

**Public (Part1)**  
**Key Decision – Yes**

## **HUNTINGDONSHIRE DISTRICT COUNCIL**

**Title/Subject Matter:** Treasury Management Update

**Meeting/Date:** Thursday 30<sup>th</sup> April 2026

**Executive Portfolio:** Portfolio Holder for Finance and Resources –  
Councillor Brett Mickelburgh

**Report by:** Sandra Beard - Head of Finance and Deputy  
S151

**Ward(s) affected:** All Wards

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### **Executive Summary:**

This report provides an update on the Council's Treasury Management activity during 2025/26, covering the management of cash balances, investments, borrowing and the wider economic and interest rate context. It confirms compliance with the Treasury Management Strategy Statement (TMSS) approved by Council and outlines how treasury decisions have supported the capital programme and the Council's day-to-day financial stability.

Treasury Management underpins the Council's financial resilience and the safe delivery of its services and capital programme. Effective treasury activity:

- Ensures the Council has sufficient liquidity to meet obligations as they fall due.
- Protects public funds by prioritising security and liquidity over yield.
- Supports the Council's Medium-Term Financial Strategy (MTFS) by managing borrowing costs and optimising investment income within agreed risk parameters.
- Has delivered exceptional financial benefit in 2025/26, with investment income significantly exceeding budget due to higher interest rates and effective cash management.

Key messages include:

- The economic environment remained challenging, with inflation at around 3% and interest rates higher for longer than originally forecast, influencing both investment returns and borrowing decisions.
- The Council maintained a stable investment position, with balances increasing marginally from £69.1m to £69.7m by year-end.
- Investment income significantly exceeded budget, with £3.05m earned against a budget of £1.14m, largely due to higher-than-anticipated interest rates.

- No new borrowing was undertaken; borrowing levels reduced slightly following the repayment of a Salix loan.
- Interest payable remained fully in line with budget, reflecting the benefit of the Council's long-term fixed-rate PWLB borrowing strategy.
- Although interest rates have started to fall, they remain higher than pre-2025/26 forecasts, creating ongoing uncertainty over future investment returns and borrowing decisions.
- The scale of capital carry-forwards into 2026/27 may increase the need for future borrowing, requiring continued close alignment between treasury management and capital programme delivery.
- The increase in the inter-authority lending limit presents an opportunity to enhance investment returns, but will necessitate sustained monitoring to ensure risk remains within approved tolerances.
- Investment income levels achieved in 2025/26 are unlikely to be recurring once interest rates normalise, and this should be reflected in future financial planning

**Recommendation(s):**

The Treasury and Capital Management Group is

**RECOMMENDED**

- a. To note the Treasury Management activity undertaken during 2025/26 and that it has been conducted in accordance with the approved Treasury Management Strategy Statement.
- b. To note the significant outperformance against the investment income budget, recognising that this was primarily driven by market conditions and effective cash management.
- c. To endorse the continued prudent approach to treasury management, including the increased use of inter-authority lending within the revised limits approved for 2026/27, subject to ongoing risk management and monitoring.

## 1. PURPOSE OF THE REPORT

- 1.1 To provide Members with an overview of how the Council has managed cash balances, investments and borrowing during the financial year, in line with approved policies and practices.
- 1.2 To confirm that all treasury management activities during 2025/26 have been undertaken in accordance with the TMSS approved by Council.
- 1.3 To summarise the prevailing economic conditions and interest rate environment during the year and explain how these have influenced investment performance and borrowing decisions.
- 1.4 To report on the Council's investment strategy, balances held, rates achieved and the prioritisation of security and liquidity ahead of yield.
- 1.5 To update Members on the Council's borrowing position, confirm that no new borrowing was required during the year, and demonstrate that interest costs remain affordable and predictable.
- 1.6 To explain why investment income significantly exceeded budget in 2025/26 and to distinguish between one-off market-driven benefits and sustainable future income expectations.
- 1.7 To highlight future treasury management risks and opportunities, including interest rate uncertainty, capital programme borrowing pressures and the increased scope for inter-authority lending.

## 2. 2025/26 TREASURY MANAGEMENT UPDATE

- 2.1 **Introduction** - The Council's Treasury Management function operates in accordance with the Treasury Management Strategy Statement (TMSS) for 2025/26, which was approved by Council in February 2025. The primary objectives of treasury management are to:
  - Ensure that the Council maintains sufficient cash resources to meet its day-to-day operational and financial obligations.
  - Invest surplus funds prudently, balancing security and liquidity with the achievement of a reasonable rate of return. Security and liquidity are prioritised ahead of the optimisation of investment returns.
  - Borrow funds where necessary to support the capital programme, taking account of affordability and the prevailing interest rate environment.
- 2.2 **In year Reporting** - Throughout 2025/26, Cabinet has received quarterly reports on Treasury Management activity, together with a more detailed mid-year report. The annual outturn report, incorporating treasury activity and the associated prudential and treasury indicators, will be presented to Cabinet in June 2026
- 2.3 **Economy and Interest Rates** - Inflation has remained above the Bank of England's (BoE) target of 2% and stood at approximately 3% at year end. The BoE base rate was maintained at 3.75% in March 2026, following three rate reductions during 2025/26 from 4.5% at the start of the year.

Interest rates have remained higher than previously forecast. Pre-2025/26 projections had anticipated that the base rate would fall to around 3% by

September 2025. The persistence of higher rates has continued to influence both investment returns and borrowing decisions during the year

2.4 **Investments** - The Council's investment activity during 2025/26 continued to focus primarily on the Debt Management Office (DMO) and Money Market Funds (MMFs).

The DMO provides a secure investment option, with the return of principal guaranteed by HM Treasury. Rates offered by the DMO have remained relatively attractive, reflecting both prevailing market rates and the Government's ongoing borrowing requirements. However, DMO rates can be more volatile and less predictable, as they may be influenced by factors beyond general market conditions, as demonstrated during the period of the Truss-led government.

MMF investments are diversified across eight separate funds. Each fund invests in a wide range of counterparties, thereby spreading credit risk. MMFs provide same-day liquidity, making them a valuable tool for cash flow management, while also offering competitive market rates of return.

The Council's investable balances at the end of 2025/26 were broadly consistent with those at the start of the year. Balances followed the expected seasonal pattern, peaking in December at £95.5m before declining during February and March as council tax receipts reduced.

Year-end balances and weighted average rates of return are set out in the tables below.

#### **Treasury Investments**

Total balances increased marginally from £69.113m at 31 March 2025 to £69.703m at 31 March 2026.

The weighted average rate of return reduced from 4.45% to 3.77%, reflecting the downward movement in interest rates during the year.

#### **Service Loans**

The loan to Urban & Civic remained unchanged during the year and continues to generate a strong rate of return. This loan matures on 12 October 2028.

The loan to Somersham Parish Council was fully repaid in August 2025

| <b>Investments</b>          | <b>Balance<br/>31/03/2025<br/>£m</b> | <b>31/03/2025<br/>Rate %</b> | <b>Balance<br/>31/03/2026<br/>£m</b> | <b>31/03/2026<br/>Rate %</b> |
|-----------------------------|--------------------------------------|------------------------------|--------------------------------------|------------------------------|
| <b>Treasury Investments</b> |                                      |                              |                                      |                              |
| Banks                       | 0.333                                | 2.50                         | 0.223                                | 2.00                         |
| DMADF DMO                   | 47.750                               | 4.45                         | 46.300                               | 3.70                         |
| Money Market Funds          | 17.030                               | 4.51                         | 19.180                               | 3.77                         |
| Property Fund CCLA          | 4.000                                | 4.50                         | 4.000                                | 4.60                         |
|                             | <b>69.113</b>                        | <b>4.45</b>                  | <b>69.703</b>                        | <b>3.77</b>                  |
| <b>Service Loans</b>        |                                      |                              |                                      |                              |
| Loan to Urban & Civic       | 1.986                                | 7.85                         | 1.986                                | 6.93                         |
| Loan to Somersham PC        | 0.002                                | 3.00                         | 0                                    |                              |
|                             | <b>1.988</b>                         | <b>7.85</b>                  | <b>1.986</b>                         | <b>6.93</b>                  |

## Interest Earned

Total investment income for 2025/26 significantly exceeded the approved budget, largely due to higher-than-anticipated interest rates and favorable average cash balances during the year. Final figures remain subject to change as the year-end closedown process is completed

| <b>Interest Earned</b> | <b>Budget<br/>25/26<br/>£m</b> | <b>Actual<br/>25/26<br/>£m</b> |
|------------------------|--------------------------------|--------------------------------|
| Investments            | 1.136                          | 3.050                          |
| U&C Loan               | 0.120                          | 0.149                          |
| Property Fund          | 0.162                          | 0.167                          |

2.5 **Borrowing** - The Council's borrowing position remained largely unchanged during 2025/26, with no new long-term or short term borrowing undertaken during the year.

The only change to borrowing balances was the full repayment of a small Salix loan in February 2026. All remaining borrowing relates to fixed-rate loans from the Public Works Loan Board (PWLB), providing long-term certainty over debt servicing costs.

Gross borrowing reduced marginally from £34.263m at 31 March 2025 to £34.254m at 31 March 2026.

| <b>Borrowing</b> | <b>Maturity<br/>Date</b> | <b>Balance<br/>31/03/2025<br/>£m</b> | <b>31/03/2025<br/>Rate %</b> | <b>Balance<br/>31/03/2026<br/>£m</b> | <b>31/03/2026<br/>Rate %</b> |
|------------------|--------------------------|--------------------------------------|------------------------------|--------------------------------------|------------------------------|
| PWLB             | 26/06/2039               | 11.963                               | 2.18                         | 11.963                               | 2.18                         |
| PWLB             | 11/03/2039               | 7.291                                | 2.49                         | 7.291                                | 2.49                         |
| PWLB             | 02/10/2037               | 5.000                                | 2.78                         | 5.000                                | 2.78                         |
| PWLB             | 19/12/2057               | 5.000                                | 3.91                         | 5.000                                | 3.91                         |
| PWLB             | 19/12/2058               | 5.000                                | 3.90                         | 5.000                                | 3.90                         |
| Salix            |                          | 0.009                                | 0                            | 0.000                                |                              |
|                  |                          | <b>34.263</b>                        |                              |                                      | <b>34.254</b>                |
|                  |                          |                                      |                              |                                      |                              |

Interest payable during the year was in line with the approved budget. The fixed-rate nature of PWLB borrowing ensured that costs remained stable and predictable throughout the year.

| <b>Interest payable</b> | <b>Budget<br/>25/26<br/>£m</b> | <b>Actual<br/>25/26<br/>£m</b> |
|-------------------------|--------------------------------|--------------------------------|
| PWLB                    | 0.972                          | 0.972                          |
| Salix                   | 0.00                           | 0.00                           |

### **3. INTER AUTHORITY LENDING (UK LOCAL GOVERNMENT)**

- 3.1 Inter-authority lending refers to the practice of UK local authorities placing surplus cash balances with other local authorities on a short- to medium-term basis. This activity is widely used across the sector and is consistent with the CIPFA Treasury Management Code.
- 3.2 The primary purpose of inter-authority lending is to achieve a secure and competitive return on temporary cash surpluses while maintaining a high level of credit quality. As counterparties are other UK local authorities operating within a statutory framework, credit risk is generally considered to be low.
- 3.3 Interest rates are aligned with prevailing money market conditions and are often higher than those available through the UK Debt Management Office. Loan durations typically range from overnight to several months.
- 3.4 As part of the 2026/27 Treasury Management Strategy, approval was given to increase the lending limit to other local authorities from £4m to £20m. This flexibility will enable the Council to improve returns on surplus cash balances while continuing to operate within approved risk parameters.

### **4. KEY IMPACTS / RISKS**

- 5.1 Interest rates remain higher than originally forecast and, while reductions have occurred, future movements remain uncertain. This creates ongoing risk to both investment returns and the timing and cost of future borrowing decisions.
- 5.2 Investment income significantly exceeded budget in 2025/26 due to favourable interest rate conditions and cash balances. This level of performance is unlikely to be sustained once interest rates normalise. This would present a risk if future budgets assume similar returns however, HDC has included a prudent amount in the MTFS in recognition of this risk.
- 5.3 The scale of capital carry-forwards into 2026/27 is likely to increase the need for new borrowing in future years. This places greater importance on the alignment between treasury management and capital programme delivery to manage affordability and cashflow impacts.
- 5.4 While borrowing costs are currently stable due to long-term fixed-rate PWLB loans, any future borrowing required for the capital programme will occur in a higher-rate environment than historically experienced, increasing long-term revenue commitments.
- 5.5 Maintaining sufficient liquidity to meet daily operational needs while optimising investment returns requires continued accurate cashflow forecasting. Slippage or acceleration in capital spend could place additional pressure on short-term liquidity planning.
- 5.6 Wider economic factors, including inflationary pressures and macro-economic instability, may impact interest rates, investment markets and access to borrowing, influencing future treasury decisions and financial planning assumptions.

## **5. LIST OF APPENDICES INCLUDED**

None

### **CONTACT OFFICER**

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