



Annual Treasury Management Review 2025/26

For approval by Council on 15 July 2026 following scrutiny by
Governance and Audit Committee
On 2 July 2026

ANNUAL TREASURY MANAGEMENT REVIEW 2025/26**1. 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, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2025/26 the following reports have been submitted:

- an annual treasury strategy in advance of the year (Council 27 February 2025)
- a mid year treasury update report (Governance and Audit 13 November 2025 and Council 26 November 2025)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

In addition, this Council has received quarterly treasury management update reports on 11 September 2025 and 19 March 2026 which were received by the Governance and Audit Committee.

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 also 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 Governance and Audit Committee before they were reported to the Full Council. External Member Training on treasury management was last undertaken in October 2024 and further training can be provided when required.

2. THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2025/26

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 following table summarises actual capital expenditure and how this was financed.

£'000 General Fund	2024/25 Actual	2025/26 Approved Budget	2025/26 Actual
Capital expenditure (including leases)	4,830	14,630	11,613
Financed in year	(3,403)	(11,922)	(10,798)
Unfinanced capital expenditure	1,427	2,708	815

£'000 Housing Revenue Account (HRA)	2024/25 Actual	2025/26 Approved Budget	2025/26 Actual
Capital expenditure	14,816	20,356	11,976
Financed in year	(14,816)	(13,754)	(11,976)
Unfinanced capital expenditure	-	6,602	-

3. THE COUNCIL'S OVERALL BORROWING NEED

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. 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 Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council'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 (such as the Government, through the Public Works Loan Board (PWLB) or the money markets), or utilising temporary cash resources within the Council.

Reducing the CFR – the Council's (non HRA) 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 Council 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 (there is no statutory requirement to reduce the HRA CFR). 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 Council's 2025/26 MRP Policy, (as required by Ministry of Housing, Communities and Local Government (MHCLG) Guidance), was approved as part of the Treasury Management Strategy Report for 2025/26 on 27 February 2025.

The Council's CFR is shown below, and represents a key prudential indicator.

CFR (£'000): General Fund	31 March 2025 Actual	31 March 2026 Budget	31 March 2026 Actual
Opening Balance	15,289	16,351	16,351
Adjustment to Opening Balances: IFRS 16 leases	26	-	-
Add unfinanced capital expenditure (as above)	1,427	2,708	815
Less MRP	(391)	(450)	(451)
Closing Balance	16,351	18,609	16,715

CFR (£'000): HRA	31 March 2025 Actual	31 March 2026 Budget	31 March 2026 Actual
Opening Balance	68,427	68,427	68,427
Add unfinanced capital expenditure (as above)	-	6,602	-
Closing Balance	68,427	75,029	68,427

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 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's	31 March 2026 Estimate £000's	31 March 2026 Actual £000's
Gross Borrowing Position	67,456	77,456	50,000
CFR	84,778	93,638	85,142

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 –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.

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.

	2025/26
Authorised limit	£115m
Maximum gross borrowing position	£67.456m
Operational boundary	£111m
Average gross borrowing position	£66.882m
Financing costs as a proportion of net revenue stream – Non HRA HRA	-6.82% 20.09%

4. **TREASURY POSITION AS AT 31 MARCH 2026**

The Council'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 and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2025/26 the Council's treasury position including accrued interest was as follows:

APPENDIX '1'

	31/3/25 Amount £'000	Rate/ Return %	Average Life	31/3/26 Amount £'000	Rate/ Return %	Average Life
Fixed rate funding						
PWLB	67,482	3.48	37 years	50,074	4.53	3.24 years
Total debt	67,482	3.48	37 years	50,074	4.53	3.24 years
CFR	84,778			85,142		
Over/(under) borrowing	(17,296)			(35,068)		
Cash and investments:						
long term equity and service loans	(12,624)	n/a	n/a	(12,659)	n/a	n/a
short term	(20,332)	5.50	126 days	(26,932)	4.79	141 days
instant access deposits	(5,277)	4.47	1 day	(4,154)	3.67	1 day
Total cash and investments	(38,233)	5.29	95 days	(43,745)	4.64	122 days
Net debt	29,249			6,329		

Investments and Cash and Cash Equivalents held as at 31 March 2026 including accrued interest were as follows:

INVESTMENT PORTFOLIO	Actual 31/03/25 £000's	Actual 31/03/25 %	Actual 31/03/26 £000's	Actual 31/03/26 %
Treasury Investments				
Banks	6,961	27	3,148	10
Building Societies	0	0	0	0
Local Authorities	15,132	59	26,932	87
Total managed in house	22,093	86	30,080	97
Money Market Funds	3,516	14	1,006	3
Total managed externally	3,516	14	1,006	3
Total Treasury Investments	25,609	100	31,086	100
Non-Treasury Investments				
Equity (at fair value)	6,078	48	6,113	48
Service Loans (long term debtors)	6,546	52	6,546	52
Total Non-Treasury Investments	12,624	100	12,659	100

APPENDIX '1'

SUMMARY	Actual 31/03/25 £000's	Actual 31/03/25 %	Actual 31/03/26 £000's	Actual 31/03/26 %
Total Treasury Investments	25,609	67	31,086	71
Total Non-Treasury Investments	12,624	33	12,659	29
Total of all Investments	38,233	100	43,745	100

The maturity structure of the investment portfolio was as follows:

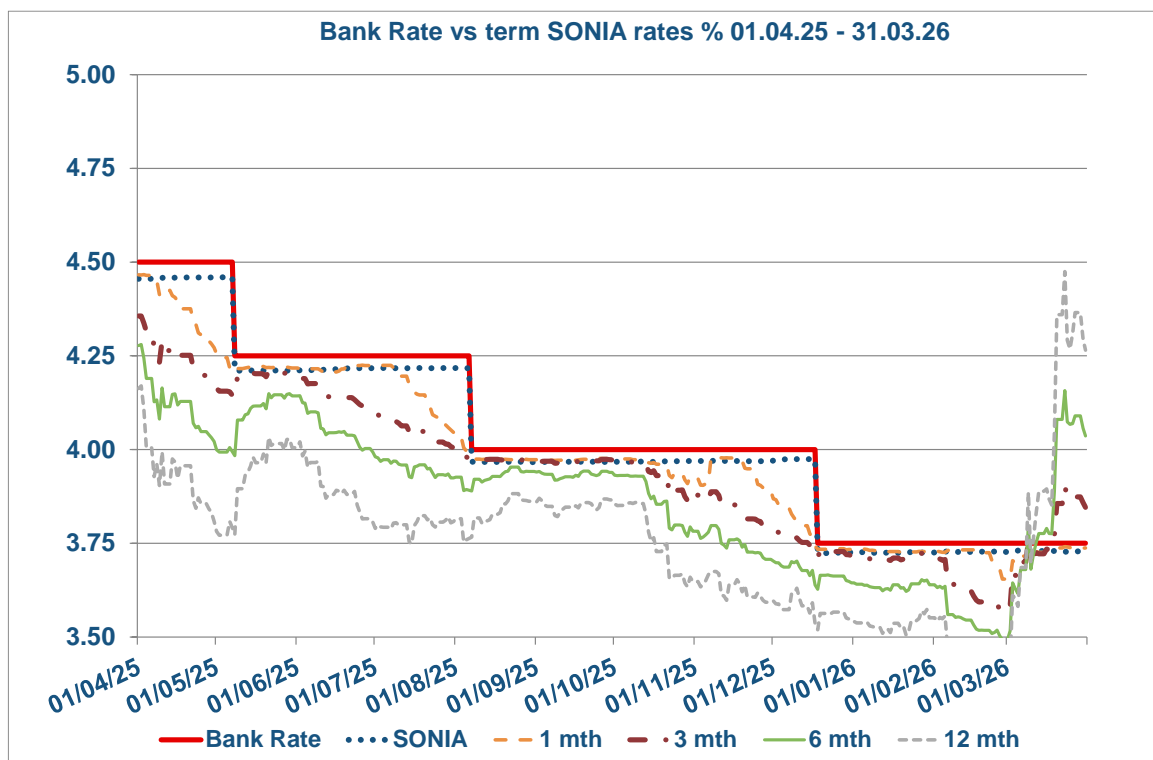
	2024/25 Actual £'000	2025/26 Actual £'000
Investments		
Longer than 1 year	12,624	12,659
Under 1 year	<u>25,609</u>	<u>31,086</u>
Total	38,233	43,745

The exposure to fixed and variable rates on investments was as follows:

	31/3/25 Actual £'000	31/3/26 Actual £'000
Fixed rate	26,878 (70%)	33,479 (77%)
Variable rate	11,355 (30%)	10,266 (23%)

5. THE STRATEGY FOR 2025/26

5.1 Investment strategy and control of interest rate risk (commentary provided by MUG)



Investment returns remained robust throughout 2025/26 despite Bank Rate reducing steadily through the course of the financial year (three 0.25% rate cuts in total), and at the end of March the yield curve had turned positive, reflecting inflation concerns emanating from the on-going conflict in the Middle East.

Bank Rate reductions of 0.25% occurred in May, August and December, bringing the headline rate down from 4.50% to 3.75%. Two of the Bank Rate cuts occurred in the same month as the Bank of England publishes its Quarterly Monetary Policy Report, therein providing a clarity over the timing of potential future rate cuts.

As of early April 2026, market sentiment has been heavily influenced by the Middle East conflict. Commentators anticipate a growing risk of inflation, meaning interest rates will not be cut for some time, and may increase to counteract inflationary pressures arising from steepening energy costs. Growth will also be impacted in many regions of the world. UK GDP is projected by the Office for Budget Responsibility (3 March 2026) to be 1.1% in 2026 before picking up to 1.6% in 2027 and 2028. But the likelihood is that there is downside risk to this forecast given events in the Middle East through March and still on-going.

Looking back through 2025/26, investors were able to achieve returns generally in a range of 4.5% - 5% for periods ranging from 1 month to 12 months in the spring of 2025. By the end of March 2026 deposit rates were somewhat volatile, regaining some traction as the Middle East conflict suggested energy driven inflation may lead to higher interest rates than would otherwise have been the case. Where liquidity requirements were not a drain on day-to-day investment choices, extending duration through the use of "laddered investments" paid off.

Heading into 2026/27, UK inflation is likely to increase to over 4% in the coming months as oil prices, for example, remain close to \$100 per barrel, over 50% higher than before the Middle East conflict started.

5.2 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 generally 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 borrowing, supplemented by short-dated borrowing on a maturity loan structure.

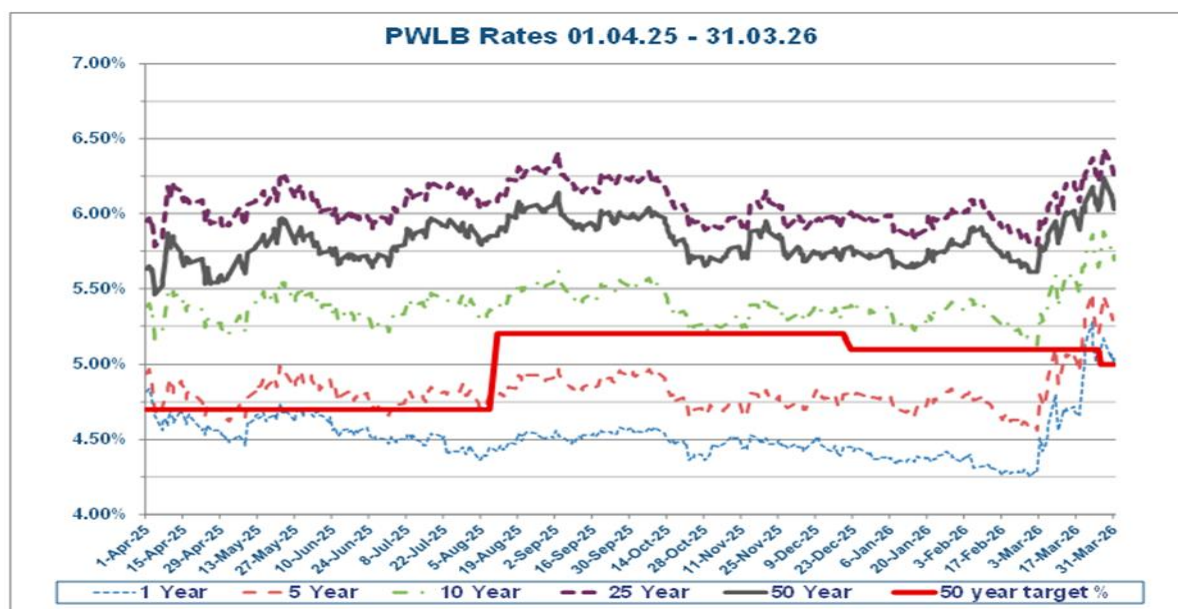
Interest rate forecasts initially suggested gradual reductions in short, medium and longer-term fixed borrowing rates during 2025/26. Bank Rate did reduce to 3.75% as anticipated, but the initial expectation of significant rate reductions across the whole curve did not transpire, primarily because inflation 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:

MUFG Corporate Markets Interest Rate View 11.11.24													
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

Actual PWLB rates during the year are reflected on the following chart:



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. In particular, 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.

6. Borrowing Outturn

Treasury borrowing – At the start of the financial year the Council had £67.456m of HRA long term external borrowing. The Council budgeted to borrow £10.000m for the HRA on 1 October 2025 but this borrowing has not been taken in 2025/26 due to current levels of cash balances.

Rescheduling – In March 2026 the Council repaid its £67.456m of PWLB HRA borrowing at 3.48% and received a discount of £18.372m. These loans were replaced with £50.000m of PWLB HRA borrowing at an average rate of 4.528%. These loans will mature between 2028 and 2030 when we anticipate interest rates to be lower. There will be an annual saving, with the annual interest payments reducing by approximately £0.084m in 2026/27 and 2027/28. In addition to the savings on interest payable, the Council will credit the HRA revenue account with one tenth of the discount (£1.837m) each year for the next ten years commencing in 2025/26.

Interest Payable – The budget for interest payments was £2.591m and the actual was £2.344m giving a favourable variance of £0.247m.

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

The maturity structure of the debt portfolio based on principal outstanding was as follows:

	31/3/25 Actual (£000's)	2025/26 Original Limits (%)	31/3/26 Actual (£000's)
Less than one year	0	100	0
1 year and within 5 years	0	100	50,000
5 years and within 25 five years	0	100	0
25 years and within 50 years	67,456	100	0

7. INVESTMENT OUTTURN FOR 2025/26

Investment Policy – the Authority's investment policy is governed by Ministry of Housing, Communities and Local Government (MHCLG) investment guidance, which has been implemented in the annual investment strategy approved by the Authority on 27 February 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, 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 Council had no liquidity difficulties.

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

Balance Sheet Resources (£'000)	31 March 2025	31 March 2026
General Fund Balance	2,078	2,078
Earmarked Reserves	8,675	9,521
General Fund Total	10,753	11,599
Housing Revenue Account Balance	12,496	12,214
Major Repairs Reserve	2,502	316
HRA Earmarked Reserves	200	200
Housing Revenue Account Total	15,198	12,730
Capital Grants and Contributions Unapplied	6,201	12,876
Usable Capital Receipts	8,356	11,332
Other Balances	14,557	24,208
Total	40,508	48,537

The Council held average treasury investment balances of £35.43m during 2025/26 which were internally managed, achieving an average rate of return of 4.54% compared with the average 3 Month Sterling Overnight Index Average (SONIA) rate of 3.94%.

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

Loan	Amount (£)	Start Date	Maturity Date	Rate %
Green Lane & Walters Close, Spalding	1,341,642.80	20/03/17	20/03/47	3.50
Parkside Crescent, Spalding	884,278.05	29/03/18	29/03/48	3.50
London Road, Long Sutton	466,771.00	12/02/19	12/02/49	3.50
Bentley Court, Spalding	555,548.27	20/08/19	20/08/49	3.50
Northon's Lane, Holbeach	490,077.55	29/03/21	29/03/51	3.50
Homefields, Crowland (Phase 1)	1,104,337.16	30/03/23	30/03/53	5.25
Walnut Close, Sutton St James	609,612.14	25/04/23	25/04/53	5.25
Homefields, Crowland (Phase 2)	391,915.00	19/10/23	19/10/53	5.84
Primus Close, Moulton Chapel	701,913.33	05/12/24	05/12/54	5.25
TOTAL	6,546,095.30			

These are service loans (classified as long term debtors) and the Council received interest at an average rate of 4.29% for the 2025/26 financial year. Total interest earned on these loans during the year was £281k. In addition to the interest, the Council received a dividend of £66k from the Company.

The combined rate of return on all investments averaged 4.50%.

The following table provides an analysis of the outturn for the net treasury position:

Category	2025/26 Original Budget £	2025/26 Outturn £	2025/26 Variance £
GF Interest Received	(771,100)	(1,320,915)	(549,815)
HRA Interest Received	(327,000)	(643,573)	(316,573)
HRA Interest Paid	2,591,414	2,344,298	(247,116)
Premature Repayment of PWL B Borrowing - Discount Allocated to Revenue	<u>0</u>	<u>(1,837,163)</u>	<u>(1,837,163)</u>
HRA Net Position	2,264,414	(136,438)	(2,400,852)
Total Net Position	1,493,314	(1,457,353)	(2,950,667)

Section 106 balances have been credited with £0.041m of the interest reducing the final net surplus to £2.910m of which £0.508m relates to the General Fund and £2.401m is attribute to the HRA.

8. THE ECONOMY AND INTEREST RATES (Commentary provided by MUFG)

UK. Economy.

As with 2024/25, UK inflation has proved somewhat stubborn throughout 2025/26. Having started the financial year at 3.5% year on year (y/y) (April), the Consumer Price Index (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% and 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.

The loosening in the labour market continues to bear down on wage growth. The 3my 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 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 65 basis points 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.

USA 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 Federal Open Market Committee (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?

Eurozone (EZ) Economy.

The Eurozone economy has run pretty much 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% q/q for October to December.

With Eurozone headline inflation close to 2%, the European Central Bank (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.

9. OTHER ISSUES

- 9.1 IFRS 9 fair value of investments** – When producing the 2025/26 financial statements the Council has adhered to this accounting standard. This standard prescribes the way financial instruments are valued in the accounts and also how risk is measured and accounted for.

9.2 Non Treasury 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 31/03/26 (£)
Welland Homes	3,718,694	4,835,294
South Holland Local Housing Community Interest Company	100	1,278,077
UK Municipal Bond Agency	50,000	0
TOTAL	3,768,794	6,113,371

9.3 Changes in Risk Appetite – There has been no change to the Council's risk appetite during the 2025/26 financial year and investments have been made throughout the year in accordance with the Council's agreed investment criteria approved by Council.