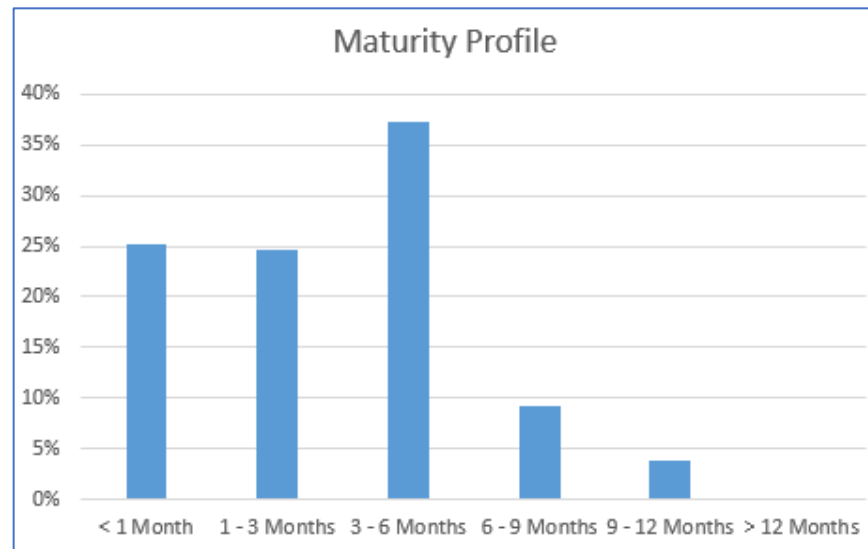
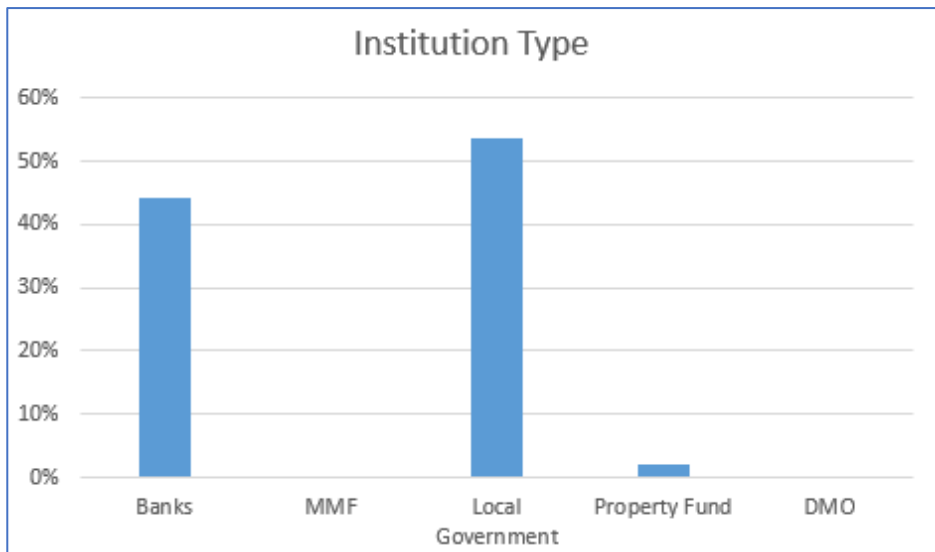
- Appendix A Analysis of investments placed as at 31 December 2025
- Appendix B Approved Lending List with counterparty limits
- Appendix C Changes to the Approved Lending List during Q3 2025/26
- Appendix D Treasury Management Monitoring and Reporting Arrangements 2025/26
- Appendix E Detailed Economic Commentary on Developments during Q3 2025/26
- Appendix F Treasury and Prudential Indicators

Analysis of loans outstanding as at 31 December 2025

Actual Loans Outstanding – Summarised by Organisation	
	£m
Local Authority	370.0
Santander	62.0
Goldman Sachs	50.0
Helaba	40.0
National Bank of Canada	15.0
DBS	15.0
Sumitomo Mitsui BCE	65.0
Barclays	8.5
Bank of Scotland	50.0
Total	675.5

Other Bodies				
	31-Dec-25		30-Sep-25	
	£m	%	£m	%
NY Pension Fund	9.8	1.6	9.9	1.4
NY Fire and Rescue Authority	24.0	4.0	31.9	4.5
Yorkshire Dales National Park	6.0	1.0	6.2	0.9
North York Moors National Park	7.3	1.2	8.9	1.3
Peak District National Park	10.9	1.8	10.5	1.5
Align Property Services	1.2	0.2	1.6	0.2
First North Law	0.0	0.0	0.1	0.0
National Parks England	1.0	0.2	0.9	0.1
Align Property Partners	0.7	0.1	1.5	0.2
Y&NY Combined Authority	75.3	12.5	65.3	9.2
Total Other Bodies	136.2	22.6	136.7	19.2
Cash Balances held by NYC	539.3	77.4	574.1	80.8
Total Investment	675.5	100.0	710.8	100.0

Rates as at 31 December 2025	
	%
Bank Rate	3.75
Investment Rates	
- NYC overnight (on call)	3.30
- 1 month	3.75
- 6 months	3.90
- 1 year	3.90
- Government Debt Management Office Account	3.70



Appendix B

APPROVED LENDING LIST Q3

Maximum sum invested at any time (The overall total exposure figure covers both Specified and Non-Specified investments)

	Country	Specified Investments (up to 1 year)		Non-Specified Investments (> 1 year £40m limit)	
		Total Exposure £m	Time Limit *	Total Exposure £m	Time Limit *
UK "Nationalised" banks / UK banks with UK Central Government involvement					
Royal Bank of Scotland PLC (RFB)	GBR	90.0	365 days	-	-
National Westminster Bank PLC (RFB)	GBR				
UK "Clearing Banks", other UK based banks and Building Societies					
Santander UK PLC (includes Cater Allen)	GBR	80.0	6 months	-	-
Barclays Bank PLC (NRFB)	GBR	120.0	6 months	-	-
Barclays Bank UK PLC (RFB)	GBR				
Bank of Scotland PLC (RFB)	GBR	100.0	365 days	-	-
Lloyds Bank PLC (RFB)	GBR				
Lloyds Bank Corporate Markets PLC (NRFB)	GBR				
Goldman Sachs International Bank	GBR	100.0	6 months	-	-
Sumitomo Mitsui	GBR	100.0	6 months	-	-
Standard Chartered Bank	GBR	80.0	6 months	-	-
Handelsbanken	GBR	80.0	365 days	-	-
Nationwide Building Society	GBR	40.0	6 months	-	-
Leeds Building Society	GBR	40.0	3 months	-	-
Coventry Building Society	GBR	40.0	3 months	-	-
High Quality Foreign Banks					
National Australia Bank	AUS	40.0	365 days	-	-
Credit Industriel et Commercial	FRA	40.0	6 months	-	-
Landesbank Hessen-Thueringen Girozentrale (Helaba)	GER	50.0	365 days	-	-
DBS (Singapore)	SING	50.0	365 days	-	-
Bayerische Landesbank	GER	40.0	365 days	-	-
National Bank of Canada	CAN	50.0	365 days	-	-
Local Authorities					
County / Unitary / Metropolitan / District Councils		40.0	365 days	5.0	5 years
Police / Fire Authorities		40.0	365 days	5.0	5 years
National Park Authorities		40.0	365 days	5.0	5 years
Other Deposit Takers					
Money Market Funds		40.0	n/a liquid	-	-
Property Funds		5.0	365 days	5.0	10 years
UK Debt Management Account		150.0	365 days	-	-

* Based on data 31 December 2025

CHANGES TO THE APPROVED LENDING LIST DURING Q3

There were changes to the lending list during Q3 as a result of the Corporate Director – Resources, under delegated authority, approving the following amendments as at 1 December 2025.

Counterparty	Type	Current Limit £m	Proposed New Limit £m	Movement £m	Movement %
Barclays Bank PLC	Call Account	90	120	30	33
Lloyds Bank PLC	Call Account	80	100	20	25
Total Call		170	220	50	29
Sumitomo Mitsui Banking Corporation	Fixed Term	80	100	20	25
Goldman Sachs	Fixed Term	80	100	20	25
DBS Bank	Fixed Term	40	50	10	25
Landesbank-Hessen-Thueringen Girozentrale (Heleba)	Fixed Term	40	50	10	25
National Bank of Canada	Fixed Term	40	50	10	25
Local Authorities (Limit Per individual LA)	Fixed Term	30	40	10	33
Total Fixed	Fixed Term	310	390	80	26
Total Proposal		480	610	130	27

It should be noted, however, that changes can be made on a daily basis in reaction to market sentiment, with maximum investment durations being adjusted accordingly.

Maximum investment durations for other organisations may have, therefore, been changed during this quarter, but have since returned to the level at 1 April 2025.

Treasury Management and Reporting Arrangements

The current monitoring and reporting arrangements in relation to Treasury Management activities are as follows:

- (a) an annual report to Executive and Full Council as part of the Budget/MTFS process that sets out the Council's **Treasury Management and Investment Strategy and Policy** for the forthcoming financial year. For 2025/26 this report was submitted to Executive on 21 January 2025 followed by Full Council on 14 February 2025;
- (b) an annual report to Executive and Full Council as part of the Budget/MTFS process that sets the various **Prudential Indicators** (submitted to Executive on 21 January 2025 and Full Council on 14 February 2025)
- (c) **annual outturn reports** to the Executive for both Treasury Management and Prudential Indicators setting out full details of activities and performance during the preceding financial year. The outturn reports for 2024/25 were submitted to Executive on 27 May 2025;
- (d) a quarterly report on Treasury Management to the Executive (this report) as part of the **Quarterly Performance Monitoring** report;
- (e) **periodic meetings** between the Corporate Director – Resources, the Corporate Affairs Portfolio Holder and the Chairman of the Audit Committee to discuss issues arising from the day to day management of Treasury Management activities;
- (f) reports on proposed changes to the Council's Treasury Management activities are submitted to the **Audit Committee** for consideration and comment. A copy of this report is also provided to Audit Committee Members.

Detailed Economic Commentary on Developments during Q3 2025/26**Economic Background - UK**

The third quarter of 2025/26 saw:

- A -0.1% m/m change in real GDP in October, leaving the economy no bigger than at the start of April;
- The 3my rate of average earnings growth excluding bonuses fall to 4.6% in October, having been as high as 5.5% earlier in the financial year;
- CPI inflation fall sharply from 3.6% to 3.2% in November, with core CPI inflation easing to 3.2%;
- The Bank of England cut interest rates from 4.00% to 3.75% in December, after holding in November;
- The 10-year gilt yield fluctuated between 4.4% and 4.7%, ending the half year at 4.5%

From a GDP perspective, the financial year got off to a bumpy start with the 0.3% m/m fall in real GDP in April as front-running of US tariffs in Q1 (when GDP grew 0.7% on the quarter) weighed on activity. Despite the underlying reasons for the drop, it was still the first fall since October 2024 and the largest fall since October 2023. However, the economy surprised to the upside in May and June so that quarterly growth ended up 0.3% q/q (subsequently revised down to 0.2% q/q). Nonetheless, the 0.0% m/m change in real GDP in July, followed by a 0.1% m/m increase in August and a 0.1% decrease in September will have caused some concern (0.1% q/q). October's disappointing -0.1% m/m change in real GDP suggests that growth slowed to around 1.4% in 2025 as a whole.

Sticking with future economic sentiment, the composite Purchasing Manager Index (PMI) for the UK rose from 51.2 in November to 52.1 in December, suggesting the economy may be benefitting somewhat from pre-Budget uncertainty fading. This may also reflect a diminishing drag from weak overseas demand. While the services PMI rose from 51.3 to 52.1, the improvement in the manufacturing output balance from 50.3 to 51.8 was larger. Indeed, the manufacturing sector has been more exposed to the recent weakness of external demand and has lagged the services sector since the end of last year.

Turning to retail sales volumes, and the 1.5% year-on-year rise in September, accelerating from a 0.7% increase in August, marked the highest gain since April. Nonetheless, the 0.1% m/m fall in retail sales volumes in November built on the 0.9% m/m drop in October, suggesting the longer-lasting effects of weak employment and slowing wage growth are impacting. Moreover, the decline in the GfK measure of consumer confidence from -17 in October to -19 in November suggests that consumers are not that optimistic at present.

Prior to the November Budget, the public finances position looked weak. The £20.2 billion borrowed in September was slightly above the £20.1 billion forecast by the OBR. For the year to date, the £99.8 billion borrowed is the second highest for the April to September period since records began in 1993, surpassed only by borrowing during the COVID-19 pandemic. The main drivers of the increased borrowing were higher debt interest costs, rising government

running costs, and increased inflation-linked benefit payments, which outweighed the rise in tax and National Insurance contributions.

Following the 26 November Budget, the Office for Budget Responsibility (OBR) calculated the net tightening in fiscal policy as £11.7bn (0.3% of GDP) in 2029/30, smaller than the consensus forecast of £25bn. It did downgrade productivity growth by 0.3%, from 1.3% to 1.0%, but a lot of that influence was offset by upgrades to its near-term wage and inflation forecasts. Accordingly, the OBR judged the Chancellor was going to achieve her objectives with £4.2bn to spare. The Chancellor then chose to expand that headroom to £21.7bn, up from £9.9bn previously.

Moreover, the Chancellor also chose to raise spending by a net £11.3bn in 2029/30. To pay for that and the increase in her headroom, she raised taxes by £26.1bn in 2029/30. The biggest revenue-raisers were the freeze in income tax thresholds from 2028/29 (+£7.8bn) and the rise in NICs on salary-sacrifice pension contributions (+£4.8bn). The increase in council tax for properties worth more than £2.0m will generate £0.4bn.

After the Budget, public net sector borrowing of £11.7bn in November was comfortably below last November's figure of £13.6bn and was the lowest November borrowing figure since 2021, mainly due to tax receipts being £5.4bn higher, largely because of the hike in employer NICs in April 2025. Cumulative borrowing in the first eight months of 2025/26 was still £10bn above last year's total. However, lower inflation and a disposal of assets ahead of the Budget should mean borrowing in 2025/26 comes in below last year's total.

The weakening in the jobs market looked clear in the spring. May's 109,000 m/m fall in the PAYE measure of employment was the largest decline (barring the pandemic) since the data began and the seventh in as many months. The monthly change was revised lower in five of the previous seven months too, with April's 33,000 fall revised down to a 55,000 drop. More recently, the 38,000 fall in payroll employment in November was the tenth monthly decline in the past 13 months, causing the annual growth rate to slow further, from -0.5% to -0.6%. The number of job vacancies in the three months to November 2025 stood at 729,000 (the peak was 1.3 million in spring 2022) but the less reliable Labour Force Survey data showed that employment fell by 16,000 in the three months to October, with the unemployment rate rising further, from 5.0% to 5.1%. All this suggests the labour market continues to loosen, albeit at a slow pace.

A looser labour market is driving softer wage pressures. The 3myy growth rate of average earnings including bonuses eased from 4.9% in September to 4.7% in October. And excluding bonuses, the 3myy rate slowed from 4.7% to 4.6%. Regular private sector pay growth continued to slow from 4.2% to 3.9%. That left it broadly on track to meet the Bank's end of December prediction of 3.5%.

CPI inflation fell sharply in November, easing from 3.6% in October to 3.2%. This was the third consecutive softer-than-expected inflation outturn and suggests that disinflation is well underway. There was a widespread easing in price pressures with inflation slowing in 10 of the 12 main categories. Core inflation fell from 3.4% to 3.2% and services inflation dipped from 4.5% to 4.4%. However, a great deal will depend on the adjustments to regulated and indexed prices scheduled for next April. Capital Economics forecast CPI inflation to drop from 3.2% in March to 2.0% in April, thereby leaving inflation on track to settle at the 2.0% target, or below, by the end of 2026.

An ever-present issue throughout recent months has been the pressure being exerted on medium and longer dated gilt yields. The yield on the 10-year gilt moved sideways in the second quarter of 2025, rising from 4.4% in early April to a high of c4.8%, before ending June at 4.50%.

More recently, the yield on the 10-year gilt rose from 4.46% to 4.60% in early July as rolled-back spending cuts and uncertainty over Chancellor Reeves' future raised fiscal concerns. Although the spike proved short lived, it highlighted the UK's fragile fiscal position. In an era of high debt, high interest rates and low GDP growth, the markets are now more sensitive to fiscal risks than before the pandemic. During August, long-dated gilts underwent a particularly pronounced sell-off, climbing 22 basis points and reaching a 27-year high of 5.6% by the end of the month. While yields have since eased back, the market sell-off was driven by investor concerns over growing supply-demand imbalances, stemming from unease over the lack of fiscal consolidation and reduced demand from traditional long-dated bond purchasers like pension funds. For 10-year gilts, by late September, sticky inflation, resilient activity data and a hawkish Bank of England kept yields elevated over 4.70% although, subsequently, gilt yields fell back after the Budget, supported by a tighter fiscal plan, fewer tax hikes required following a smaller-than-expected downgrade to the OBR's fiscal forecast, and a favourable shift in bond issuance away from long-dated debt. Gilt yields hovered around 4.5% at the end of the quarter.

The FTSE 100 fell sharply following the "Liberation Day" tariff announcement, dropping by more than 10% in the first week of April - from 8,634 on 1 April to 7,702 on 7 April. However, the de-escalation of the trade war coupled with strong corporate earnings led to a rapid rebound starting in late April. As a result, the FTSE 100 ended June at 8,761, around 2% higher than its value at the end of March and more than 7% above its level at the start of 2025. Since then, the FTSE 100 has enjoyed a further significant jump in value. The stock market hit new record highs above 9,900 in Mid-November, driven by a global rebound on hopes of a US government-shutdown resolution, expectations of a December rate-cut, and strong corporate earnings. Despite some jitters around Budget time, the FTSE 100 closed Q4 at 9,931, 5% higher than at the end of September and 22% higher since the start of 2025.

Prudential and Treasury Indicators for 2025/26 as of 31 December 2025

Capital Expenditure

	2025/26 TM Strategy £m	2025/26 Forecast £m
New Capital Expenditure	327.4	268.8
New Finance Leases and PFI	0.0	1.7
Total Capital Expenditure	327.4	270.5
Financed by		
- Capital grants and contributions	205.5	166.7
- Direct Revenue Funding	74.7	65.2
- Capital receipts	25.0	24.8
Capital Borrowing Requirement	22.2	13.8

Capital Financing Requirement (CFR)

	2025/26 TM Strategy			2025/26 Forecast		
	Borrowing £m	Other Long Term Liabilities £m	Total £m	Borrowing £m	Other Long Term Liabilities £m	Total £m
Total CFR	582.5	158.0	740.5	564.4	149.3	713.7
Net Financing need for year	22.2	0.0	22.2	12.1	1.7	13.8
MRP	-16.6	-5.9	-22.5	-15.9	-7.1	-23.0
Movement in CFR	5.6	-5.9	-0.3	-3.8	-5.4	-9.2

Authorised Limit, Operational Boundary and Actual Debt

	2025/26 TM Strategy			2025/26 Forecast		
	Borrowing £m	Other Long Term Liabilities £m	Total £m	Borrowing £m	Other Long Term Liabilities £m	Total £m
Authorised Limit	441.1	202.8	643.7	437.1	194.3	631.4
Operational Boundary	421.1	202.6	623.7	417.1	194.3	611.4
External Debt	354.4	158.0	512.4	350.5	149.3	499.8

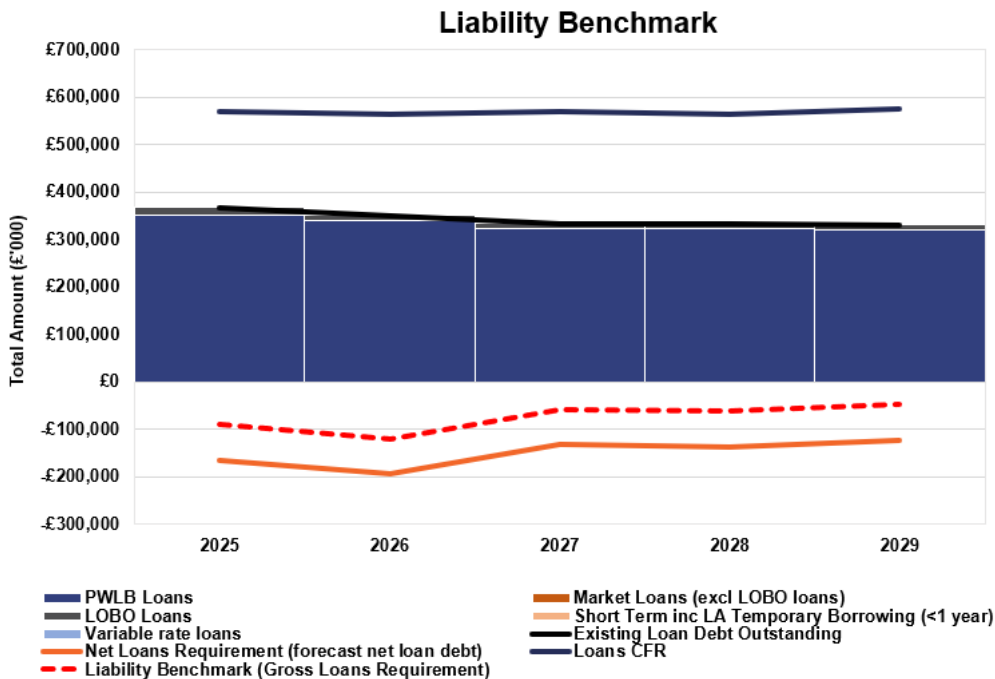
Gross Debt and the CFR

	2025/26 TM Strategy			2025/26 Forecast		
	Borrowing £m	Other Long Term Liabilities £m	Total £m	Borrowing £m	Other Long Term Liabilities £m	Total £m
CFR	582.5	158.0	740.5	564.4	149.3	713.7
Gross Borrowing	354.4	158.0	512.4	350.5	149.3	499.8
Under / (over) borrowing	228.1	0.0	228.1	213.9	0.0	213.9

Ratios

	2025/26 TM Strategy %	2025/26 Forecast %
Financing costs to net revenue stream (Non-HRA)	3.65	3.58
Financing costs to net revenue stream (HRA)	10.83	9.65
Net income from commercial and service investments to net revenue stream	0.77	1.03

Liability Benchmark



Maturity Structure of Borrowing

	2025/26 Forecast		
	Lower Limit %	Upper Limit %	Forecast %
Under 12 months	0	15	5
12 months to 2 years	0	15	7
2 years to 5 years	0	15	4
5 years to 10 years	0	25	16
10 years to 20 years	0	25	5
20 years to 30 years	0	45	41
30 years to 40 years	0	45	16
40 years to 50 years	0	45	7

Limits for Long Term Treasury Management Investments

	2025/26 Forecast	
	Limit £m	Forecast £m
Limit on investments > 1 year	60.0	0.0