

CABINET
TUESDAY, 16 JUNE 2026

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: Treasury Management End of Year Review 2025/26

REPORT OF: Director - Resources

EXECUTIVE MEMBER: Executive Member - Resources

COUNCIL PRIORITY: Sustainability

1. EXECUTIVE SUMMARY

- 1.1 During the year the Council has generated **£2.08million** of interest from its investments. This is an increase on the budget reported Quarter 3 (£2.0M), and significantly more than the original budget of £0.8250million.
- 1.2 The Council has repaid £0.02million of borrowing during the year as it has matured. The Council has £0.305million of remaining borrowing. This borrowing is at a fixed rate for a fixed period. The premium incurred from repaying this borrowing early means that it is not worthwhile to do so.
- 1.3 The Council complied with its legislative and regulatory requirements throughout the year.

2. RECOMMENDATIONS

- 2.1 Cabinet is asked to note the position of Treasury Management activity as at the end of March 2026.
- 2.2 Cabinet is asked to recommend this report to Council and ask Council to:
- 1) Approve the actual 2025/26 prudential and treasury indicators as detailed in Appendix B.
 - 2) Note the annual Treasury Management Review for 2025/26 (Appendix B).

3. REASONS FOR RECOMMENDATIONS

- 3.1 To ensure the Council's continued compliance with CIPFA's code of practice on Treasury Management and the Local Government Act 2003 and that the Council manages its exposure to interest and capital risk.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 The primary principles governing the Council's investment criteria are the security of its investments (ensuring that it gets the capital invested back) and liquidity of investments (being able to get the funds back when needed). After this the return (or yield) is then considered, which provides an income source for the Council. In relation to this the Council could take a different view on its appetite for risk, which would be reflected in the Investment Strategy. In general, greater returns can be achieved by taking on greater risk. Once the Strategy has been set for the year, there is limited scope for alternative options as Officers will seek the best return that is in accordance with the Investment Strategy.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1 There are regular meetings with Treasury advisors MUFG (MUFG Pension & Market Services is a member of Mitsubishi UFJ Financial Group, Inc).

6. FORWARD PLAN

- 6.1 This report contains a recommendation on a key Executive decision that was first notified to the public in the Forward Plan on the 15th May 2026.

7. BACKGROUND

- 7.1 In February 2025, Council approved the Integrated Capital and Treasury Strategy for 2025/26 to 2034/35.
- 7.2 MUFG are contracted to provide Treasury advice. The service includes:
- Regular updates on economic and political changes which may impact on the Council's borrowing and investment strategies
 - Information on investment counterparty creditworthiness
 - Technical updates
 - Access to a Technical Advisory Group.

8. RELEVANT CONSIDERATIONS

- 8.1 The Council has operated both within the treasury and prudential indicators set out in the Treasury Management Strategy Statement and in compliance with the Treasury Management Practices. There was a minor breach in August when £4M was invested with Blackpool Council against a limit of £3M. This over-investment was for the period from 22/08/25 to 15/12/25 and was reported in the 2nd Qrt monitoring report. Revised procedures were put in place to prevent this happening again.
- 8.2 The Council generated £2.08M of interest during 2025/26. The average interest rate agreed on new deals during the year was 4.18%. The average interest rate on all outstanding investments at the 31st March was 4.32%.
- 8.3 The Council's activities expose it to a variety of risks (credit, liquidity and market). The Treasury Strategy sets out the Authority's appetite for the level of exposure to these risks.

8.4 **Security Risk** – The possibility that other parties fail to pay amounts due to the Authority.

The Council's counterparty list for 2025/26 comprised UK building societies and UK banks with a Fitch (a credit rating agency) credit rating greater than BBB, non-UK banks with a credit rating greater than AA- with a AAA Country rating, other Local Authorities and Public Corporations. It also includes smaller Building Societies that do not have a credit rating.

8.5 **Liquidity Risk** – the possibility that the Authority may not have funds available to meet its commitments to make payments.

8.6 **Market Risk** - the possibility that financial loss might arise as a result of changes in interest rates.

Investing long term (greater than one year) currently achieves lower interest rates than short term deals. The risks of long term deals are:

- (i) The longer the time period the longer the investment is exposed to default.
- (ii) If the investment has a fixed interest rate, interest rates could rise and the potential to invest at a higher rate will be lost until the investment matures. Conversely, rates could fall and it is better to have locked in to a higher rate.

8.7 Members have indicated that they are prepared to accept this risk within the limits expressed in the Treasury Strategy, which allows no more than £6M of outstanding investments to be invested for longer than 365 days at any one time. At the end of the year the Council didn't have any investments invested for longer than 365 days.

8.8 **Interest (Yield)** – The Bank of England decreased Bank Rate three times during 2025/26 starting the year at 4.5% and ending at 3.75%. With investments being kept relatively short for cashflow the yield on investments reduced as the year went on. £2.08million of interest was received during the year compared to £2.983million in 2024/25. This reduction is made up of declining interest rates and lower balances available for investment.

8.9 The investments outstanding at the 31 March 2026 were £25.5million. This compares to a balance of £45.0million at 31 March 2025. The reduction of £19.5M is substantially due to spend on capital projects. Investment in capital projects will continue during 2026/27 and the estimated investment interest for 2026/27 was set at £0.491million. This estimate will be revised in the 1st quarter monitoring report to reflect any change in the level of balances available to invest due to capital slippage and any change in the estimated interest rates.

9. LEGAL IMPLICATIONS

9.1 The Cabinet has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council. By considering monitoring reports throughout the financial year Cabinet is able to make informed recommendations on the budget to Council.

- 9.2 The Council is under a duty to maintain a balanced budget. Section 151 of the Local Government Act 1972 states that:
“every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.” This duty is enhanced further by the Local Government Finance Act 1992, which requires a council to set an annual budget and that budget to be fully balanced or funded. The report will assist the Council in understanding its sources of revenue and assess if the annual budget is balanced, therefore enabling the Council to comply with its statutory obligations.
- 9.3 The Prudential Indicators comply with the Local Government Act 2003, which permits local councils to prudently borrow and invest.
- 9.4 The Council’s Investment Strategy (agreed by Council each year, and agreed in February 2025 for the 2025/26 year) determines that Council will receive reports which include “An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation’s treasury management strategy”.

10. FINANCIAL IMPLICATIONS

- 10.1 The main financial implications are covered in section 8 of the report.

11. RISK IMPLICATIONS

- 11.1. Good Risk Management supports and enhances the decision-making process, increasing the likelihood of the Council meeting its objectives and enabling it to respond quickly and effectively to change. When taking decisions, risks and opportunities must be considered.
- 11.2 Risks associated with treasury management and procedures to minimise risk are outlined in the Treasury Management Practices document, TMP1, which was adopted by Cabinet in July 2003 and is revisited annually as part of the Treasury Strategy review. The risk on the General Fund of a fall of investment interest below the budgeted level is dependent on banks and building societies need for borrowing.
- 11.3 The variety of risks that the Council is exposed to by undertaking its treasury management activities are summarised in Section 8.

12. EQUALITIES IMPLICATIONS

- 12.1. In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2 There are no direct equalities implications directly arising from this report.

13. SOCIAL VALUE IMPLICATIONS

13.1. The Social Value Act and “go local” requirements do not apply to this report.

14. ENVIRONMENTAL IMPLICATIONS

14.1. There are no known Environmental impacts or requirements that apply to recommendations of this report.

15. HUMAN RESOURCE IMPLICATIONS

15.1 There are no direct human resource implications.

16. APPENDICES

16.1 Appendix A, Annual Treasury Management Review.

17. CONTACT OFFICERS

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18. BACKGROUND PAPERS

18.1 Investment Strategy 2025/26 <https://democracy.north-herts.gov.uk/documents/s27501/Appendix%20F-%20Investment%20Strategy.pdf>