SOUTH KESTEVEN DISTRICT COUNCIL

Governance and Audit Committee

Thursday, 23 July 2026

Report of Councillor Bridget Ley – Cabinet Member for Finance

Treasury Management Annual Report 2025/26

Report Author

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Purpose of Report

This report provides Governance and Audit Committee with the details of the Council's treasury management activity for the financial year 2025-2026.

Recommendations

Governance and Audit Committee is requested to approve the Annual Report on Treasury Management activity for 2025/26.

Decision Information

Does the report contain any exempt or confidential information not for publication?	No
What are the relevant corporate priorities?	Effective council
Which wards are impacted?	All

1. Implications

Taking into consideration implications relating to finance and procurement, legal and governance, risk and mitigation, health and safety, diversity and inclusion, safeguarding, staffing, community safety, mental health and wellbeing and the impact on the Council's declaration of a climate change emergency, the following implications have been identified:

Finance

1.1 The financial implications are included within the report.

Completed by: Richard Wyles, Deputy Chief Executive and Section 151 Officer.

Legal and Governance

1.2 The Council is under a duty to manage its resources prudently and therefore due consideration must always be given to the borrowing and lending strategy. A wide range of local authority finance activities, including borrowing, lending, financial management and the approval of types of investment vehicle are governed by legislation and various regulations. This report provides details of the Council's performance in respect of Treasury Management against policy set out as part of the Budget and Policy Framework. Members should note the performance and scrutinise any elements to assist the role of the Governance and Audit Committee in its review of the Treasury Management Strategy.

Completed by: James Welbourn, Democratic Services Manager

2. Background to the Report

2.1 The Local Government Act 2003 and associated regulations require the Council to produce:

- an annual treasury management review of activities
- actual prudential and treasury indicators for 2025/2026.

2.2 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).

3. Key Considerations

3.1 For the financial year 2025-2026, the Council adhered to Prudential Code reporting requirements with members receiving the following reports:

- An annual treasury management strategy in advance of the year which was approved by Council on 27 February 2025.
- A first quarter treasury management activity update on 23 July 2025.
- A mid-year treasury update report which was approved by Governance and Audit Committee on 13 November 2025.
- A third quarter treasury management activity update on 18 March 2026
- An annual review following the end of the year describing the activity compared to the strategy (this report).

3.2 Governance and Audit Committee has delegated powers to deal with matters relating to the Council's treasury management activities. Specifically, it has the responsibility to monitor, review, and amend as appropriate the Council approved Treasury Management Strategy during the financial year. During the course of the year no further changes were made.

3.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the policies previously approved and adopted by the Council.

Treasury Position as at 31 March 2026

3.4 The Strategy for 2025/26 was approved on 27 February 2025.

3.5 A key element of daily operations focuses on comparing current market conditions in conjunction with the MUFG (formerly Link) credit rating list. The list is a tool for guidance, which would only be deviated from when clear better alternative options are available. Where such decisions are taken, a clearly documented audit trail is maintained.

3.6 The aim of the Strategy is to generate a list of highly creditworthy counterparties which enables diversification of investments and thus avoidance of risk whilst providing security.

3.7 A summary of the Council's treasury position at 31 March 2026 is as follows:

Actual Debt Management Activity During 2025-2026

Actual Borrowing Position	31 March 2025		31 March 2026	
	Principal	Average Rate	Principal	Average Rate
Fixed Interest Rate Debt	£79.769m	2.57%	£76.548m	2.57%
Capital Financing Requirement	£100.113m		£102.722m	
Over/(Under) Borrowing	(£20.344m)		(£26.174m)	

Investment Position	31 March 2025		31 March 2026	
	Principal	Average Rate	Principal	Average Rate
Fixed interest Investments	£42.000m	5.03%	£42.000m	4.31%
Variable Interest Investments	£20.767m	5.20%	£1.141m	3.80%
Total Investments	£62.767m	5.11%	£43.141m	4.30%

3.8 The £76.548m (wholly HRA debt) is split between short term and long-term borrowing as follows:

- Short-term - £3.221m which is repayable within the next 12 months
- Long-term - £73.327m

Actual Investment Activity During 2025/26

3.9 The Council's investment policy is governed by MHCLG (Ministry of Housing, Communities and Local Government) guidance, which was implemented in the Annual Investment Strategy approved by the Council on 27 February 2025. The investment activity during the year complied with the approved strategy throughout the whole year. During the year the Council had no liquidity difficulties.

3.10 At 31 March 2026 the Council held short and long-term investments of £43.141m and was compliant with the Council's policy to hold no more than 35% of investments as long-term. This includes a £3m in the CCLA (Church, Charities, and Local Authorities) Local Authority Property Fund.

3.11 The CCLA Local Authority Property Fund invests in property, on behalf of the Council. The value of any investment in the fund will fluctuate in line with property market values. The Council considers this a long-term investment that it has entered into for a minimum of five years as this mitigates the risk of fluctuations in the value of the investment which was £2.619m at 31 March 2026 which remains unchanged from the previous year end value.

3.12 The primary reason for investing in the fund was that the quarterly dividend payment provides a significantly higher return than other investments. The dividend payable for the year was £0.120m which equates to a 4.30% return on the initial £3m investment.

3.13 Over the life of the investment the Council has achieved dividends totalling £0.748m which is in excess of the current notional loss in value of £0.381m. Under the accounting rules for this type of investment any gains or losses on the overall fund value would need to be credited or charged to the General Fund. Currently, a statutory override is in place until 1 April 2029.

3.14 The total amount of investments has decreased between 31 March 2025 and 31 March 2026 from £62.767m to £43.141m, respectively. The reduction is as a result of financing the capital programme across both the General Fund and HRA wholly from reserves (and grant funding where available) such as the building of the New Depot and meeting the decent homes standards across the HRA stock. There were no cashflow issues during 2025/26 although it is noted that cashflow management is becoming more challenging as reserve levels continue to decrease.

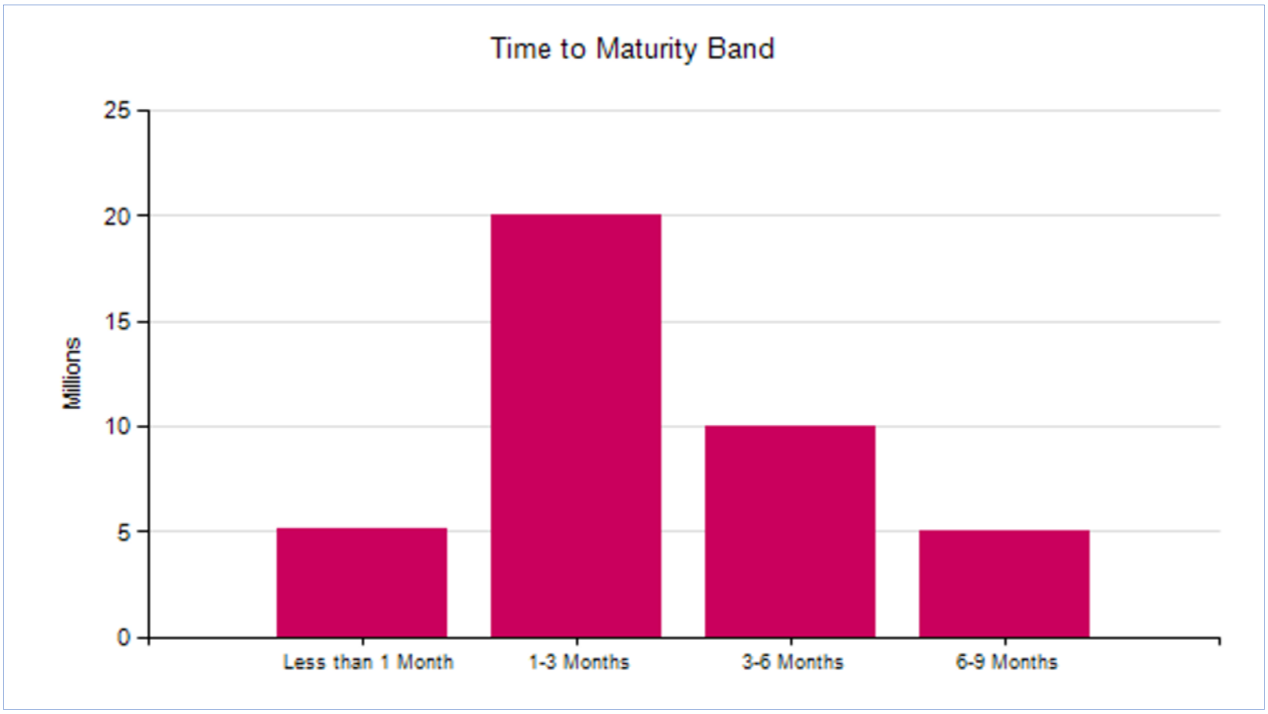
3.15 During 2025/26 The Council continued to place emphasis on ESG (Environmental, Social and Governance) investments. It is the aim to maintain at least 10% of the portfolio of this type of investment where possible which has been achieved over the last financial year.

3.16 In 2025/26 the Council had budgeted investment returns of £2.748m. The provisional outturn is £2.718m which is a minor reduction in year of £0.030m against budget. This was as result of lower overall investment balances than anticipated with the need draw on the HRA reserves to fund in-year spending pressures.

3.17 The duration and counterparties of investments as at 31 March 2026 are shown in the following table and graph. When investments are placed the duration is determined by taking into consideration the treasury advice received from MUFG (formerly Link), and the cashflow for the Council. A wide number of counterparties are used as the Council has recommended investment limits that can be placed with each institution which assists with risk management.

Country	Institution	Instrument Type	Start	Maturity	Yield	Principal
DEU	HELABA	Fixed Term Deposit	10/10/2025	10/04/2026	4.12%	£3,000,000
	HELABA	Fixed Term Deposit	15/08/2025	15/05/2026	4.15%	£5,000,000
	HELABA	Fixed Term Deposit	01/09/2025	01/06/2026	4.18%	£5,000,000
						£13,000,000
GBR	Standard Chartered Bank	Fixed Term Deposit	31/03/2026	30/04/2026	3.57%	£1,000,000
	Lancashire County Council	Fixed Term Deposit	29/08/2025	29/05/2026	4.30%	£5,000,000
	Plymouth City Council	Fixed Term Deposit	09/12/2025	09/06/2026	4.65%	£5,000,000
	Surrey Heath Borough Council	Fixed Term Deposit	03/09/2025	03/07/2026	4.25%	£5,000,000
	Leeds City Council	Fixed Term Deposit	22/09/2025	22/07/2026	4.25%	£5,000,000
	Highland Council	Fixed Term Deposit	24/10/2025	05/10/2026	4.55%	£5,000,000
						£26,000,000
MMF	MMF LGIM	Money Market Fund			3.78%	£524,000
	MMF Federated Investors (UK)	Money Market Fund			3.82%	£617,000
						£1,141,000
Total						**£40,141,000**

*excluding property fund



3.18 Treasury advisers, MUFG, also provide benchmarking of comparative information across all their clients which helps the Council understand how its investment portfolio is performing in relation to others.

3.19 The table below shows for each quarter analysis the average rate of return was above average when compared to other District Councils within the comparative group. This reflects the prudent approach to managing risk and return to maximise investment returns whilst balancing exposure to risk.

Quarter Ending	SK WARoR	District WARoR*	SK WA Credit Risk**	District WA Credit Risk**
Q1 June 2025	4.49%	4.40%	2.91%	2.02%
Q2 September 2025	4.30%	4.16%	2.09%	1.96%
Q3 December 2025	4.27%	4.05%	2.34%	1.92%
Q4 March 2026	4.28%	4.08%	2.07%	1.98%

*WARoR – Weighted average rate of return
** WA Credit Risk – Weighted Average Credit Risk Number

3.20 As part of the Prudential Code, the Council sets a number of prudential and treasury indicators as part of the Treasury Strategy, the estimated performance against these indicators was provided in the Treasury Strategy approved on 27 February 2025 and the actual performance against these indicators is detailed at Appendix A.

Treasury Management Audit

3.21 As part of the Internal Audit plan for 2025/26, the Treasury Management service received a substantial opinion of the effectiveness of the controls in place. There were 2 'low' recommendations which have both been completed. This was a positive outcome demonstrating effective financial management of the Council's investments and cashflows.

Economic Outlook

3.22 As with 2024/25, UK inflation has proved somewhat stubborn throughout 2025/26. Having started the financial year at 3.5% (April), the CPI measure of inflation peaked at 3.8% from July to September 2025, before dipping to 3% in January and February 2026. Core inflation picked up to 3.2% in February 2026, from 3.1%, and the recent upward pressure on energy costs could see CPI inflation breach 4.5% later this year.

3.23 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). At the beginning of the financial year Bank Rate was 4.50%, before dropping to 4.25% in May 2025, then 4.00% in August 2025 before the last cut in December 2025 to the current rate of 3.75%.

3.24 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.

Summary

3.25 The Council's treasury management functions have operated effectively during 2025/26 and have achieved the following:

- Repayment of principal has been secured in all deposits.
- The Council's cash liquidity requirement has been met throughout the financial year.
- Maintained Investment income levels broadly in line with budget despite some in year spending pressures within the HRA.
- The Council has achieved investment returns greater than the benchmark average.
- Robust management of the Council's debt position.
- Prudential indicators set for 2025/26 have been achieved.
- Positive internal audit opinion on Treasury Management function.

4. Other Options Considered

4.1 No other options were considered.

5. Reasons for the Recommendations

5.1 To meet statutory obligations for treasury management.

6. Background Papers

Treasury Management Strategy 2025/26
[Appendix F Treasury Management Strategy 2025-26.pdf]

Treasury Management Q1 Report 2025/26
Treasury Management Report Quarter 1 202526.pdf

Treasury management Mid-Year review 2025/26
Treasury Management Report Quarter 2 202526.pdf

Treasury Management Q3 Report 2025/26
Treasury Management Report - Quarter 3 202526.pdf

7. Appendices

7.1 Appendix A – Capital Prudential and Treasury Indicators 2024/25-2025/26