Appendix ‘1’

2025/26 Mid-Term Treasury Report

ended 30 September 2025

South Holland District Council

1. Treasury Management

The Council operates a balanced revenue budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

2. Introduction

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021). The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report, (stewardship report), covering activities during the previous year. Quarterly reports are also required for the periods ending April to June and October to December but may be assigned to a designated committee or panel as deemed appropriate to meet the Treasury Management governance and scrutiny aspects of the Council.

4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is Governance and Audit Committee.

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first half of the 2025/26 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Council's investment portfolio for 2025/26;
- A review of the Council's borrowing strategy for 2025/26;
- A review of any debt rescheduling undertaken during 2025/26;
- A review of compliance with Treasury and Prudential Limits for 2025/26.

3. Economic Update & Interest Rate Forecasts (provided by MUFG)

3.1 Economic Update

The first half of 2025/26 saw:

- A 0.3% pick up in Gross Domestic Product (GDP) for the period April to June 2025. More recently, the economy flatlined in July, with higher taxes for businesses restraining growth.
- The 3 month year on year rate of average earnings growth excluding bonuses has fallen from 5.5% to 4.8% in July;
- Core Consumer Price Index (CPI) inflation has ebbed and flowed but finished September at 3.8%, whilst core inflation eased to 3.6%;
- The Bank of England cut interest rates from 4.50% to 4.25% in May and then to 4% in August.
- The 10-year gilt yield fluctuates between 4.4% and 4.8%, ending the half year at 4.70%.

MPC meetings: 8 May, 19 June, 7 August, 18 September 2025

There were four Monetary Policy Committee (MPC) meetings in the first half of the financial year. In May, the Committee cut Bank Rate from 4.50% to 4.25%, while in June policy was left unchanged. In June's vote, three MPC members voted for an immediate cut to 4.00%, citing loosening labour market conditions. The other six members were more cautious, as they highlighted the need to monitor for "signs of weak demand", "supply-side constraints" and higher "inflation expectations", mainly from food prices rising. By repeating the well-used phrase "gradual and careful", the MPC continued to suggest that rates will be reduced further.

In August, a further rate cut was implemented. However, a 5-4 split vote for a rate cut to 4% laid bare the different views within the MPC, with the accompanying commentary noting the decision was "finely balanced" and reiterating that future rate cuts would be undertaken "gradually and carefully". Ultimately, Governor Bailey was the casting vote for a rate cut but with the CPI measure of inflation expected to reach at least 4% later this year, the MPC will be wary of making any further rate cuts until inflation begins its slow downwards trajectory back towards 2%.

The Bank of England does not anticipate CPI getting to 2% until early 2027, and with wages still rising by just below 5%, it was no surprise that the September meeting saw the MPC vote 7-2 for keeping rates at 4%.

The Bank also took the opportunity to announce that they would only shrink its balance sheet by £70bn over the next 12 months, rather than £100bn. The repetition of the phrase that "a gradual and careful" approach to rate cuts is appropriate suggests the Bank still thinks interest rates will fall further but possibly not until February, which aligns with both our own view and that of the prevailing market sentiment.

3.2 Interest rate forecasts

The Council has appointed MUFG Corporate Markets as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The following Public Works Loan Board (PWLB) rate forecasts are based on the Certainty Rate (the standard rate minus 20 basis points) which has been accessible to most authorities since 1 November 2012.

The latest forecast was provided on 11 August 2025.

MUFG Corporate Markets Interest Rate View 11.08.25													
	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28
BANK RATE	4.00	4.00	3.75	3.75	3.50	3.50	3.50	3.50	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	4.00	4.00	3.80	3.80	3.50	3.50	3.50	3.50	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	4.00	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.30	3.30	3.40	3.40	3.40
12 month ave earnings	4.00	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.30	3.40	3.50	3.60	3.60
5 yr PWLB	4.80	4.70	4.50	4.40	4.30	4.30	4.30	4.20	4.20	4.20	4.20	4.10	4.10
10 yr PWLB	5.30	5.20	5.00	4.90	4.80	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60
25 yr PWLB	6.10	5.90	5.70	5.70	5.50	5.50	5.50	5.40	5.40	5.30	5.30	5.30	5.20
50 yr PWLB	5.80	5.60	5.40	5.40	5.30	5.30	5.30	5.20	5.20	5.10	5.10	5.00	5.00

4. Treasury Management Strategy and Annual Investment Strategy Update

The Treasury Management Strategy Statement (TMSS) for 2025/26, which includes the Annual Investment Strategy, was approved by Council on 27 February 2025.

There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

Prudential Indicator 2025/26	**Approved Budget £'000**	**Latest Revised Prudential Indicator £'000**
Authorised Limit	115,000	115,000
Operational Boundary	111,000	111,000
Capital Financing Requirement		
➢ General Fund	19,117	18,662
➢ Housing Revenue Account	72,698	75,028
➢ TOTAL	91,815	93,690

5. The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

5.1 Prudential Indicators for Capital Expenditure

The following table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure	2025/26 Approved Budget £'000	2025/26 Latest Revised Budget £'000	Actual Expenditure As At 30/09/25 £'000	2025/26 Estimated Outturn £'000
Non UKSPF & LUF Projects	4,217	4,018	479	3,811
UKSPF Projects	500	500	128	546
LUF Projects	10,163	10,163	772	10,163
Total General Fund Projects	**14,880**	**14,681**	**1,379**	**14,520**
HRA Projects	**20,356**	**20,356**	**5,280**	**16,700**
Total capital expenditure	**35,236**	**35,037**	**6,659**	**31,220**

5.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision (MRP)). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2025/26 Approved Budget £'000	2025/26 Latest Revised Budget £'000	Actual Expenditure As At 30/09/25 £'000	2025/26 Estimated Outturn £'000
Total capital expenditure	**35,236**	**35,037**	**6,659**	**31,220**
Financed by:				
GF Financing	(12,110)	(11,922)	(1,192)	(11,761)
HRA Financing	(13,754)	(13,754)	(5,280)	(11,098)
Total financing	**(25,864)**	**(25,676)**	**(6,472)**	**(22,859)**
Borrowing requirement	**9,372**	**9,361**	**187**	**8,361**

5.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The following table shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

We are on target to achieve the latest approved Capital Financing Requirement subject to any future changes in the capital programme.

Prudential Indicator – the Operational Boundary for external debt

	2025/26 Approved Budget £'000	2025/26 Latest Revised Budget £'000	Actual Position As At 30/09/25 £'000	2025/26 Estimated Outturn £'000
Prudential Indicator – Capital Financing Requirement				
CFR – General Fund	19,117	18,662	16,090	18,662
CFR – HRA	72,698	75,028	68,427	74,028
Total CFR	**91,815**	**93,690**	**84,517**	**92,690**
Net movement in CFR	**6,438**	**8,912**	**261**	**7,912**
Prudential Indicator – the Operational Boundary for external debt				
Borrowing	106,000	106,000	67,456	67,456
Other long-term liabilities	5,000	5,000	26	26
Total debt (year end position)	**111,000**	**111,000**	**67,482**	**67,482**

5.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2025/26 and next two financial years. This allows some flexibility for limited early borrowing for future years.

	2025/26 Original Estimate £'000	2025/26 Latest Approved Budget £'000	Actual Expenditure As At 30/09/25 £'000	2025/26 Estimated Outturn £'000
Borrowing	67,456	67,456	67,456	67,456
Other long-term liabilities	0	0	0	0
Total debt	**67,456**	**67,456**	**67,456**	**67,456**
CFR* (year end position)	**91,815**	**93,690**	**84,517**	**92,690**

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	2025/26 Original Limit £'000	2025/26 Latest Approved Limit £'000	Actual Borrowing As At 30/09/25 £'000	2025/26 Estimated Outturn Limit £'000
Borrowing	110,000	110,000	67,456	110,000
Other long-term liabilities	5,000	5,000	0	5,000
Total	115,000	115,000	67,456	115,000

6. Borrowing

The Council's latest capital financing requirement (CFR) for 2025/26 is £84.517m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing), or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The Council has borrowings of £67.456m and has utilised £17.061m of cash flow funds in lieu of borrowing as at 30 September 2025. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring if gilt yields remain elevated, particularly at the longer-end of the yield curve (25 to 50 years).

The Council's current borrowing of £67.456m is at a fixed rate of 3.48% and was taken out as part of the Housing Revenue Account self-financing settlement.

The Council has also budgeted to borrow an additional £10m HRA borrowing from 1 September 2025. As of 30 September 2025, this borrowing has not been taken due to cash balances held by the Council. Discussions will continue with the S151 Officer to agree the way forward on the timing of new borrowing.

The following table provides a comparison of budgeted borrowing costs and the outturn position for the year.

Borrowing Type	2025/26 Budget Quarter 2 (£)	2025/26 Actual Quarter 2 (£)	2025/26 Annual Budget (£)	2025/26 Forecast Outturn (£)
PWLB	1,211,471	1,176,950	2,591,414	2,347,469
Total Borrowing Costs	**1,211,471**	**1,176,950**	**2,591,414**	**2,347,469**

PWLB maturity certainty rates (gilts plus 80bps) year to date to 30 September 2025

Gilt yields and PWLB certainty rates have remained relatively volatile throughout the six months under review, but the general trend has been for medium and longer dated parts of the curve to shift higher whilst the 5-year part of the curve finished September close to where it begun in April.

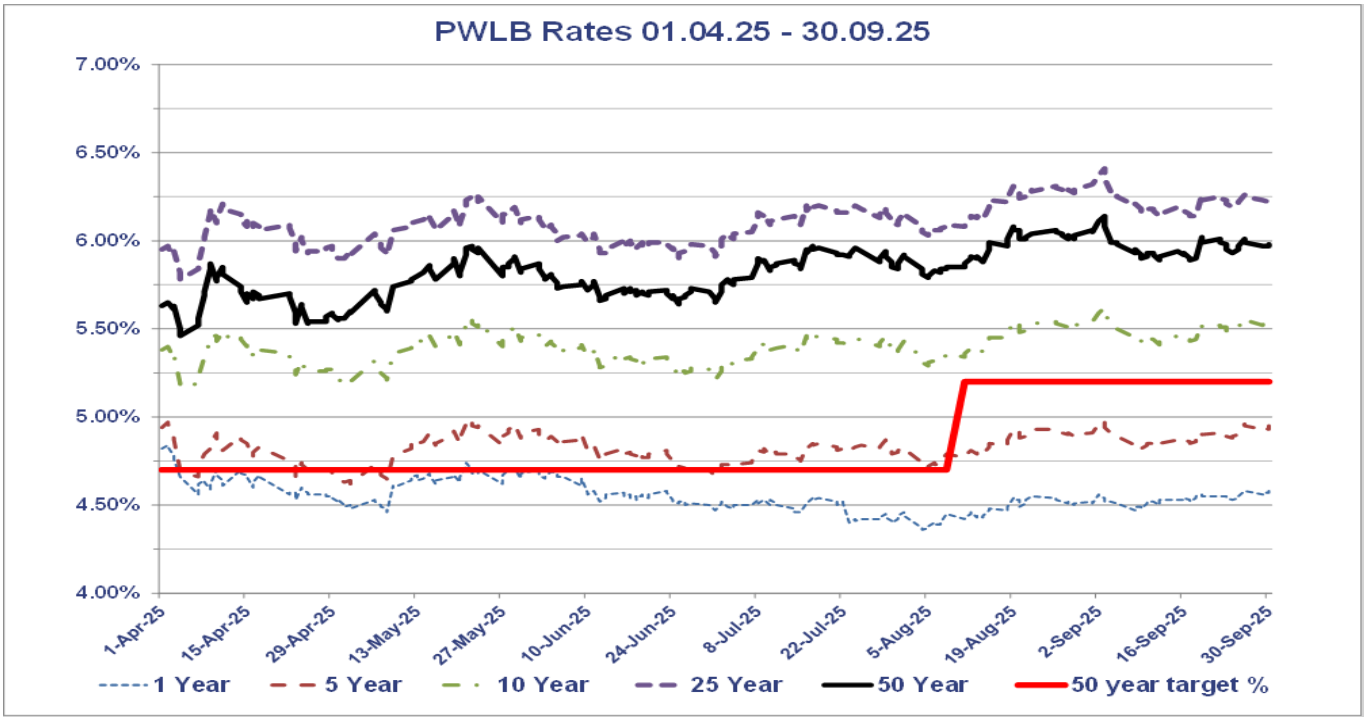
Concerns around the stickiness of inflation, elevated wages, households' inflation expectations reaching a six-year high, and the difficult funding choices facing the Chancellor in the upcoming Budget on 26 November dominated market thinking, although international factors emanating from the Trump administration's fiscal, tariff and geo-political policies also played a role.

At the beginning of April, the 1-year certainty rate was the cheapest part of the curve at 4.82% whilst the 25-year rate was relatively expensive at 5.92%. Early September saw the high point for medium

and longer-dated rates, although there was a small reduction in rates, comparatively speaking, by the end of the month.

At this juncture, MUFG Corporate Markets still forecasts rates to fall back over the next two to three years as inflation dampens, although there is upside risk to all forecasts at present. The CPI measure of inflation is expected to fall below 2% in early 2027 but hit a peak of 4% or higher later in 2025.

The Bank of England announced in September that it would be favouring the short and medium part of the curve for the foreseeable future when issuing gilts, but market reaction to the November Budget is likely to be the decisive factor in future gilt market attractiveness to investors and their willingness to buy UK sovereign debt.



The current PWLB rates are set as margins over gilt yields as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate (General Fund (GF))** is gilt plus 80 basis points (G+80bps)
- **PWLB Local Infrastructure Rate** is gilt plus 60 basis points (G+60bps)
- **PWLB Certainty Rate (Housing Revenue Account (HRA))** is gilt plus 40bps (G+40bps)

The **National Wealth Fund** will lend to local authorities that meet its scheme criteria at a rate currently set at gilt plus 40bps (G+40bps).

7. Debt Rescheduling

Debt repayment and rescheduling opportunities have increased over the course of the past six months and will be considered if giving rise to long-term savings. However, no debt repayments or rescheduling have been undertaken to date in the current financial year.

8. Compliance with Treasury and Prudential Indicators

The prudential and treasury Indicators are shown in the following tables.

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

During the quarter ended 30 September 2025 the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement.

The Director of Finance/S151 Officer reports that no difficulties are envisaged for the current or future years in complying with these indicators.

9. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2025/26, which includes the Annual Investment Strategy, was approved by the Council on 27 February 2025. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

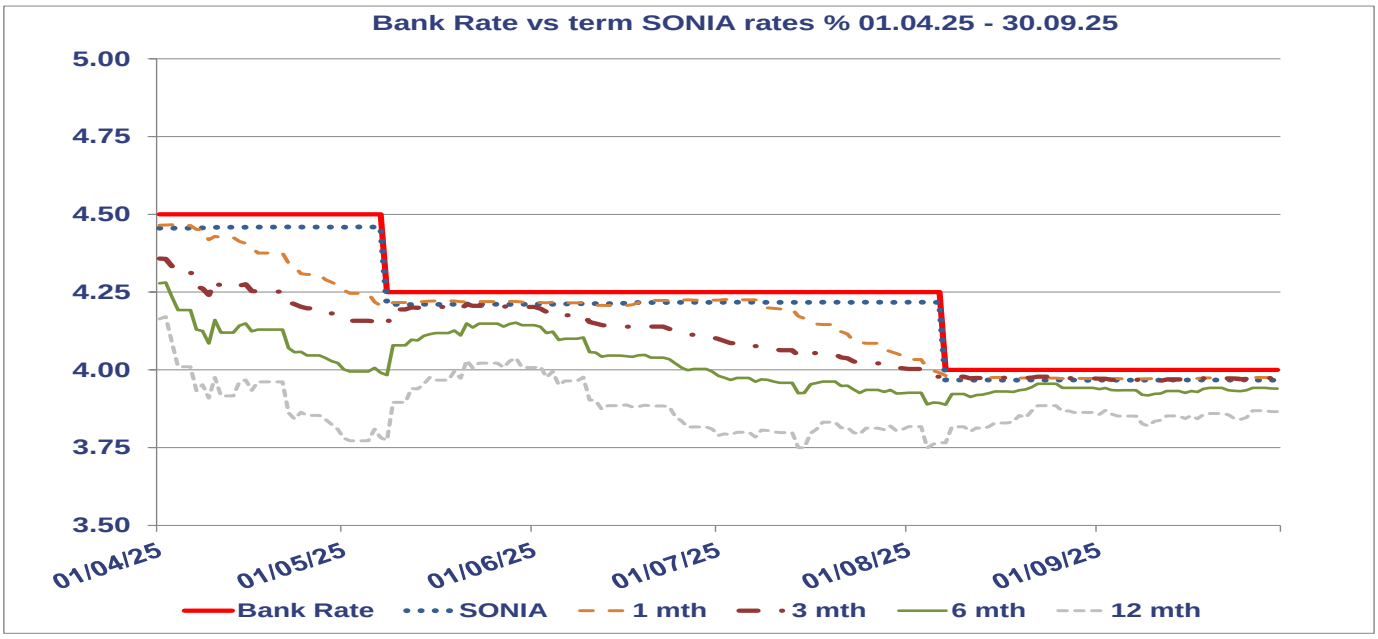
The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity aligned with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but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

Creditworthiness - The UK's sovereign rating has proven robust through the first half of 2025/26. The Government is expected to outline in detail its future fiscal proposals in the Budget scheduled for 26 November 2025.

Investment Counterparty Criteria - The current investment counterparty criteria selection approved in the Treasury Management Strategy Statement is meeting the requirement of the treasury management function.

Credit Default Swap prices - It is noted that sentiment in the current economic climate can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

Investment performance year to date as at 30 September 2025 - The following graph shows that longer term investment rates in the market fell during the first half of the financial year because of the reduction in the Bank of England Base Rate and expectations of further reductions.



During the financial year the Council has made investments in line with the agreed Treasury Management Strategy.

Because the Council collects money on behalf of other organisations which are paid out at future dates (e.g. Council Tax and Business Rates) the value of investments held at any point in time does not represent the value of SHDC's own resources.

The following table provides details of the cash investments held by the Council on 30 September 2025. Note this represents the position at this one point in time. The peaks and troughs in cash flow are managed on a daily basis.

Financial Institution	Country	Amount (£)	Start Date	Maturity Date	Fixed/ Variable	Yield %
Lloyds Bank	UK	2,966,607	N/A	Call	N/A	3.90%
CCLA Money Market Fund*	Various	10,000,000	N/A	Call	N/A	4.04%
Handelsbanken	Sweden	10,095	N/A	Call	N/A	3.20%
Cherwell District Council	UK	2,000,000	15/05/25	14/11/25	Fixed	4.60%
ANZ (London)	Australia	2,500,000	15/05/25	17/11/25	Fixed	4.48%
The Moray Council	UK	1,000,000	28/11/24	27/11/25	Fixed	5.35%
North Lanarkshire Council	UK	2,000,000	02/12/24	01/12/25	Fixed	5.20%
Monmouthshire County Council	UK	2,000,000	03/03/25	03/12/25	Fixed	5.80%
Harlow District Council	UK	2,000,000	22/09/25	22/12/25	Fixed	4.30%
Gloucester City Council	UK	2,000,000	15/04/25	15/01/26	Fixed	4.60%
ANZ (London)	Australia	2,500,000	21/07/25	21/01/26	Fixed	4.30%
Wrexham County Borough Council	UK	2,000,000	25/09/25	26/01/26	Fixed	4.50%
The Highland Council	UK	3,000,000	22/09/25	18/02/26	Fixed	4.35%

Police & Crime Commissioner for Hertfordshire	UK	2,000,000	29/08/25	29/05/26	Fixed	4.15%
East Ayrshire Council	UK	2,500,000	02/06/25	01/06/26	Fixed	4.65%
Blackpool Borough Council	UK	2,000,000	19/06/25	18/06/26	Fixed	4.60%
Chorley Borough Council	UK	2,500,000	04/08/25	03/08/26	Fixed	4.30%
TOTAL		**42,976,702**				

** The CCLA (Church, Charities and Local Authorities) Money Market Fund is domiciled in the UK but investment funds deposited globally.*

At Quarter 1 the level of investments was £23.61m. The main reason for the increase is the receipt of £14.7m additional grant funding in September 2025.

Welland Homes

In addition to the above loans the Council has made loans to Welland Homes, a Housing Company wholly owned by the Council, as follows:

Loan	**Amount (£)**	**Maturity Date**	**Rate**
Green Lane & Walters Close, Spalding	1,341,642.80	17/03/47	3.50%
Parkside Crescent, Spalding	884,278.05	07/05/49	3.50%
London Road, Long Sutton	466,771.00	02/10/48	3.50%
Bentley Court, Spalding	555,548.27	02/08/49	3.50%
Northon's Lane, Holbeach	490,077.55	29/03/51	3.50%
Homefields, Crowland (Phase 1)	1,104,337.16	29/03/53	5.25%
Walnut Close, Sutton St James	609,612.14	25/04/53	5.25%
Homefields, Crowland (Phase 2)	391,915.00	19/10/53	5.84%
Primus Close, Moulton Chapel	701,913.33	05/12/54	5.25%
TOTAL	**6,546,095.30**		

Interest earned on these loans in the current financial year to 30 September 2025 is £70,717.

In addition to the interest, the Council has received a dividend of £65,953 from the Company.

Maturity Structure of Investments

A breakdown of the maturity structure of investments on 30 September 2025 is as follows:

Period to Maturity	**Amount (£)**	**% of Portfolio**
Less than one week	12,976,702	26%
Less than one month	0	0%
One to three months	11,500,000	24%
Three to six months	9,500,000	19%
Six to nine months	6,500,000	13%
Nine months to a year	2,500,000	5%
>12 Months	6,546,095	13%
TOTAL	**49,522,797**	**100%**

Return on Investments

The table below provides a comparison of investment income received against budget at Quarter 2 and a forecast outturn position for the year.

Category	2025/26 Budget Quarter 2	2025/26 Actual Quarter 2	2025/26 Variance Quarter 2	2025/26 Annual Budget	2025/26 Forecast Outturn	2025/26 Forecast Variance
Interest Received GF	(386,618)	(649,968)	(263,350)	(771,100)	(1,283,209)	(512,109)
Interest Received HRA	(163,968)	(295,566)	(131,598)	(327,000)	(624,463)	(297,463)
TOTAL	**(550,586)** *(4.330%)*	**(945,534)** *(4.671%)*	**(394,948)** *(0.341%)*	**(1,098,100)** *(4.330%)*	**(1,907,672)**	**(809,572)**

Treasury investments achieved an average rate of 4.753% (Q1 4.983%) and interest on Welland Homes loans achieved an average rate of 4.286% (Q1 4.286%). The combined rate achieved on all investments was estimated to be 4.671% (Q1 4.853%).

At 30 September 2025 there was a favourable variance of £394,948 compared with £149,080 at Quarter 1. At Quarter 2 the forecast outturn was a favourable variance of £809,572 compared with £617,513 at Quarter 1.

Long Term Equity Investments

The following table provides details relating to the Council's equity investments which are valued at "fair value" in accordance with proper accounting practice.

Entity	Equity at Cost (£)	Equity at Fair Value 31/03/25 (£)
Welland Homes	3,718,694	4,828,602
South Holland Local Housing Community Interest Company	100	1,249,643
UK Municipal Bond Agency	50,000	0
TOTAL	**3,768,794**	**6,078,245**

10. Summary Net Treasury Position as of 30 September 2025

The following table provides an analysis of the net treasury position as at Quarter 2 and the projected outturn for the year:

Category	2025/26 Budget Quarter 2	2025/26 Actual Quarter 2	2025/26 Variance Quarter 2	2025/26 Annual Budget	2025/26 Forecast Outturn	2025/26 Forecast Variance
GF Interest Received	(386,618)	(649,968)	(263,350)	(771,100)	(1,283,209)	(512,109)
HRA Interest Received	(163,968)	(295,566)	(131,598)	(327,000)	(624,463)	(297,463)
HRA Interest Paid	1,211,471	1,176,950	(34,521)	2,591,414	2,347,469	(243,945)
HRA Net Position	1,047,503	881,384	(166,119)	2,264,414	1,723,006	(541,408)
Total Net Position	**660,885**	**231,416**	**(429,469)**	**1,493,314**	**439,797**	**(1,053,517)**

At Quarter 2 the net treasury position shows a combined favourable variance of £429,469 and the forecast outturn is a favourable variance of £1,053,517.

11. Changes in Risk Appetite

The 2021 CIPFA Codes and guidance notes place importance on risk management. Where an authority changes its risk appetite e.g., for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members' attention in treasury management update reports.

It is reported that there has been no change in risk appetite during the first half of the financial year. This will be kept under review when considering global markets and forecasts for interest rates.