

Blaby District Council

Cabinet Executive

Date of Meeting	29 June 2026
Title of Report	Treasury Management Outturn 2025/26 This is not a Key Decision and is on the Forward Plan
Lead Member	Cllr. Cheryl Cashmore - Finance, People & Transformation (Deputy Leader)
Report Author	Assistant Director – Financial Services
Strategic Themes	Ambitious and well managed Council, valuing our people

1. What is this report about?

- 1.1 The report reviews the Council's treasury management activities undertaken during the 2025/26 financial year and gives details of the prudential and treasury indicators for the same period.
- 1.2 It also provides an update regarding the property fund investment.

2. Recommendation(s) to Cabinet Executive and Council

- 2.1 That the treasury management activities for 2025/26 are approved.
- 2.2 That the prudential and treasury indicators for 2025/26 are approved.

3. Reason for Decisions Recommended

- 3.1 The regulatory framework governing treasury management activities includes a requirement that the Council should produce an annual review of treasury activities undertaken in the preceding financial year. It must also report the performance against the approved prudential indicators for the year.
- 3.2 This report fulfils the requirement above and incorporates the needs of the Prudential Code to ensure adequate monitoring of capital expenditure plans and the Council's prudential indicators. The treasury strategy and prudential indicators for 2025/26 were contained in the report approved by Council on 25th February 2025.

4. Matters to consider

4.1 Background

The Council is required to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2025/26 by regulations issued under the Local Government Act 2003. This report meets the requirements of both the Chartered Institute of Public Finance Accountants' (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 minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Cabinet Executive 24th February 2025, Council 25th February 2025)
- a mid-year treasury update report (Council 18th November 2025)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

The regulations place responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is 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.

The Council has complied with the requirement under the Code to give prior scrutiny to all the above treasury management reports by the Cabinet Executive and/or Scrutiny Commission before they were reported to the full Council. Member training on treasury management issues is undertaken on an ad hoc basis as required. A training session delivered by MUFG was undertaken with members of the Senior Leadership Team and Cabinet Executive on 4th December 2025.

4.2 Capital Expenditure and Financing

The Council undertakes capital expenditure on long-term assets which may either be:

- Financed immediately through the application of capital or revenue resources (e.g., capital receipts, grants, revenue contributions), which has no resultant impact on the Council's borrowing need; or
- Financed through borrowing if insufficient resources are available, or a decision is taken not to apply resources.

The actual capital expenditure forms one of the main prudential indicators. The following table summarises the capital expenditure and financing for the year. A more detailed analysis is provided at Appendix A.

	2024/25 Actual £	2025/26 Budget £	2025/26 Actual £
Capital Expenditure	6,995,683	8,493,351	4,956,561
Financed in year	(3,370,859)	(4,561,241)	(2,431,043)
Unfinanced Capital Expenditure	3,624,824	3,932,110	2,525,517

4.3 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.

The Council's 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. 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 MHCLG Guidance), was approved as part of the Treasury Management Strategy Report for 2025/26 on 25th February 2025.

Once again, the Council undertook no new borrowing during 2025/26. Although there was a borrowing need to fund the capital programme, there are still sufficient reserves and balances available to enable the Council to effectively borrow internally.

The table below highlights the gross borrowing position against the CFR. The CFR represents a key prudential indicator. It includes finance leases that appear on the balance sheet, and which increase the Council's borrowing need. However, no borrowing is required to cover finance leases as there is a borrowing facility included in the contract.

	31 st March 2025 Actual £	31 st March 2025 Budget £	31 st March 2025 Actual £
Opening Balance	17,365,910	17,689,594	20,075,202
Add Unfinanced Capital Expenditure	3,624,824	3,932,110	2,525,517
Less IFRS 16 Adjustment	(3,916)	0	0
Less MRP & VRP	(911,616)	(1,039,016)	(1,042,843)
Closing Balance	20,075,202	20,582,688	21,557,876

Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

It is important to ensure that borrowing is prudent over the medium term and that it is only undertaken for capital purposes. Therefore, the Council needs to make sure that, except in the short term, its gross external borrowing does not exceed the total of the CFR in the preceding year (2024/25) plus the estimates of any additional CFR for the current year (2025/26) and next two financial years. Effectively this means that the Council is not borrowing to support revenue expenditure. This indicator also allows the Council some flexibility to borrow in advance of its immediate need where it is appropriate to do so. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 st March 2025 Actual £	31 st March 2025 Budget £	31 st March 2025 Actual £
CFR	20,075,202	20,588,688	21,557,875
Gross Borrowing	8,104,346	5,522,088	7,901,260
(Under)/Over Funding of CFR	(11,970,856)	(15,060,600)	(13,656,615)

The Authorised Limit – this is the affordable borrowing limit required by Section 3 of the Local Government Act 2003. Once it has been set, the Council does not have the power to borrow above this level. The table below demonstrates that the Council has maintained gross borrowing within the authorised limit during 2025/26.

The Operational Boundary – this is the expected borrowing position for the year. Periods where the actual position is either above or below 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 (i.e., borrowing, and other long term obligation costs net of investment income), against the net revenue stream.

	2025/26
Authorised limit	£22,000,000
Maximum gross borrowing position during the year	£7,901,260
Operational boundary	£19,800,000
Financing costs as a proportion of net revenue stream	8.90%

4.4 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 detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the end of 2025/26 the Council's treasury position was as follows:

	Principal at 31st March 2025	Rate/ Return	Average Life	Principal at 31st March 2026	Rate/ Return	Average Life
PWLB Debt	£4,857,602	2.25%	17.8 years	£4,000,000	2.08%	16.8 years
Market Debt	0	n/a	n/a	0	n/a	n/a
Total debt	£4,857,602	2.25%	17.8 years	£4,000,000	2.08%	16.8 years
Capital Financing Requirement	£20,075,202			£21,557,875		
Over/(under) borrowing	(£15,217,600)			(£17,557,875)		
Short Term investments	(£22,575,200)	4.34%		(£19,631,200)	4.10%	
Long Term Investments	(£754,697)	2.40%		(£747,370)	2.85%	
Net debt	(38,547,497)			(37,936,445)		

Other long-term liabilities, such as finance leases, are excluded from the table above.

The interest rates in the table above are based on the loans and investments outstanding at the year end and are not necessarily the same as the average rate payable during the financial year.

The maturity structure of the debt portfolio was as follows:

	31st March 2025 £	31st March 2026 £
Less than one year	857,602	0
Between one and two years	0	0
Between two and five years	0	0
Between five and ten years	0	0
Over ten years	4,000,000	4,000,000
	4,857,602	4,000,000

Investment Portfolio	31st March 2025 £	31st March 2025 %	31st March 2026 £	31st March 2026 %
Banks	19,391,200	4.31%	17,079,200	4.11%
Local Authorities	0	0	0	0
Money Market Funds	3,184,000	4.49%	2,552,000	3.80%
Property Fund	754,697	2.40%	747,369	2.85%

The return on the Property Fund comprises both rental income and interest income gross of fees.

4.5 The Strategy for 2025/26

Investments

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, Local Authorities 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.

Borrowing

During 2025/26, the Council 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 Council'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 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 a 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. The Executive Director (S151 Officer) therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:

- If it had been felt that there was a significant risk of a much sharper RISE in long and short-term rates than initially expected, perhaps arising from the stickiness of inflation in the major developed economies, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

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.

4.6 Borrowing Outturn

No new borrowing was undertaken during the year. As a result, gross borrowing has fallen from £4,857,602 to £4,000,000 on 31st March 2026. The movement is summarised in the following table:

	£
Balance at 1st April 2025	4,857,602
New borrowing in year	0
Loans repaid in year	(857,602)
Balance at 31st March 2026	4,000,000

The total loan interest payable in 2025/26, excluding finance leases, was £85,244.53 (£108,264.64 in 2024/25), and the average interest rate payable was 2.16% (2.28% in 2024/25).

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:

No rescheduling was done during the year as the approximate 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

4.7 Investment Outturn

The Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by Council on 25th 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 experienced no liquidity difficulties during the financial year.

Interest on in house investments amounted to £1,234,905 (£1,539,528 in 2024/25), due to the Monetary Policy Committee maintaining the high bank

rate and cash flow balances remaining high. The average rate of return for 2025/26 was 4.10% compared with the average of 4.34% achieved in 2024/25.

In addition to this the Council achieved a return of £27,355 interest and rental income on its property fund investment during 2025/26. There is a statutory override in place until 1st April 2029, for legacy investments already in place at the end of 1st April 2024, which prevents fluctuations in the fund value from having to be charged to the General Fund. The Council also has an earmarked reserve as a mitigation against losses in the fund value.

The Council invested £1m in the Lothbury Property Trust in December 2019. Notice was given for the termination of the fund in 2024, and the Council via delegated authority made the decision to transfer the funds from Lothbury to UBS Triton at a preferential management fee, as this remained the Council's best opportunity to recover the investment loss. Since then, assets have continued to be disposed of, and distributions made to investors.

As at 31st March 2026 the remaining balance within the Lothbury Fund still to be distributed was £2,130.85. The final distribution was made on 30th April 2026.

As at 31st March 2025 the UBS Triton Property Fund LP investment value stood at £745,238.18.

When the Council initially entered into the Property Fund investment, an Earmarked Reserve was set up for any interest to be held. During the year interest from the property fund amounted to £27,355 (£3,142 Lothbury and £24,214 UBS Triton), this was transferred to the Earmarked reserve at year end bringing the balance on the reserve at 31st March 2026 to £228,982.78.

4.8 Significant Issues
None.

4.9 In preparing this report, the author has considered issues related to Human Rights, Legal Matters, Human Resources, Equalities, Public Health Inequalities and there are no areas of concern.

5. Environmental impact

5.1 No Net Zero and Climate Impact Assessment (NZCIA) is required for this report.

6. What will it cost and are there opportunities for savings?

6.1 Not applicable.

