From:	Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services Corporate Director - Finance
To:	Governance and Audit Committee – 29 July 2026
Subject:	Treasury Management Outturn 2025-26
Classification:	Unrestricted
Future Pathway of report	County Council

Summary: This report provides an overview of Treasury Management activity in 2025-26 and developments in 2026-27. Listed below are some of the key highlights to aid the Committee in their review:

a. The Council maintained its prudent approach to treasury management and met all its prudential indicators of liquidity, security and interest rate risk
b. The Council continues to manage its interest cost by borrowing from internal resources (chart 3.1) as well as earning interest on cash balances.
c. External borrowings at the end of the year were £610.3m, reducing by £122.2m during the year. The reduction included early repayment of loans totalling £90m and the rest being loans repaid on maturity. No new borrowings were made during the year.
d. The investments position at the end of the year was £315.9m, a decrease of £159.9m. This reflects reduction in cash balances mainly due to a combination of repayment of loans as well as lower working capital balances at the year end.
e. The Council's investments which are maintained for cash flow purposes are invested in a mix of short- and medium-term instruments. The Council has reviewed its investments and has made plans to transition the holdings into a more liquid portfolio as well as reducing portfolio risk. This involves replacing holdings in the Pooled Funds portfolio and covered bonds with more liquid instruments.
f. During the year, the Council made a saving of £2.9m against the interest cost budget mainly due to savings through early repayment of debt as well as improved earnings on investments which benefitted from the Bank of England cutting interest rates slower than expected.

Recommendation: The Committee is asked to endorse this report and recommend that it is submitted to County Council.

---

1. Introduction

1.1 This report covers Treasury Management activity in 2025-26.

1.2 If agreed by the Committee, this report will be presented to County Council.

1.3 The Council's Treasury Management Strategy for 2025-26 was approved by the County Council on 13 February 2025.

1.4 The Council has both 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. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy. This report covers treasury activity and the associated monitoring and control of risk.

1.5 Treasury risk management at the Council is conducted within the framework of CIPFA's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

1.6 The Council has nominated the Governance & Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2. Governance and Audit Committee's Responsibility

2.1 In accordance with Kent County Council's Financial Regulations, the Committee is responsible for ensuring effective scrutiny of the treasury management strategy and policies. Members are reminded that the responsibility for the implementation and regular monitoring of treasury management policies and practices is the delegated responsibility of Cabinet, and the execution and administration of treasury management decisions is delegated to the Section 151 Officer.

2.2 Members are reminded that the purpose of this Committee, in accordance with its Terms of Reference, is to provide independent and high-level focus on the adequacy of governance, risk, finance, and control arrangements.

2.3 Towards this purpose, its role is to:

- ensure there is sufficient assurance over governance risk and control and provide reports to full Council on the effectiveness and adequacy of these arrangements;
- have oversight of both internal and external audit together with the financial and governance reports, helping to ensure that there are adequate arrangements in place for both internal challenge and public accountability, and
- through i and ii above, give greater confidence to all those charged with governance for Kent County Council that its arrangements are effective and

reporting to full Council or other Committees as necessary where the Committee has concerns that these arrangements are not effective.

3. External context

3.1 **Economic background:** The following economic commentary has been provided by the Council's retained treasury advisor, MUFG Corporate Markets.

UK Economy

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

b) *Against this backdrop, the continued lack of progress in ending the Russian invasion of Ukraine, and the potentially negative implications for global growth as a consequence of the implementation of US tariff policies, Bank Rate reductions look limited for the remainder of 2026 (as they do in the euro-zone). Bank Rate currently stands at 3.75%.*

c) *Moreover, borrowing has become more expensive in 2025/26. Gilt yields have risen materially in March 2026, more than reversing the falls earlier in the financial year. Additionally, the public finances have remained under pressure. The higher-than-expected public net sector borrowing of £14.3bn in February was £2.2bn above last February's outturn. But that borrowing overshoot was mainly due to timing effects relating to the £13.0bn government debt interest payment. That came in as the highest payment since June 2025, causing a 12.3% increase in spending.*

d) *However, the combination of some energy price support and pressures from higher inflation amid the ongoing energy price shock, higher interest rates and a weaker economy will ultimately put borrowing on an upward trend. With the rise in energy prices possibly pushing the Retail Prices Index inflation up to a peak of 5.7%, debt interest repayments will increase by about £10bn.*

e) *The loosening in the labour market continues to bear down on wage growth. The 3myy growth rate of average earnings including bonuses slowed from 4.2% in December to 3.9% in January. Meanwhile, excluding bonuses, private earnings growth continued to fall from 3.4% to 3.3%.*

f) *The table below provides a snapshot of the conundrum facing central banks: inflation pressures remain, labour markets are still relatively tight by historical comparisons, and central banks are also having to react to a fundamental re-ordering of economic and defence policies driven largely by the US administration*

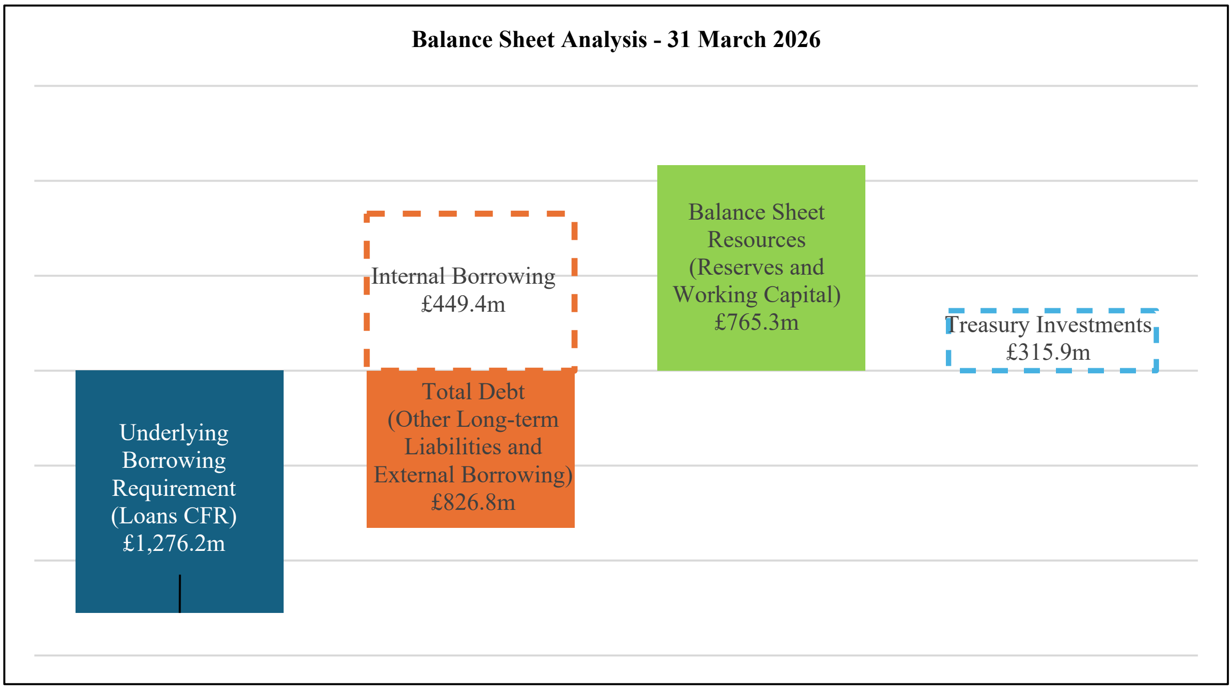
	UK	Eurozone	US
Bank Rate	3.75%	2.0%	3.5%-3.75%
GDP	0.1%q/q Q4 (1.0%y/y)	+0.2%q/q Q4 (1.2%y/y)	0.7% Q4 Annualised
Inflation	3.0%y/y (Feb)	1.9%y/y (Feb)	2.4%y/y (Feb)
Unemployment Rate	5.2% (Jan)	6.2% (Jan)	4.4% (Feb)

g) *The Bank of England left Bank Rate unchanged at 3.75% by a vote of 9-0, but suggesting rates may need to rise if inflation picks up markedly. The vote could best be described as moderately hawkish. The MPC stated it "stands ready to act as necessary" and "is alert to the increased risk of domestic inflationary pressures through second-round effects in wage and price-setting". Even so, we suspect the committee is likely to put equal weight on higher inflation and weaker growth, particularly the poor macroeconomic backdrop prior to the energy shock, keeping interest rates at 3.75% this year.*

h) *10-year Gilt yields have been exceptionally volatile in the final weeks of 2025/26, troughing at around 4.23% in late February before rising to 5.00% (and well through that on an intraday basis). That spike was driven by the outbreak of war in the Middle East, which prompted a dramatic reassessment of investors' Bank of England policy rate expectations. Having been pricing in rate cuts in late-February, as many as four rate hikes were discounted by late-March. The 10-year yield ended the quarter at 4.92% with around 65bp of rate hikes priced in over the coming year. In addition to more hawkish monetary policy expectations, part of this increase in yields probably reflected an increase in term premia amid concerns that the government may react by loosening the fiscal purse strings.*

4. Local context

4.1 At 31 March 2026 the Council had borrowings of £610.3m and investments of £315.9m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These are shown in the following table.



4.2 The Council followed its strategy to maintain borrowing and investments below their underlying levels, known as internal borrowing, in order to reduce risk and keep interest costs low. This strategy is regularly reviewed with the Council's treasury advisors taking account of capital spending plans and available cash resources.

4.3 The treasury management position on 31 March 2026 and the change during the year is shown in the following table.

	31-Mar-25 Balance £m	2025-26 Movement £m	31-Mar-26 Balance £m	31-Mar-26 Average Rate %
Long-term borrowing	732.6	-122.2	610.3	4.2
Total borrowing	**732.6**	**-122.2**	**610.3**	**4.2**
Long-term investments	305.0	-23.1	281.9	4.7
Short-term investments	27.9	-27.9	0.0	0.0
Cash and cash equivalents	143.0	-108.9	34.1	3.8
Total investments	**475.8**	**-159.9**	**315.9**	**4.6**

5. Borrowing Update

5.1 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

6. Borrowing Strategy During the Period

6.1 The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

6.2 At 31 March 2026, the Council held £610.3m of loans as part of its strategy for funding previous capital programmes. No new borrowing was undertaken in the year and £122.2m of existing loans were allowed to mature or repaid without replacement.

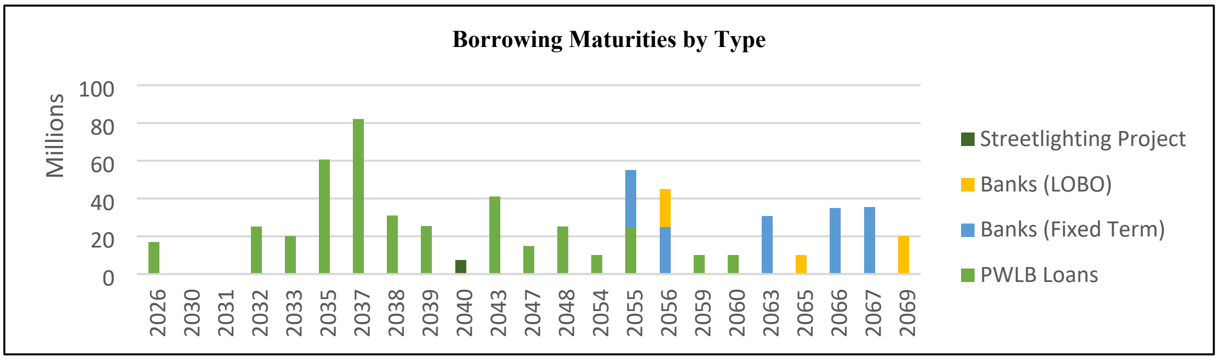
6.3 Interest rates rose over the year in both the long and short term, with rates at the end of March around 0.25% higher than those at the beginning of April. The PWLB 10-year maturity certainty rate stood at 5.73% at 31 March 2026, 20 years at 6.20% and 30 years at 6.26%.

6.4 The Council continues to hold LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. Rising interest rates increases the likelihood of a lender exercising their option, as such Dexia exercised their option on £40m loan during the period.

6.5 The Council's borrowing activity in 2025-26 is in the table below and a detailed schedule of borrowings as at 31 March 2026 is in Appendix 1.

	31-Mar-25	**2025-26**	**31-Mar-26**	**31-Mar-26**	**31-Mar-26**
	Balance	**Movement**	**Balance**	**Average Rate**	**Value Weighted Average Life**
	(£m)	**(£m)**	**(£m)**	**(%)**	**(yrs)**
PWLB Loan	428.5	-31.7	396.8	4.2%	14.6
Banks (Fixed Term)	206.1	-50.0	156.1	4.5%	36.1
Banks (LOBO)	90.0	-40.0	50.0	4.0%	37.0
Streetlighting project	7.9	-0.5	7.4	2.9%	14.5
Total borrowing	**732.6**	**-122.2**	**610.3**	**4.2%**	**21.9**

6.6 The maturity profile of the Council's outstanding debt at 31 March 2026 was as follows:



7. Treasury Investment Activity

7.1 CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that represents balances that need to be invested until the cash is required for use in the course of business.

7.2 The Council holds significant invested funds representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balance ranged between £313.7m and £705.0m due to timing differences between income and expenditure, as well as £122.2m used to fund maturing debts and early repayment.

7.3 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

7.4 Bank Rate decreased from 4.50% at the beginning of the year to 3.75% at the end of March 2026. Short-dated cash rates, which had ranged between 4.39% - 4.45% at the beginning of April, dropped by around 0.75% for Overnight/7-day maturities and 0.48% for 3/6-month maturities.

7.5 The Council continues to hold significant cash balances in money market funds as well as in bank call accounts which have same day availability. This liquid cash was diversified over several counterparties and money market funds to manage both credit and liquidity risks.

7.6 During the year the Council loaned £10.4m to the no use empty loans programme. At 31 March 2026, the Council had loans outstanding totalling £19.3m to the programme now achieving a return of 3.8% which is available to fund general services. A £29.5m net decrease in covered bonds in the year brings the total bond portfolio up to £73.9m. These instruments are negotiable and have the benefit of collateral cover.

7.7 The Council's investments during the year are summarised in the table below and a detailed schedule of investments as at 31 March 2026 is in Appendix 1.

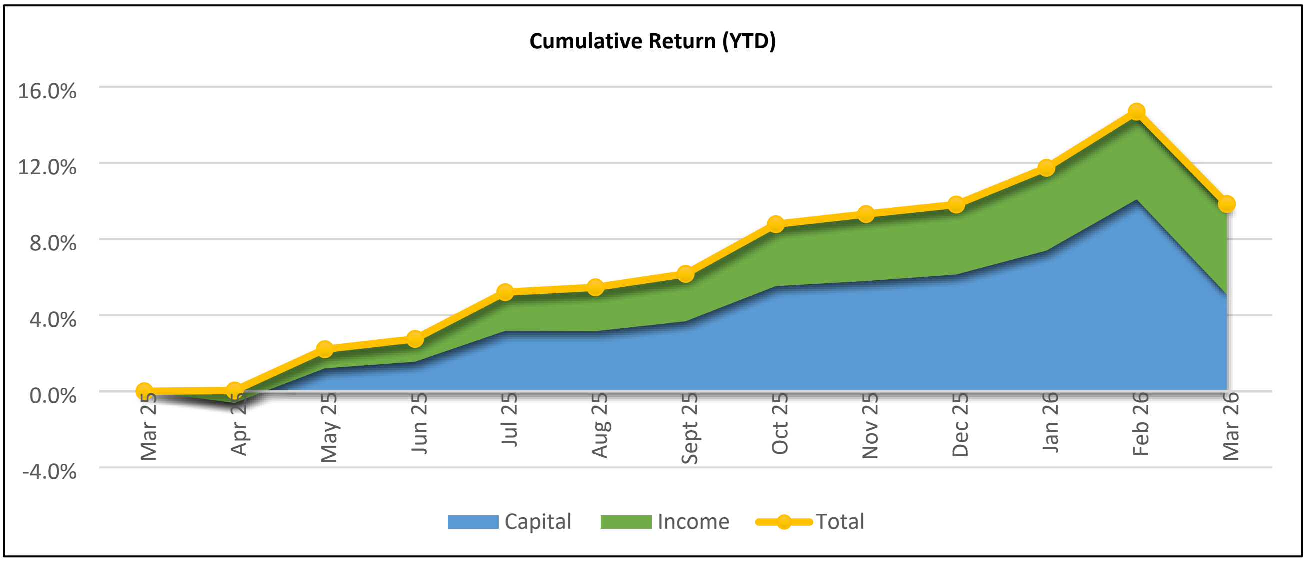
	31-Mar-25	2025-26	31-Mar-26	31-Mar-26	31-Mar-26
	Balance	Movement	Balance	Rate of Return	Average Credit Rating
	(£m)	(£m)	(£m)	(%)	
Money Market Funds	133.0	-105.5	27.5	3.8	AAA
Call Deposits (Banks)	10.0	-3.4	6.6	3.4	A+
Treasury Bills (UK Government)	0.0	0.0	0.0	0.0	
DMADF Deposits (DMO)	27.9	-27.9	0.0	0.0	
Covered Bonds	103.3	-29.5	73.9	4.4	AAA
No Use Empty Loans	22.0	-2.7	19.3	3.8	
Equity	2.1	0.0	2.1		
Internally Managed Cash	**298.3**	**-168.9**	**129.4**	**4.1**	AA+
Strategic Pooled Funds	**177.5**	**9.0**	**186.6**	**4.9**	
Total	**475.8**	**-159.9**	**315.9**	**4.6**	

8. Externally managed investments

8.1 The Council is invested in equity, multi-asset and property funds. Because the pooled funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives are regularly reviewed. The Council commenced implementation of its strategy to reduce pooled fund investments over the medium term to support liquidity requirements and given that the return differential between these instruments and other liquid fixed income instruments has narrowed which downgrades the rationale for holding such investments. Redemption requests have been submitted to the CCLA Property Fund as part of the planned reduction in the portfolio.

8.2 Although expected returns are higher over the long term than comparable short-term cash instruments, returns on pooled fund investments can be volatile from one year to the next, and therefore the Council only holds long term (strategic) cash balances in the strategic pooled funds' portfolio.

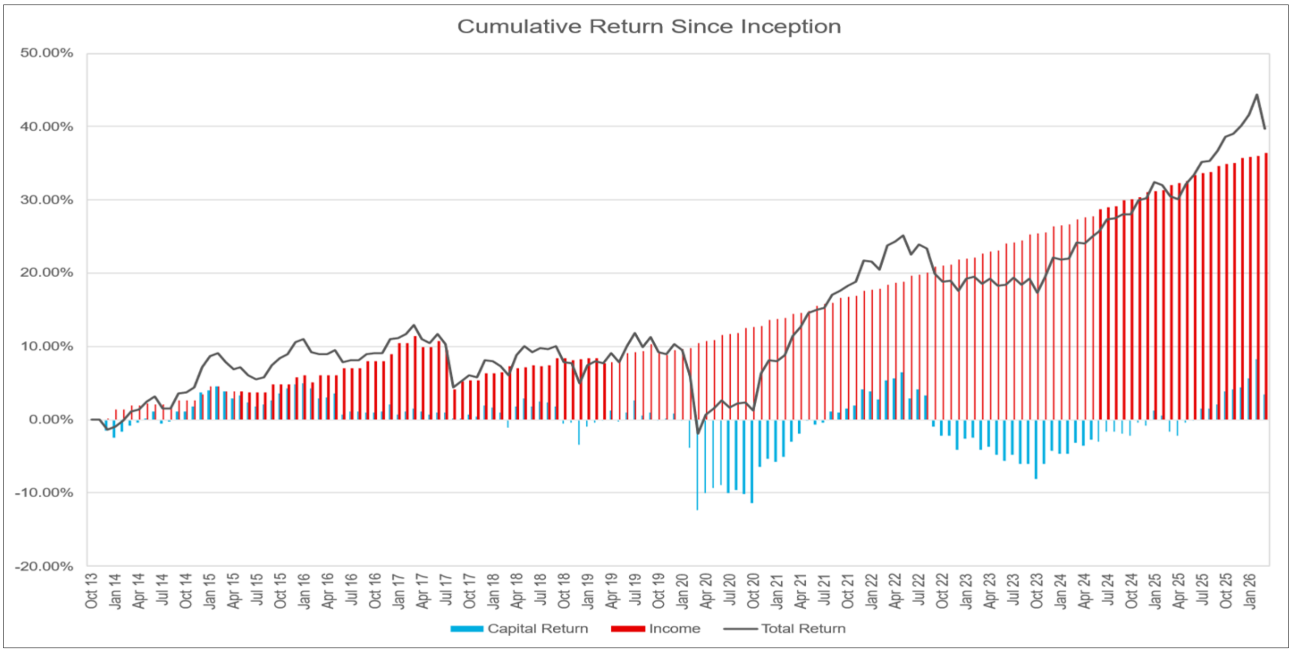
8.3 **Performance YTD**. The value of our holdings increased to £186.6m at the end of March 2026, showing an unrealised gain of 9m (5.1%) since the end of March 2025. The total return (comprised of both income and capital returns) on the pooled fund investments over the year since 31 March 2025 was £17.5m (9.8%), as shown in the table below.



8.4 The market value of the pooled fund investments as at 31 March 2026 compared to the position as at 31 March 2025 is shown in the table below.

		31-Mar-25	2025-26	31-Mar-26	31-Mar-26	
Investment Fund	**Book cost**	**Market Value**	**Movement**	**Market Value**	**12 months return**	
					Income	**Total**
	£m	**£m**	**£m**	**£m**	**%**	**%**
CCLA LAMIT Property Fund	60.0	55.3	0.0	55.3	4.6	4.6
CCLA Cautious Multi-Asset Fund (formerly DIF)	5.0	4.7	-0.3	4.4	3.1	-2.6
Pyrford Global Total Return Sterling Fund	5.0	5.5	0.3	5.8	3.0	8.8
Fidelity Global Multi Asset Income Fund	25.0	22.4	0.9	23.2	5.1	9.0
Ninety-One (Investec) Diversified Income Fund	10.0	9.1	0.1	9.2	4.8	6.0
Aegon (KAMES) Diversified Monthly Income Fund	20.0	18.6	1.6	20.1	5.8	14.1
M&G Global Dividend Fund	10.0	16.3	2.2	18.5	3.3	17.0
Schroders Income Maximiser Fund	25.0	21.9	1.6	23.5	7.5	15.0
Threadneedle Global Equity Fund	10.0	12.8	1.8	14.5	2.5	16.4
Threadneedle UK Equity Income Fund L	10.0	11.2	0.8	12.0	3.9	11.3
Total Externally Managed Investments	**180.0**	**177.5**	**9.0**	**186.6**	**4.7**	**9.8**

8.5 **Performance since inception:** KCC initially invested in pooled funds in 2013. By the end of March 2026 they had achieved a total income return of £65.6m, 36.5%, with an increase in the capital value of the portfolio of £6.6m, 3.6%. Total returns since inception have been far in excess of the returns available from cash over the same period and these instruments are an effective way of managing the Council's longer term cash balances. The following chart tracks the returns earned on the pooled funds over the period from inception.



8.6 **IFRS 9 Statutory Override:** Under the current accounting requirements governing local authorities, movements in the fair value of pooled fund investments are removed from the general fund and recognised on the Council's balance sheet. This effectively ensures the impact of volatility in the capital value of such investments does not affect the annual revenue outturn. However, the relevant accounting provision (known as the "IFRS 9 statutory override") is temporary in nature and is now due to expire on 31 March 2029 (for legacy investments only) and therefore (in the absence of any future regulatory changes), the Council will begin to recognise movements in the fair value of pooled fund investments from 2029/30, including the cumulative position to date (whilst any new investments would be subject to compliance immediately). Given the uncertainty surrounding the impact of the expiry of the override, the Council recogises this risk on the Budget Risk Register.

9. Investment benchmarking at 31 March 2026

9.1 The Council's retained treasury advisor, MUFG Corporate Markets monitors the risk and return of some 228 local authority investment portfolios. The metrics over the 12 months to 31 March 2026 extracted from their quarterly investment benchmarking, per the table below, show that the risk within the Kent internally managed funds having been consistent throughout the 12-month period is in line with that of other local authorities. The income return has risen reflecting increased rates payable on our cash investments.

Internally managed investments	Weighted Average Risk Score	Weighted Average Risk Rating	Weighted Average Time to Maturity (days)	Weighted Average Rate of Return (%)
Kent - 31.03.2025	1.11	AA+	204	4.48
Kent - 31.03.2026	**1.18**	**AA+**	**191**	**4.22**
English Counties (15)	1.58	AA+	60	4.06
Population Average (228)	1.95	AA+	52	4.00

10. Actual and forecast outturn

10.1 Outturn net debt costs are £2.976m lower than budget. Savings were made against budgeted borrowing interest costs as we did not undertake any new borrowing in 2025-26 and we made an early redemption of £10m Phoenix Life loan (in 24-25), £50m Barclays loans, and £40m Dexia LOBO loans. Barclays redemptions delivered a discount to book cost, and all prepayments delivered a saving on budgeted interest costs. Additionally, there was £0.48m unbudgeted contribution from UASC / Project Athena as well as £1.5m net increase in investment income.

11 Compliance

11.1 The Corporate Director - Finance reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

12 Treasury Management Indicators

12.1 The Council measures and manages its exposures to treasury management risks using the following indicators:

12.2 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its internally managed 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. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Actual 31/03/2026	Minimum
Portfolio average credit rating	AA+	AA-

12.3 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Liquidity risk indicator	Actual 31/03/2026	Minimum
Total cash available within 3 months	£71.3m	£75m

Liquid cash levels dropped marginally below the minimum level for a short period of time due to early debt repayment. The table above however only shows position at a point in time. Since then, balances have reverted to more normal levels. As at 30 June cash available within 3 months was £118m.

12.4 **Interest rate exposures**: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates was:

Interest rate risk indicator	Actual 31/03/2026	Upper Limit
One-year revenue impact of a 1% rise in interest rates	£0.7m	£10m
One-year revenue impact of a 1% fall in interest rates	-£0.7m	-£10m

12.5 **Maturity structure of borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing were:

	Actual 31/03/2026	Upper limit	Lower limit
Under 12 months	2.8%	100%	0%
12 months and within 5 years	0.0%	50%	0%
5 years and within 10 years	17.3%	50%	0%
10 years and within 20 years	30.6%	50%	0%
20 years and within 40 years	40.2%	50%	0%
40 years and longer	9.1%	50%	0%

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.

12.6 **Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Price risk indicator	2026/27	2027/28	2028/29	No Fixed Date
Limit on principal invested beyond year end	£100m	£80m	£50m	£220m
Actual as at 31 March 2026	£17.2m	£10.2m	£0.0m	£208.0m

13 Recommendation

Members are asked to endorse this report and recommend that it is submitted to Council.

Appendices

Appendix 1 – Borrowings and Investments as at 31 March 2026
Appendix 2 – Glossary of Terms

Sangeeta Surana – Pension Fund and Treasury Investments Manager

T: 03000 416738

E: Sangeeta.Surana@kent.gov.uk

25 June 2026
