London Borough of Waltham Forest Annual Treasury Management Review

2025/26

Contents

Annual Treasury Management Review 2025/26

Introduction

This Council 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 2021, 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 (Council 27/02/2025).
- a mid-year, treasury update report (Council 16/10/2025).
- an annual review following the end of the year describing the activity compared to the strategy, (this report)

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 Council's policies previously approved by members.

This Council 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 Audit and Governance Committee before they were reported to the full Council. Member training on treasury management issues was undertaken during the year on 16/10/2025 in order to support members' scrutiny role.

Executive Summary

During 2025/26, the Council 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 – the 2025/26 comparators are the original budget presented to council on the 27th February 2025 and amended -are as follows:

Prudential and treasury indicators <u>**Capital Expenditure**</u>	**2024/25 Actual £'000**	**2025/26 Estimate £'000**	**2025/26 Actual £'000**
General Fund	70,492	106,403	84,987
HRA	85,551	65,555	58,255
Adj. Sales from GF to HRA	(24,245)	0	0
Total Capital Programme	**131,798**	**171,958**	**143,242**
Capital Financing Requirement:			
· Non-HRA	400,823	425,169	416,970
· HRA	342,745	364,945	360,757
· **Total**	**743,568**	**790,114**	**777,727**
Gross borrowing	**570,298**	**610,417**	**575,479**
External debt*	537,733	580,456	545,518
Finance Leases/PFI	32,565	29,961	29,961
Investments			
· Longer than 1 year			
· Under 1 year	(80,061)	(50,000)	(38,402)
· Total	(80,061)	(50,000)	(38,402)
Net borrowing	**490,237**	**560,417**	**537,077**

* These are money borrowed from 3rd parties such as banks, local authority and PWLB

The Council's actual under-borrowing position for 2025/26 is £202.2m (CFR less the Gross debt). Balances in reserves did not deplete as expected to externalise debt so reliance was made on internal borrowing.

- The Council's average investments for the year is £47.4m with an average rate 4.05% against the benchmark of the average o/n SONIA (Sterling Overnight Interbank Average Rate) of 4.01%.
- In 2025/26 the investment income is £1.9m and interest payable of £20.3m.

Other prudential and treasury indicators are to be found in the main body of this report. The Corporate Director of Financial Services (Section 151 Officer) formerly Strategic Director of Resources (S151) confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, (the authorised limit), was not breached.

1. The Council's Capital Expenditure and Financing

The Council 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 Council'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	2024/25 Actual £'000	2025/26 Estimate £'000	2025/26 Actual £'000
Capital expenditure	70,492	106,403	84,987
Capital Receipts	(158)	0	(115)
Capital Grants & Reserves	(33,514)	(52,747)	(41,502)
Self- Financing	-	(856)	
Revenue	(1,062)		(195)
Unfinanced capital expenditure	**35,758**	**52,800**	**43,175**

HRA	2024/25 Actual £'000	2025/26 Estimate £'000	2025/26 Actual £'000
Capital expenditure	85,551	65,555	58,255
Financed in Year	(42,771)	(43,154)	(40,731)
Unfinanced capital expenditure	**42,780**	**22,401**	**17,524**

Resources – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

General Fund - Balance Sheet Resources	31-Mar-25 £'000	31-Mar-26 £'000
Capital receipts	40,412	41,271
Unapplied Capital Grants	1,738	6,510
Earmarked Reserves	47,537	36,216
Grant Provisions	10,168	13,241
Provisions	9,582	11,383
General fund Balances	14,906	14,906
Total	**124,343**	**123,527**

HRA Balance Sheet - Balance S Resources	31-Mar-25 £'000	31-Mar-26 £'000
Balances	6,905	13,637
Earmarked reserves	1,178	1,178
Total	**8,083**	**14,815**

2. The Council's Overall Borrowing Need

The Council's underlying need to borrow to finance capital expenditure is termed as the Capital Financing Requirement (CFR).

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 Council 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 Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2025 Actual £'000	31 March 2025 Estimate £'000	31 March 2026 Actual £'000
CFR General Fund (£m)	400,823	425,169	416,970
CFR HRA (£m)	342,745	364,945	360,757
Total CFR (£m)	**743,568**	**790,114**	**777,727**
Gross borrowing position	(570,298)	(610,417)	(575,479)
Internal Borrowing	**173,270**	**117,685**	**202,248**

Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the operational boundary and authorised limit.
As at 31st March 2026 the Council under-borrowed position is £202.2m, taking into account the finance lease and PFI liabilities of £29.9m. In 2024/25 the under-borrowed position was £173.2m inclusive of the finance lease and PFI liabilities of £32.5m.

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 Council does not have the power to borrow above this level. The table below demonstrates that during 2025/26 the Council has maintained gross borrowing within its authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the Council 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. The operational boundary is set to equal to the CFR.

	2025/26
Authorised Limit	780,455
Operational boundary	638,554
Maximum gross borrowing position during the year	575,479

3.Treasury Position

The Council's investments and external borrowing as at 31st March 2026 are £38.4m and £545.5m respectively. The Council's Investments and debts summary are as follow:

	31 March 2025 Principal £'000	Average Rate	Interest £'000	31 March 2026 Principal £'000	Average Rate	Interest £'000
Borrowing:						
-PWLB	392,874	3.89%	13,360	471,797	3.87%	15,679
-Market	33,859	4.12%	1,559	33,321	4.15%	1,392
-Temporary Loan	111,000	5.23%	5,026	40,400	4.52%	3,254
Total debts	**537,733**	4.18%	19,945	**545,518**	3.94%	20,325
PFI/Finance leases	32,565			29,961		
Gross debts	**570,298**			**575,479**		
CFR	**743,568**			**777,727**		
Over / (under) borrowing	**(173,270)**			**(202,248)**		
Investments:						
- in house	(80,061)	4.89%	(2,405)	(38,402)	4.43%	(1,926)
Total investments	(80,061)	4.89%	(2,405)	(38,402)	4.43%	(1,926)
Net Debts	**457,672**		**17,540**	**507,116**		**18,399**

The maturity structure of the investment portfolio as follows.

	31 March 2025 Actual £'000	31 March 2025 Estimate £'000	31 March 2026 Actual £'000
Investments			
Under 1 year	(80,061)	(50,000)	(38,402)
Total	**(80,061)**	**(50,000)**	**(38,402)**

The maturity structure of the debts portfolio as follows:

	31 March 2025 Actual £'000	31 March 2026 Actual £'000
Under 12 months	131,615	112,190
12 mths and within 24mths	20,623	24,354
24 mths and within 5 years	81,255	119,041
5 years and within 10 years	45,644	27,701
10 years and within 20 years	35,264	34,627
20 years and within 30 years	44,731	63,537
30 years and within 40 years	78,239	63,707
Over 40 years	100,362	100,362
Total	**537,733**	**545,518**

The Council's treasury management debts and investments position are managed by the MHCLG statutory guidance, CIPFA Prudential code and Treasury Management code of Practice. The fundamental priorities of investment ranked in order of importance are the **security** of the funds invested, the **liquidity** needed to support revenue and capital activities, and the **yield** generated (the SLY principle). The procedures and controls required to achieve these objectives are well established. They are delivered through a combination of detailed member reporting, and through the operational activities set out in the Council's Treasury Management Practices (TMP's).

4. The Strategy for 2025/26

4.1 Investment Strategy

Investment Policy – the Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 27/02/2025. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies (Standard & Poor, Moody and Fitch), supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc).

Treasury team maintained a short-term investment strategy, keeping all investments within 365 days**.** This approach ensured that funds remained liquid and that the Council could respond quickly to changes in interest-rate conditions. The team continues to monitor markets daily and actively explores opportunities for both investment and borrowing where these can add value or reduce risk.

4.2 Borrowing strategy

The Council's under-borrowed position in 2025/26 fits a well-established treasury strategy using internal cash (reserves, balances, working capital) instead of locking in expensive long-term debt. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded. This approach remained prudent because long-term borrowing costs were elevated, while short-term investment rates were comparable or higher. The long-term rates were expected to fall back through 2026–27 as inflation pressures eased.
The Israel/US–Iran conflict has disrupted oil and gas supplies, raising energy prices and increasing UK inflation in 2026.The Council 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 maturity loan structure/ <10 years on an EIP loan structure) as appropriate.

Against this background and the risks within the economic forecast, caution was adopted with the treasury operations.
Interest rate forecasts initially suggested further gradual fall in short, medium and longer-term fixed borrowing rates during 2025/26.

The Bank of England base rate has been held at 3.75% since 18 December 2025, reflecting the Monetary Policy Committee's caution in the face of persistent inflationary pressures and geopolitical uncertainty. Current market commentary suggests that the base rate may remain unchanged until at least July 2027, as policymakers wait for clearer evidence that inflation is returning sustainably to target.

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

Rescheduling
The Council did not undertake any long-term loan rescheduling in the year.

Other Issues (Regulatory changes) Appendix 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 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, with the exception of 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 in order for the Government to keep the override under review and to maintain a form of transparency.

PWLB HRA concessionary rates

HM Treasury introduced a new HRA rate for PWLB lending on 15 June 2023, solely for the use in the HRA and intended primarily for new housing delivery.

This will support local authority financing of capital expenditure on social housing in their Housing Revenue Account

The availability of this rate has now been extended to March 2027.

Economic and Interest rates Forecast Appendix B

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.

Interest Rate Forecasts								
Bank Rate	**Jun-26**	**Sep-26**	**Dec-26**	**Mar-27**	**Jun-27**	**Sep-27**	**Dec-27**	**Mar-28**
MUFG CM	3.75%	3.75%	3.75%	3.75%	3.75%	3.50%	3.50%	3.25%
Cap Econ	3.75%	3.75%	3.75%	3.75%	3.50%	3.25%	3.00%	-
5Y PWLB RATE								
MUFG CM	5.00%	5.00%	4.90%	4.80%	4.60%	4.40%	4.20%	4.20%
Cap Econ	5.10%	4.90%	4.70%	4.60%	4.60%	4.50%	4.40%	-
10Y PWLB RATE								
MUFG CM	5.50%	5.50%	5.40%	5.30%	5.10%	4.90%	4.70%	4.70%
Cap Econ	5.60%	5.40%	5.30%	5.30%	5.20%	5.10%	5.10%	-
25Y PWLB RATE								
MUFG CM	6.00%	6.00%	5.90%	5.80%	5.60%	5.40%	5.20%	5.20%
Cap Econ	6.10%	6.00%	5.80%	5.80%	5.70%	5.60%	5.50%	-
50Y PWLB RATE								
MUFG CM	5.80%	5.80%	5.70%	5.50%	5.40%	5.20%	5.00%	5.00%
Cap Econ	5.80%	5.60%	5.50%	5.40%	5.30%	5.30%	5.20%	-

Glossary of Terms **Appendix C**

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).