

Title of Update: Treasury Management 2025/26 Quarter 1 Report

Relevant Officers: David Hodgson, Strategic Director of Corporate Resources and s151 Officer

Claire Hodgson, Lead Accountant - Housing

Contact for general enquiries:

Jo Quinnell, Assistant Democratic Services Officer, Democratic Services

Email: jo.quinnell@exeter.gov.uk. Tel: 01392 265197

1. What is the update about?

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for treasury Management 2021 recommends that members be updated on treasury management activities at least quarterly. The Treasury Management Strategy for the coming year, the annual Treasury Management outturn, and the mid-year review are presented to Executive and Council. Other quarterly updates are not required to be formally presented to Council. This report provides an update on the first quarter of 2025/26 in compliance with the Code.

2. Report Details:

2.1 Economic update and Interest Rate Forecasts

The first quarter of 2025/26 saw CPI inflation rate fall slightly from 3.5% in April to 3.4% in May, but then rise to 3.6% in June. The Bank of England cut interest rates from 4.50% to 4.25% in May, holding them steady in June.

The Council has appointed MUFG Corporate Markets (formerly Link Group) as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts overleaf are based on the Certainty Rate as at 10th February 2025. These set out a view that both short and long-dated interest rates will start to fall once it is evident that the Bank of England has been successful in squeezing excess inflation out of the economy, despite a backdrop of stubborn inflationary factors. Nonetheless, the longer dated part of the forecast also reflects the increased level of Government borrowing over the term of the current Parliament and the weakness in the public finances, with the Government struggling to deliver on the efficiencies detailed in the October Budget.

MUFG Corporate Markets Interest Rate View 10.02.25													
	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28
BANK RATE	4.50	4.25	4.25	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.50	4.30	4.30	4.00	3.80	3.80	3.50	3.50	3.50	3.50	3.50	3.50	3.50
6 month ave earnings	4.40	4.20	4.20	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.50	3.50	3.50
12 month ave earnings	4.40	4.20	4.20	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.50	3.50	3.60
5 yr PWLB	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.40	4.30	4.20	4.20	4.10	4.00
10 yr PWLB	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.70	4.60	4.50	4.50	4.40	4.40
25 yr PWLB	5.80	5.70	5.60	5.50	5.40	5.30	5.20	5.10	5.00	5.00	4.90	4.90	4.80
50 yr PWLB	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.70	4.60	4.60	4.50

The bank rate was subsequently reduced to 4% in August, one quarter ahead of the projections above.

2.2. Treasury Management Strategy

The Council approved the 2025/26 Treasury Management Strategy Statement, including the Annual Investment Strategy, at its meeting on 25 February 2025. In accordance with the CIPFA Treasury Management Code of Practice it sets out the Council's investment priorities as being; Security of capital, Liquidity, and Yield. Officers review the creditworthiness of counterparties when making investment decisions, and Link provide updates of changes to credit ratings.

The Council's investment strategy was to continue to hold small surplus funds and to seek to utilise its Call Accounts, Money Market Funds, use the Government's Debt Management Office and use short-dated deposits which would be placed with Local Authorities, Banks or Building Societies in-line with the Council's counterparty list.

The Council's stated borrowing strategy was to defer borrowing until later years, where possible, and to reduce the size of the Council's investment balance instead, however some targeted long-term borrowing may be undertaken where the costs will be offset against future income streams.

3. Investments

The Council held no fixed term deposits as at 30 June 2025.

The Council had access to four Money Market Funds during the period. The money market funds allow immediate access to our funds and spreads risk as it is pooled with investments by other organisations and invested across a wide range of financial institutions.

Amount	Investment	Interest rate*
£10,000,000	Federated Short-Term Sterling Prime Fund	4.39%
£6,000,000	CCLA - The Public Sector Deposit Fund	4.36%
£0	BlackRock Institutional Sterling Liquidity Fund	4.34%
£10,000,000	Aberdeen Standard Liquidity Fund	4.39%
£26,000,000		

* Interest rate is variable, therefore rates quoted are an average to 30 June 2025.

The Council made investments in the CCLA's LAMIT Property Fund in 2016. It should be noted that investments in property funds are a long-term commitment which means that there can be fluctuations on the return from the investment.

Amount	Investment	Dividend Yield 24/25
£5,000,000	CCLA – LAMIT Property Fund	5.05%

3 Borrowing

When the 2025/26 budget was set the Council's Capital Financing Requirement (CFR) at 31st March 2025 was expected to be £225.381m, rising by £15.576m to £240.957m by 31st March 2026 to fund the capital programme. The Council is in an under-borrowed position, meaning that the CFR has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as borrowing costs remain high.

The Council's long-term borrowing is currently £162.905m (£90.661m General Fund and £72.244m HRA). £10m was borrowed in March 2025 for 1 year. No further external borrowing has been undertaken during the quarter.

Details of loans are set out below:

Principal Amount outstanding as at 30 June 2025	Lender	Interest rate	Loan type	Date of repayment
£56,884,000	PWLB maturity (HRA)	3.48%	Maturity	28/03/2062
£1,782,267	PWLB 25 year annuity	2.34%	Annuity	11/01/2044
£1,730,508	PWLB 25 year annuity	2.08%	Annuity	04/04/2044
£3,956,024	PWLB 30 year annuity	1.61%	Annuity	26/09/2049
£7,739,639	PWLB 35 year annuity	1.71%	Annuity	26/09/2054
£33,427,926	PWLB 50 year annuity	1.80%	Annuity	26/09/2069
£15,360,000	PWLB maturity (HRA)	1.31%	Maturity	14/04/2070
£42,024,998	PWLB 50 year annuity	1.78%	Annuity	24/12/2071
£10,000,000	PWLB 1 year maturity	4.87%	Maturity	12/03/2026

- 3.2 The ongoing borrowing requirement will be monitored and a decision of whether to take further borrowing will be made in light of need and current and forecast interest rates. If additional borrowing is required advice will be sought from the treasury management advisors in order that the most cost-effective form of borrowing can be secured. The decision of whether to take external long-term borrowing is delegated to the Section 151 Officer and Leader of the Council.

4 Compliance with Treasury and Prudential Limits

The Council sets in February each year prudential indicators for Treasury Management to ensure that proper control of borrowing and investing is maintained. These indicators can be found in the Council's budget book. At Quarter 1 2025/26 there is no projected significant deviation from these indicators.

During the quarter ended 30 June 2025, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2025/26. No difficulties are envisaged for the current or future years in complying with these indicators.

All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices. The approved limits within the Annual Investment Strategy were not breached during the quarter.