CABINET

DATE	19th August 2026
REPORT OF	Councillor Simon Taylor – Portfolio Holder for Finance, Resources and Assets
RESPONSIBLE OFFICER	Guy Lonsdale, Section 151 Officer
SUBJECT	Treasury Outturn 2025-26
STATUS	Open
FORWARD PLAN REF NO.	CB 08/26/01

CONTRIBUTION TO OUR AIMS

Effective treasury management will provide support towards the achievement of Council Plan aims and objectives. Treasury management is an integral part of the Council's finances providing for cash flow management and financing of capital schemes. It therefore underpins all the Council's aims.

EXECUTIVE SUMMARY

The report contains details of treasury management arrangements, activity and performance during the 2025-26 financial year.

During the period covered, the Council complied with its legislative and regulatory requirements.

The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

The Council's high-level policies for borrowing and investments are:

- The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source and the type of borrowing should allow the Council transparency and control over its debt.

- The Council's primary objective in relation to investments remains the security of capital. The next consideration is liquidity or accessibility of the Council's investments followed by the yield earned on investments which remains important but is a tertiary consideration.

The key forecast prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential and Treasury Indicators	2025-26 Approved Budget £'m	H1 2025-26 £'m	2025-26 Outturn £'m
Capital Expenditure	108.4	31.9	71.1
Capital Financing Requirement	260.6	N/A	236.5
Authorised Borrowing Limit	310.0	310.0	310.0
Operational Boundary	270.0	270.0	270.0
External Borrowing	203.3	166.8	178.1
Investments >365 days	11.0	0.0	0.0

RECOMMENDATIONS

It is recommended that Cabinet:

1. Considers the content of the report and makes any recommendations to Full Council as necessary in respect of treasury management activity during 2025-26.

REASONS FOR DECISION

The Council's treasury management activity is guided by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year with interim updates on performance against Prudential Indicators reported quarterly. We therefore report in full after Quarter 2 (this Report) and year end with Prudential Indicators being reported additionally after Quarters 1 and 3 in the Council Plan Resources and Finance Report.

1. BACKGROUND AND ISSUES

1.1. CIPFA has defined treasury management as:

The management of the organisation's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

1.2. The Treasury Management Strategy Statement (TMSS) for 2025-26 was developed in consultation with our treasury management advisors at the time, MUFG Treasury Services Ltd. This statement also incorporates the Investment Strategy.

1.3 Whilst the Council has appointed new advisors (Arlingclose) to support effective treasury management arrangements, the Council is ultimately responsible for its treasury decisions and activity. It is important to note that no treasury activity is without risk. The successful identification, monitoring and control of risk is therefore an important and integral element of treasury management activities.

1.4 The Council has nominated the Audit & Governance Committee as responsible for ensuring effective scrutiny of the treasury management arrangements.

1.5 Key points to note with specific regard to the Treasury Outurn:

- Entering 2025-26, period end borrowing levels were forecast to be around £203.3m. Actual borrowing at year end stood at £178.1m (£25m lower than forecast). This was primarily due to slippage of schemes within the Capital Programme, although this was partially offset by temporary borrowing required to fund SEND deficits. As investment rates remained elevated the marginal cost of carry on this temporary debt was easily managed within budget.

- Overall Treasury delivered an outturn position £3m below the original 2025/26 budget.

- Whilst borrowing costs are expected to rise going forward they continue to be projected at below 10% of overall Net Budgets, an important indicator of prudence and affordability.

- During 2025-26:

    - The financial year was largely dominated by two periods of significant uncertainty and volatility. The first being the US trade tariff 'Liberation Day' in April 2025 and the second was the US/Israel war with Iran at the end of February 2026.

  - Prior to the start of the war, headline UK consumer price inflation (CPI) inflation had generally been trending downwards. Inflation was expected to fall further over the coming months to the BoE’s 2% target, but the war changed this. Inflation is now expected to rise again, but how quickly and by how much depends on the duration of the war and how long commodity prices are elevated.
  - Bank of England rates started the year at 4.50%, having eased off their cycle peak of 5.25% from August 2024. Two further quarterly cuts and a final one in December put period end rates at 3.75% where they have since stayed while policymakers assess the inflationary impacts above.

- Longer term rates were also volatile and have settled around 0.6% above their pre-war levels as of the time of writing.

- A further Lender Option, Borrower Option (LOBO) loan (£10m) was called and duly repaid without penalty during the period. This leaves one smaller (£1m) LOBO remaining outstanding with an ultimate maturity date of 2035.

- We tactically moved our average borrowing tenor shorter in the hope that a resolution in the Gulf would lead to a resumption of rate cutting but this can only be efficiently maintained for so long.

- Higher investment returns, even with our cautious approach, has generated surplus income (above budget) of £1.3m during the period, income which is available to fund frontline services. Underspend on borrowing provided another £1.7m for distribution, including £0.5m allocated to a Debt Financing Reserve to provide resilience against the impact of potential higher cost of debt in future years.

- The Treasury Management Strategy covers the Council’s treasury aims and principles. The Council also considers direct ‘commercial’ investments from time-to-time with the aim of generating financial return. Although reference is made to these types of investments in the TMSS’ these transactions are guided and limited by the Capital Strategy document.

2. RISKS AND OPPORTUNITIES

2.1 No Treasury activity is without risk. Specific risks include, but are not limited to, Counterparty Credit Risk (the risk of an investment not being repaid), liquidity risk (the risk that the Authority does not have its funds in the right place, at the right time and in the right amount to make it’s payments as they fall due), interest rate risk (the risk that future rate movements have a revenue implication for the Authority) and reputational risk (see Section 4 below).

2.2 The attached Appendices define our approach toward mitigating these risks.

2.3 Treasury is an Authority-wide function, and its environmental sustainability and equalities implications are the same as for the Council itself.

2.4 The Authority will have regard to the environmental and equality activities of its Counterparties (where reported) but

- Prioritises security, liquidity and yield,
- Recognises that, as large global institutions, our high-quality counterparties operate across the full range of marketplaces in which they are legally able to, and such exposures are small parts of their overall business.
- Excluding any one counterparty will likely mean others will similarly have to be avoided and thus impact the Authority's capacity to mitigate risk through diversification.

2.5 **General Data Protection Regulation 2018** – Relationships with external providers covered by the Treasury management Practices are governed by and operated in accordance with the Act.

3. OTHER OPTIONS CONSIDERED

These are set out on Page 30 of the Treasury Management Strategy Statement.

4. REPUTATION AND COMMUNICATIONS CONSIDERATIONS

As you would expect, with large sums of public money involved, any treasury activity carries a high degree of reputational risk. Any losses have not just financial but also significant, ongoing resource implications for the Council.

5. FINANCIAL CONSIDERATIONS

As set out in the Appendices.

6. CHILDREN AND YOUNG PEOPLE IMPLICATIONS

6.1 As an Authority-wide corporate function, the immediate impacts of day-to-day Treasury operations on children and young people are the same as for the Council as a whole. However, certain Treasury decisions, most notably those relating to Long-Term Borrowing transactions, will place a greater burden on younger residents, over time, relevant to other demographics. In a similar way, the benefits arising from capital schemes funded by this borrowing will accrue to the advantage of younger residents, as has been the case for all previous generations, and will continue to be so in future.

7. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

7.1 Treasury management is an Authority-wide corporate function and does not give rise to any direct climate change or environmental implications beyond those already associated with the Council's wider activities.

7.2 In making investment decisions, the Council will continue to have regard to relevant environmental, social and governance considerations where reliable information is available. However, the Council's overriding treasury priorities remain the security of public funds, liquidity, and yield, in that order.

7.3 The Council will continue to manage counterparty risk through a diversified and prudent approach, recognising that excluding counterparties on non-financial grounds could reduce diversification and potentially increase treasury risk.

8. PUBLIC HEALTH, HEALTH INEQUALITIES AND MARMOT IMPLICATIONS

8.1 There are no direct public health, health inequality, or Marmot implications arising from this Report. The treasury implications for these areas are consistent with those for the Authority as a whole.

8.2 The strategy's focus on security and liquidity helps protect the council's ability to respond to unforeseen pressures, in any area of activity.

9. CONSULTATION WITH SCRUTINY

Scrutiny of this Report was undertaken at Audit and Governance Committee on 16 July 2026.

10. FINANCIAL IMPLICATIONS

A clear Treasury Management Policy Statement underpinned by a prudent but flexible Treasury Management Strategy is essential to ensure the effective management of the Council's cash flow, borrowing costs, and investments. Compliance with CIPFA and statutory guidance is essential given any losses or failures could have significant financial and reputational consequences for the Council.

11. LEGAL IMPLICATIONS

There are no direct legal implications arising from the recommendations in this report which are not covered in the body of the report. The Council has complied with its statutory obligations arising from the Local Government Act, the Local Government Finance Act and all relevant CIPFA guidance.

12. HUMAN RESOURCES IMPLICATIONS

There are no immediate HR implications arising from the recommendations contained in this report.

13. WARD IMPLICATIONS

All wards indirectly affected.

14. BACKGROUND PAPERS

CIPFA Treasury Management Code and Guidance Notes

15. CONTACT OFFICER(S)

Guy Lonsdale, Interim Section 151 Officer (guy.lonsdale@nelincs.gov.uk)
Sam Buckley, Strategic Lead, Financial Planning
(Samantha.buckley@nelincs.gov.uk)

COUNCILLOR SIMON TAYLOR
PORTFOLIO HOLDER FOR FINANCE, RESOURCES AND ASSETS

Appendix 1

Treasury Outturn Report 2025/26

This report covers Treasury and its related financial transactions. A Capital Strategy is reported separately covering non-treasury related investments.

Contents

Abbreviations Used In This Report

- **BoE:** the Bank of England (see also MPC below)
- **CFR:** Capital Financing Requirement - the council's annual underlying borrowing need to finance capital expenditure and a measure of the council's total outstanding indebtedness.
- **CIPFA:** Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.
- **Gilts:** gilts are bonds issued by the UK Government to borrow money on the financial markets. The yields on Gilts are (usually) fixed and so will change inversely to the price of gilts i.e. a rise in the price of a gilt will mean that its yield will fall.
- **LOBO:** a Lender Option, Borrower Option loan carrying provision for the lender to periodically amend the interest rate applicable. If the lender chooses to exercise this option, the borrower then receives a secondary option to choose to repay the loan without penalty.
- **MHCLG:** the Ministry of Housing, Communities and Local Goverment - the Government department that directs local authorities in England.
- **MPC:** the Monetary Policy Committee of the Bank of England, which meets eight times a year, to determine monetary policy by setting the official interest rate in the UK, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing.
- **MRP:** minimum revenue provision - a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).
- **PWLB:** Public Works Loan Board – the section within H.M. Treasury which provides loans to local authorities to finance capital expenditure.
- **RPI/CPI:** the Retail Price Index (RPI) is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. The main difference between RPI and Consumer Price Index (CPI) is in the way that housing costs are treated. RPI is often higher than CPI for these reasons.
- **S151 Officer:** an Officer appointed under section 151 of the Local Government Act to carry out the duties of 'Responsible Financial Officer' as defined by CIPFA
- **SONIA:** the Sterling Overnight Index Average. Generally, a set of indices across varying time periods, for those benchmarking their investments.
- **TMSS:** the annual treasury management strategy statement that all local authorities are required to submit for approval by the full council before the start of each financial year.

S151 Officer Overview

Key Messages:

All investment and borrowing transactions were in line with the Approved 2025-26 Treasury Strategy.

There were no in-year policy changes to the TMSS; the details in this report update the outturn position against the updated economic environment and budgetary changes already approved.

Our central case at the start of the year was for base rates, having started the year at 4.5% to fall gradually through the year to around 3.25%, although we did flag the high degree of uncertainty attached. Rates dropped quarterly initially but the pace slowed from August and ultimately ended the year at 3.75%.

As required under Statute, the Council operates a balanced budget, which broadly means cash raised during the year will meet its non-capital expenditure, however there will always be timing differences in how funds are received, and expenses settled. A fundamental element of treasury management is to ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties and reflect suitable liquidity levels before considering optimising investment return.

Our 2025/26 Treasury Strategy was constructed to allow the Council to appropriately manage risks related to both borrowing and investments. Our approach, once again, stood up well to rapidly evolving financial cionditions, particularly as relating to interest rate volatility, which surpassed our initial expectations. Strong investment returns allowed the Treasury function to generate £1.8m of income to support frontline services all while taking lower overall risk than our peers. Interest paid on debts came in £1.3m under the original 2025/26 budget at £6.93m.

Managing circumstances a standard deviation or two beyond that expected is a key determinant of successful Treasury Management delivery. The role of Treasury Management at North East Lincolnshire Council is to ensure those occurrences do not endanger the larger mission of the Authority.

Beyond that high level brief, the main functions of Treasury can be divided into 4 main parts:-

1. The arrangement of funding for 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 plans as they fall due. 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. Safeguarding surplus funds – investing the Council's funds in line with the principles of Security, Liquidity and Yield priority.

3. Day-to-day cash flow management – ensuring the Authority has funds available in the right place, at the right time, in the right size to meet its payment obligations as they fall due.

4. Horizon scanning of financial data and market intelligence and sharing this with the wider organisation as appropriate.

In an elevated rate environment, we have focussed on shorter term borrowing, seeking to 'ride out' the cycle before locking in loan costs for the long-term. At the time of writing, longer term rates remained high compared to previous years, but we continue to monitor rate paths and adapt our borrowing strategy implementation to best meet the requirements of the Authority's plans as they are rolled out.

Guy Lonsdale, S151 Officer

June 2026

Introduction and External Context

Key Messages:

No Treasury activity is without risk. These risks include, but are not limited to, Credit Risk, Liquidity Risk, Interest Rate Risk, Inflation Risk and Reputational Risk.

The Council uses in-house knowledge, advisors (Arlingclose), treasury management software (Treasury Live) and the CIPFA Treasury Management Code to manage these risks.

Scrutiny of Treasury activity is undertaken by Audit and Governance Committee and reported twice-yearly to Full Council. In accordance with the most recent Code revisions, updates on Prudential Indicators are also be provided as part of quarterly budget update Reports.

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) to provide a review of treasury management activities and the actual prudential and treasury indicators for 2025/26. This report references the most recent Revisions to the Code and 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).

This report covers the following:

- An economic review for the 2025/26 financial year;
- A summary of the Council's capital expenditure, as set out in the Capital Strategy, and performance against its prudential indicators;
- Impact of this activity on the Council's underlying indebtedness, (the Capital Financing Requirement);
- A review of the Council's treasury investments during 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.

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 confirms that it has complied with the requirement under the Code to allow prior scrutiny of this treasury management report by the Audit Committee before they were reported to the full Council. Member training on treasury management issues was undertaken during 2025/26 to support members' scrutiny role.

The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

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Introduction and External Context

Key Messages:

The Council has taken a cautious approach to investing but is also fully appreciative that the external risk environment looks very different to that which had existed for the last decade or so. Elevated inflation reduces our spending power and rising rates, although positive for investments, have a more significant cost impact on future borrowing.

As of June 2026, our advisors are forecasting no further reductions in Bank Rate during 2026, although the picture remains uncertain in terms of path for inflation, the labour market and the trend for growth.

The financial year was largely dominated by two periods of significant uncertainty and volatility. The US trade tariff 'Liberation Day' in April 2025 and the US/Israel war with Iran at the end of February 2026.

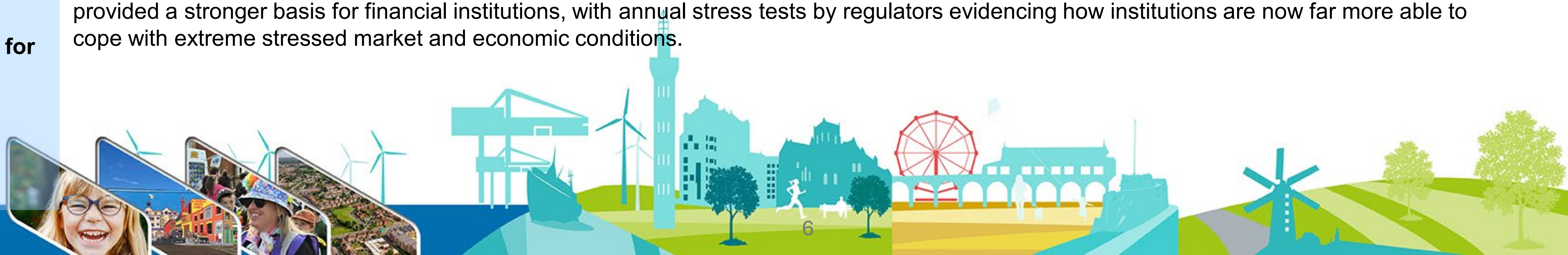
After the initial fallout from US trade tariffs, the following months saw some improvements as equity markets made gains and bond yields eased modestly. However, in the UK this trend in bond yields reversed somewhat as an uncertain economic outlook together with concerns around the government's fiscal position and the Autumn Budget, though ultimately more muted than had been expected, saw 'term premia' rise as investors demanded a higher return for holding gilts.

The Iran conflict caused oil and other commodity prices to rise sharply as the shipping lanes in the region effectively closed, restricting global oil supply. At the end of the period, the economic outlook remained highly uncertain in terms of its impact on inflation as well as countries' fiscal and monetary policy conditions around the globe. Prior to the start of the war, UK consumer price inflation (CPI) inflation had generally been trending downwards and was expected to fall further over the coming months to the BoE's 2% target, but the war changed this. Inflation is now expected to rise again, but how quickly and by how much depends on the duration of the war and how long commodity prices are elevated.

The Authority does not typically have sufficient surplus cash balances to be able to place deposits for more than around six months to earn higher rates from longer deposits. In the rising rate environment seen in recent years, this has had the beneficial effect of enabling the Authority to capture uplifts in rates more quickly. Once rates started to fall, and even prior to that once lower rates are anticipated, it has meant our return falls equally quickly.

Investment balances were around typical levels for much of the period although were raised in Q3 as a tactical move to insulate the Authority from an increasingly illiquid Local Authority lending market and in preparation for another LOBO being called and repaid without penalty in October 2025.

While the Council takes a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the Financial Crisis. To date, these requirements have provided a stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.



Key Messages:

The Treasury Management Strategy Statement, (TMSS), for 2025/26 was approved by this Council in February 2025. No changes were considered necessary during the year despite elevated inflation and volatile geo-politics.

The Authority has an increasing CFR over the next four years due to the capital programme, and as investments reduce will need to borrow up to £114m over the next few years.

The Authority has adopted a cautious approach whereby investments are weighted heavily toward low counterparty risk, resulting in relatively low returns compared to borrowing rates.

Local Context

The Treasury Management Strategy Statement, (TMSS), for 2025/26 was approved by this Council on 20 February 2025.

There were no in-year policy changes to the TMSS – pleasing to note in the face of challenging economic circumstances; the Strategy did its job in protecting public funds whilst allowing sufficient flexibility to cope with exceptional operational demands.

Gross borrowing and the CFR - to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council must 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 plus the estimates of any additional capital financing requirement for the current and next two financial years. This confirms that the Council is not borrowing to support revenue expenditure.

The table below highlights the Council's gross borrowing position against the CFR.

	31 March 2025 Principal	Rate/ Return	Average Life yrs		31 March 2026 Principal	Rate/ Return	Average Life yrs
Total debt	*£188.9m*	*4.05%*	*17.8*		*£178.1m*	*3.97%*	*14.2*
Capital Financing Requirement (CFR)	*£232.5m*				*£236.5m*		
Over / (under) borrowing	*(£43.6m)*				*(£58.4m)*		
Total investments	*£31.2m*	*4.44%*	*0.07*		*£12.5m*	*3.66%*	*0.04*
Net debt	£157.7m				£165.6m		

The Authority aims to utilise both internal borrowing and short-term borrowing to defer more expensive long-term borrowing and maintain a lower credit risk exposure.

Borrowing Strategy

Key Messages:

The Authority's chief objective when borrowing has been to strike an appropriate risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

At 31/03/2026 the Authority owed £178m in loans, (down £10m on 2025) as a result of funding previous years' capital programmes.

The first key control over the treasury activity is the CFR, 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. The Council has approved a policy for borrowing in advance of need which will be adhered to if such borrowing proves prudent, meets the CFR criteria above and after due evaluation is believed to represent a Value for Money proposition.

	2025/26 Outturn Original Estimate £m	Mid-year Position 30.9.2025 £m	2025/26 Final Position £m
Borrowing	203.3	166.8	178.1
Other Long Term liabilities (IFRS 16 Lease values)	7.0	6.6	6.6
Total debt	210.3	173.4	184.7
CFR (year end position)	260.6	241.3	236.5

A breakdown of our debt portfolio by type as at period end is shown below:-

Type of Loan	Amount	% of Portfolio
PWLB Fixed	£91.9m	51%
LOBO	£1.0m	1%
Market Fixed	£36.7m	21%
Short-term Fixed	£48.5m	27%
Variable Rate	£0.0m	0%
Total	£178.1m	

Borrowing Strategy (continued 2)

Key Messages:

Affordability and the “cost of carry” remained strong influences on the Authority’s borrowing strategy. As interest rates are likely to remain relatively high for the time being the Authority determined it was largely more cost effective in the short-term to use its own funds to defer borrowing where possible.

Borrowing short-term from other local authorities provides a useful source of funding below current long-term rates and with the ability to exit loans within a reasonable timeframe.

Importantly however, whilst the above represents the default strategy, there always remains a risk of higher rates in the future. As such, the Authority continues to assess longer term options.

- 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 investment returns are typically below borrowing rates and minimising counterparty risk on placing investments also needed to be considered.

- The policy of avoiding/delaying new long-term borrowing by running down cash balances and using short-term loans available from other local authorities, has served well over the last few years. However, this is kept under review to avoid incurring higher borrowing costs in the future when the Authority may no longer be able to avoid new long-term borrowing to finance capital expenditure and/or the refinancing of maturing debt. No long-term borrowing was arranged during the period, but several new short-term loans were obtained from the Local Authority lending market during 2025-26 (see P11 for details).

- It is anticipated that further borrowing will be undertaken during the 2026/27 financial year.

- Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Section 151 Officer monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks :

- where there was a significant perceived risk of a sharp FALL in long and short term rates, (e.g. due to a marked increased risk of recession or risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.

- where there was a significant risk of a sharp RISE in long and short term rates, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, 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 future.

Borrowing Strategy (continued 3)

Key Messages:

The Authority's traditional source of long-term borrowing is the Public Works Loan Board (part of HM Treasury).

The rate at which the Authority can borrow is determined by the 'Gilt Market' (the Government's own primary source of borrowing) and fluctuates with market conditions. On top of this 'base rate' PWLB apply a margin, typically 0.8% for NELC.

Rates remained at elevated levels during 2025-26 due to macro-economic and geo-political issues with longer term rates moving higher in the second half of the year. Volatility also remained a regular feature across many financial markets as participants struggled to judge future policy direction.

PWLB rates are based on gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields (see below). The main influences on gilt yields are Bank Rate projections, issuance and investor demand, inflation expectations and movements in US treasury yields. Gilt yields slightly decreased over most of the period; reflecting expectations of lower interest rates, a tepid economy and to some extent an improvement in the UK governments fiscal position following tax rises in the autumn budget. Subsequent to the war in the Middle East however, gilt yields saw a rapid rise to above the yield at the beginning of the financial year.

The potential cost of living impacts of the first tariff tensions and then energy shocks resulting from the Iran conflict meant UK inflation remained elevated throughout 2025/26, reaching 3.8% during the Summer, then dropping to 3% prior to the outbreak of hostilities in the Middle Eats to end the period at 3.3%.

PWLB Guidance includes provision for denying access to PWLB borrowing for any local authority which has purchased assets primarily for yield in its capital programme.

The current margins over gilt yields are as follows: -.

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

At the close of 31 March 2026, the 1-year PWLB Certainty rate was 4.82% whilst the 25-year rate was 5.98% and the 50-year rate was 5.67%.

At year end the future direction of travel was finely balanced, even though short-term rates were expected to decline gradually as and when inflation subsides. Longer-term rates appear more heavily influenced by macro-economic and geo-political issues combined with supply-demand dynamics.

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, so expects to retain access to PWLB.

Borrowing Strategy (continued 4)

Key Messages:

A number of loans were agreed during 2025/26 as we sought to defer long-term borrowing during a period of continuing elevated rates.

The table across provides details of each loan and shows how rates moved during the period.

In the local authority market, rates reflected liquidity issues with many regular lenders reducing their exposure on the back of a combination of Section 114 Notices issued in the sector, Schools SEND Funding Formula issues removing capacity and competitive rates available elsewhere.

Borrowing Deals Executed (01/04/2025 - 31/03/2026)

Deal Type Description	Counterparty	Start Date	Maturity Date	Principal	Effective Rate
Fixed	Middlesbrough Council	07/04/2025	09/06/2025	£5,000,000	4.80%
	East Devon District Council	01/04/2025	28/05/2025	£3,000,000	4.50%
	Shropshire Fire and Rescue Service	07/04/2025	29/07/2025	£2,000,000	5.10%
	Middlesbrough Council	16/04/2025	16/06/2025	£5,000,000	4.60%
	Causeway Coast and Glens Borough Council	04/04/2025	04/07/2025	£4,000,000	4.50%
	Greater Manchester Combined Authority	25/04/2025	25/09/2025	£5,000,000	4.30%
	Hertsmere Borough Council	30/05/2025	30/10/2025	£5,000,000	4.25%
	PWLB	26/06/2025	24/06/2050	£1,203,000	5.55%
	Lincolnshire County Council	03/10/2025	31/03/2026	£5,000,000	4.05%
	West Midlands Police and Crime Commissioner	07/10/2025	24/03/2026	£10,000,000	4.10%
	South Yorkshire Mayoral Combined Authority	15/09/2025	31/03/2026	£10,000,000	4.15%
	London Borough of Havering	12/09/2025	19/12/2025	£5,000,000	4.15%
	London Borough of Richmond upon Thames	16/12/2025	16/02/2026	£5,000,000	4.10%
	West Yorkshire Pension Fund	21/11/2025	21/05/2026	£5,000,000	4.38%
	Buckinghamshire Fire & Rescue Service	28/11/2025	31/07/2026	£2,000,000	4.35%
	PWLB	02/12/2025	01/06/2027	£5,000,000	4.48%
	Middlesbrough Council	30/01/2026	30/04/2026	£5,000,000	4.55%
	Breckland District Council	11/02/2026	11/05/2026	£3,000,000	4.95%
	PWLB	17/03/2026	17/09/2027	£5,000,000	4.59%
	Middlesbrough Council	29/01/2026	28/04/2026	£7,000,000	4.65%
	Milton Keynes Council	23/02/2026	31/07/2026	£5,000,000	4.85%
	Elmbridge Borough Council	16/03/2026	16/12/2026	£5,000,000	4.55%
	Middlesbrough Council	27/03/2026	31/07/2026	£5,000,000	4.95%
	North Warwickshire Borough Council	24/03/2026	23/12/2026	£1,500,000	4.80%
	Elmbridge Borough Council	25/03/2026	25/02/2027	£5,000,000	5.00%
	Wealden District Council	04/02/2026	04/06/2026	£5,000,000	4.65%
Total	**Number of deals: 26**			**£123,703,000**	

Investment Activity

Key Messages:

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

£1.815m of income was generated from investment returns in the period. This income supports frontline services.

All other things being equal we would expect to see balances change each year by the amount of corporately funded capital expenditure less any new borrowing.

The Authority has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held.

During 2025/26 total investment balances ranged between £12.5m and £73.6million. The average balance maintained was £43.6m (£14m higher than 2024/25) with a weighted average maturity of only 11 days. During the period, our target rate of SONIA averaged 4.01%. Our average rate achieved was very marginally higher at 4.02%.

Investment Policy – the Council's investment policy is governed by MHCLG guidance, which has been implemented in the annual investment strategy approved by the Council. Investment activity during the year conformed to the Investment Strategy for 2025/26 which aimed to reduce risk by;

- Setting value and term limits for counterparties based on Credit rating, available collateral and sector.
- Utilising data tools available via Treasury Live and MUFG to monitor risk.
- Ensuring a minimum level of liquidity was maintained to allow payments to be made as they fell due

The Council aims to achieve an adequate return (yield) on its investments commensurate with robust levels of security and liquidity. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs using our suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

Creditworthiness – Credit metrics for the financial institutions we interact with have remained remarkably resilient throughout the post Covid pandemic period, through the 2022 Mini Budget, tariff tensions and the conflict in Ukraine and the Middle East. We are mindful of recent steps to reduce regulation for US and UK banks and are watching developments closely although, in a post 'Bail-in' regulatory environment, NELC seeks to largely avoid direct bank exposure.

No changes to TMSS limits, or indeed (more restrictive) operational limits, were necessary during the period. In a post 'Bail-in' regulatory environment NELC seeks to largely avoid direct bank exposure.

Key Messages:

Counterparty credit quality is assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating for institutions considered as having "high credit quality" is A-); credit default swap prices, financial statements, and reports from quality financial news feeds.

Slightly higher than usual balance levels were maintained during the latter part of the year, to provide a buffer against reduced liquidity in the local authority lending market.

Investment Activity

Investments	Balance on 31/03/2025 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 31/03/2026 £m	Avg Rate/Yield (%) and Avg Life (days)
UK Government: - DMADF - Treasury Bills	 21.2 0.0	 659.8 18.8	 (673.9) (18.8)	 7.1 0.0	 4.02% 10 days 4.15% 48 days
Bonds issued by Multilateral Development Banks	0.0	0.0	0.0	0.0	N/A
Direct Unsecured Investments (call accounts, deposits) with financial institutions - rated A- or higher - rated below A-	 0.6 -	 37.7	 (37.8)	 0.5	 3.04% 1 day
Tradable Investments with Financial institutions Corporates (CDs) rated A- or higher	0.0	1.0	(1.0)	0.0	4.12% 71 days
Money Market Funds	9.4	37.3	(41.8)	4.9	4.06% 1 day
TOTAL INVESTMENTS	**31.2**	**754.6**	**(773.3)**	**12.5**	**4.02% 11 days**
Increase/ (Decrease) in Investments £m				(18.7)	

Given the increased risk and continued low returns from short-term unsecured bank investments, but having no funds available for longer-term investment, the Authority is unable to simply diversify into more secure and/or higher yielding asset classes such as repurchase agreements or covered bonds which are secured on financial assets. Eliminating Credit Risk by running down balances whilst still maintaining adequate liquidity therefore remains a key strand of operational activity.

Key Messages:

Figuratively the Authority's risk profile remained steady during the year, (with a narrow set of counterparties our risk profile primarily moves with UK sovereign rating where there were no changes during the period).

Investment Activity (continued 1)

Credit Risk

Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating
31/03/2025	3.13	AA
30/06/2025	2.85	AA
30/09/2025	3.19	AA
31/12/2025	3.09	AA
31/03/2026	2.91	AA

Scoring:
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 26
-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

The Table above is a useful way to simply quantify the overall risk taken during the period covered. It does have its limitations, however. The Authority maintains several Money Market Fund (MMF) accounts for daily liquidity. These funds take deposits from NELC and other corporates and lends them out to banks and other financial institutions. Because the on-lent monies are distributed across c40-50 banks the funds are considered well diversified and Ratings Agencies grant an MMF specific AAA rating. The sector is highly regulated and rules are in place to protect investors. Some of these rules mean that should only a handful of banks be unable to repay their loans or should there be a 'run' on the funds in times of market stress, the Authority could be 'locked out' of accessing its deposits or, in the worst case, lose a portion of its invested amount (known as a 'haircut'). These characteristics lead us to closely monitor the Funds and take swift action whenever necessary to protect taxpayer funds.

Key Messages:

In an environment where direct unsecured bank deposits present uncompensated, increased risk NELC has sought to avoid this imbalance by utilising UK Government based investments and diversified funds.

Ultimately, we seek to minimise counterparty risk by limiting our cash levels whilst still maintaining adequate liquidity.

There were no operational breaches of the limits set in the TMSS.

Investment Activity (continued 2)

Benchmarking

- Comparisons are made to other Authorities using the Treasury Live database which looks at over £10Bn of local Authority investments. As at the outturn date this shows that compared to other Authorities:-
  - NELC hold less cash. Average balance £12m vs £98m average for the Group
  - NELC invest for shorter periods. Only 10 days vs 535 days on average across the Group
  - NELC take less risk than the Group collectively.
  - NELC deliver slightly below average return. 3.69% vs 3.72% average return for the Group

- The above shows how the Authority has seen the effect of reducing rates more quickly than others due to its shorter average investment term. The S151 Officer is of the view that, in a post Bail-in environment elimination of credit risk through lower balances is worth potential lower overall return. To ensure this strategy does not replace credit risk with liquidity risk the Authority maintains a liquid balance at least £10m (reduced to £6m for 2026/27).

- We monitor performance against data on 100 other Authorities' activity with aggregate investments of c£10Bn (as summarised above) monthly. In 2022 Audit and Governance Committee requested that we obtain some additional specific data on what Unitary Authorities (like NELC), are investing in, to ensure we are not 'missing out' on anything those 'peers' are doing. Data was shared with us (confidentially and anonymised) by our Advisors at the time, Link Asset Services. Within this narrower grouping the only materially different activity being those who lent (sometimes long-term) to other Authorities. A similar exercise in 2026 with our new advisors Arlingclose revealed a similar story to both the other surveys. We have less money to hand, take less risk and invest for shorter periods. We achieve (and accept) a slightly lower return as a trade-off. We have reviewed all the data and considered the uplift available via LA lending but for the time being the S151 Officer has taken the decision not to undertake such lending.

Operational Breaches

- There were no breaches of limits set within the TMSS during the period.

Compliance with Prudential Indicators

Key Messages:

The Authority confirms compliance with its Prudential Indicators for 2025/26, which were set in February 2025 as part of the Authority's Treasury Management Strategy Statement.

Treasury Management Indicators
The Authority measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures:

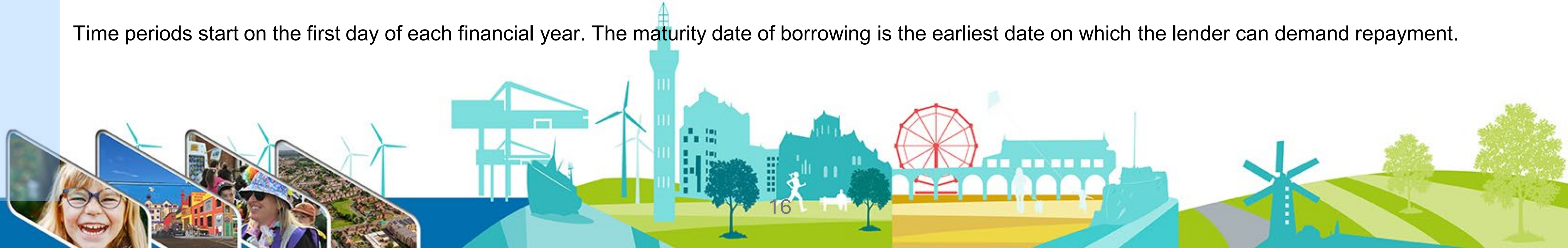
	2025/26	2026/27	2027/28
Upper limit on fixed interest rate exposure	£310m	£335m	£355m
Actual*	£148m*	£190m	£195m
Upper limit on variable interest rate exposure	£80m	£80m	£80m
Actual*	£68m*	Est £75m	Est £75m

*= Peak position for 2025/26

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	Upper	Lower	Actual
Under 12 months	70%	10%	30%
12 months and within 24 months	30%	0%	8%
24 months and within 5 years	30%	0%	9%
5 years and within 10 years	30%	0%	6%
10 years and within 20 years	30%	0%	9%
20 years and within 30 years	50%	0%	21%
Over 30 years	75%	10%	17%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.



Compliance with Prudential Indicators (contd.)

Key Messages:

For 2025/26 a minimum cash level of £10m was targeted.

The level of risk taken on investments was well within permitted boundaries as set in the treasury Management Strategy.

The capacity to make longer-term investments specifically to offset LOBO liabilities (a trade known as 'defeasement') has been removed following repayment of those loans.

Principal Sums Invested for Periods Longer than 366 days: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2025/26	2026/27	2027/28
Limit on principal invested longer than one year	£11m	£1m	£1m
Actual	£0m	£0m	£0m

Security: The Authority measures its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment (see p14).

	Target	Actual
Portfolio average credit rating	A	AA

Liquidity: The Authority measures its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling one-month period, without additional borrowing.

	Target	Actual (Low)
Total cash available within 1 month	£10m	£12m

The Actual figure quoted above is the actual lowest liquidity position.

Compliance with Prudential Indicators (contd.)

Key Messages:

Borrowing remains comfortably below control levels as we continue to leverage internal borrowing support for the Capital Programme.

Borrowing levels were projected to be £203m at the end of 2025/26 when the TMSS was set in February 2025. The actual position as at 31.3.2026 was £178m. The difference was represented by delayed capital spend at the period end and was expected to be required to fund the updated Capital Programme during 2026/27.

Other Prudential Indicators

The following prudential indicators are relevant to the treasury function as they concern limits on borrowing and the adoption of the CIPFA Treasury Management Code.

Operational Boundary for External Debt: The operational boundary is based on the Authority's estimate of most likely, i.e., prudent, but not worst-case scenario for external debt.

Operational Boundary	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Borrowing	£250m	£270m	£280m	£290m
Other long-term liabilities	£20m	£20m	£20m	£20m
Boundary for Total Debt	£270m	£290m	£300m	£310m

Authorised Limit for External Debt: The authorised limit is "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 maintained gross borrowing well within its Authorised Limit and will continue to do so.

Authorised Limit	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Borrowing Limit	£280m	£310m	£330m	£340m
Other long-term liabilities	£30m	£25m	£25m	£25m
Total Debt Limit	£310m	£335m	£355m	£365m
Actual/projected Peak Debt levels	£196m	£212m (est)	£232m (est)	£240m (est)

Adoption of the CIPFA Treasury Management Code: The Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition in February 2022.

Compliance with Capital Finance Prudential Indicators

Key Messages:

The Local Government Act 2003 requires the Authority to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow.

The Authority confirms compliance with its Capital Finance Prudential Indicators for 2025/26, which were set in February 2025 as part of the Authority's Treasury Management Strategy Statement.

Changes to the 2026/27 (and later programmes) may occur as these are progressed in the coming months.

The Local Government Act 2003 requires the Authority to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure

The Authority's planned capital expenditure and financing as at 31.3.2026 may be summarised as follows.

Capital Expenditure and Financing	2025/26 Original £m	2025/26 Changes £m	2025/26 Outturn £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Total Expenditure	108.4	-37.3	71.1	112.8	53.9	38.8
Capital Receipts	2.0	+0.1	2.1	3.4	2.9	2.2
Government Grants	68.9	-19.1	49.8	58.8	18.3	15.4
Ring-fenced External Funding	0.0	+1.3	1.3	0.0	0.0	0.0
Borrowing	37.5	-19.5	18.0	50.6	32.7	21.2
Total Financing	108.4	-37.3	71.1	112.8	53.9	38.8

Compliance with Capital Finance Prudential Indicators (contd.)

Key Messages:

The table across shows how much of the Council's budget was/is expected to be needed to service its debt, including repayments and interest.

The percentage of the Council's income required to service its net debt in 2025/26 came in below projections due to a combination of slippage in the capital programme and much higher than anticipated income from investments due to higher market rates.

Ratio of Financing Costs to Net Revenue Stream

This is a voluntary indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the Council's entire revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2025/26 Original Estimate %	2025/26 Outturn %	2026/27 Estimate %	2027/28 Estimate %	2028/29 Estimate %
General Fund	8.83	5.98	7.84	9.43	9.79

The percentage of the Council's income required to service its net debt came in below 2025/26 projections due to a combination of slippage in the capital programme and a much higher than anticipated income from investments due to the availability of higher market rates.

There are a range of factors that affect these future estimates, some internal, such as what our capital investment delivers, and others external, such as the impact of interest rate changes. All future borrowing must be in accordance with prudential borrowing principles and be affordable, sustainable and prudent.