

## **REPORT TO COUNCIL**

Date of Meeting: 9<sup>th</sup> December 2025

Report of: Strategic Director – Corporate Resources & s151 Officer

Title: Treasury Management 2025/26 Half Year Update

### **Is this a Key Decision?**

No

### **Is this an Executive or Council Function?**

Council

#### **1. What is the report about?**

- 1.1 To report on the current Treasury Management performance for the 2025/26 financial year and the position regarding investments and borrowings at 30 September 2025.

#### **2. Recommendations:**

- 2.1 That Members of the Council note the Treasury Management report in respect of the first six months of the 2025/26 financial year.

#### **3. Reasons for the recommendation:**

- 3.1 It is a statutory requirement for the Council to publish regular reports on Treasury Management to Council. This includes an annual Treasury Management Strategy, a half yearly report and a year-end report as a minimum.

#### **4. What are the resource implications including non-financial resources:**

- 4.1 The report is an update on the overall performance in respect of Treasury Management for the first six months of the 2025/26 financial year. Therefore, there are no financial or non-financial resource implications.

#### **5. Section 151 Officer comments:**

- 5.1 The reductions in bank rate have not been reflected in the rates for Government borrowing. Therefore, borrowing long term remains high and this has resulted in further reductions to the Council's cash balances. This combination of lower interest for our investments alongside lower cash balances has resulted in lower than expected interest receipts.

## **6. What are the legal aspects?**

- 6.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) Treasury Management Code of Practice recommends that members be updated on treasury management activities regularly. This report therefore ensures that Exeter City Council is implementing best practice in accordance with the Code. Adoption of the Code is required by regulations made under the Local Government Act 2003.

Chapter 1 of the Act sets out capital finance and accounts requirements. Section 1 states that local authorities have the power to borrow money for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs. Sections 2 to 6 of the Act provide for the duty to control borrowing and the duty to determine affordable borrowing limits. Section 12 provides for the power to invest.

The Treasury Management Strategy is based on the requirements of MHCLG's Guidance on Local Government Investments and the CIPFA Treasury Management code.

This report confirms that the Section 151 Officer is satisfied that Council borrowing is affordable and in accordance with the provisions of the Local Government Act 2003, MHCLG's Guidance and CIPFA Code of Practice.

## **7. Monitoring Officer's comments:**

- 7.1 This report is for Members' information concerning Treasury Management.

## **8. Equality Act 2010 (The Act)**

- 8.1 In recommending this proposal no potential impact has been identified on people with protected characteristics as determined by the Act because: because

The report is for information only

## **9. Carbon Footprint (Environmental) Implications:**

- 9.1 No direct carbon/environmental impacts arising from the recommendations.

## **10. Report Details:**

### **10.1 Economics and Interest Rates**

The first half of 2025/26 saw:

- A 0.3% pick up in GDP for the period April to June 2025. More recently, the economy flatlined in July, with higher taxes for businesses restraining growth.
- The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% to 4.8% in July.

- CPI inflation has ebbed and flowed but finished September at 3.8%, whilst core inflation eased to 3.6%.
- The Bank of England cut interest rates from 4.50% to 4.25% in May, and then to 4% in August.
- The 10-year gilt yield fluctuated between 4.4% and 4.8%, ending the half year at 4.70%.

CPI inflation fell slightly from 3.5% in April to 3.4% in May. More recently, though, inflation pressures have resurfaced. A further loosening in the labour market and weaker wage growth may be a requisite to UK inflation coming in below 2.0% by 2027.

The Council has appointed MUFG Corporate Markets as its treasury advisors and part of their service is to assist the Authority to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20bps) which has been accessible to most authorities since 1 November 2012. MUFG Corporate Markets' latest forecast on 11 August sets out a view that short, medium and long-dated interest rates will fall back over the next year or two.

MUFG Corporate Markets Interest Rate View 11.08.25													
	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28
<b>BANK RATE</b>	4.00	4.00	3.75	3.75	3.50	3.50	3.50	3.50	3.25	3.25	3.25	3.25	3.25
<b>3 month ave earnings</b>	4.00	4.00	3.80	3.80	3.50	3.50	3.50	3.50	3.30	3.30	3.30	3.30	3.30
<b>6 month ave earnings</b>	4.00	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.30	3.30	3.40	3.40	3.40
<b>12 month ave earnings</b>	4.00	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.30	3.40	3.50	3.60	3.60
<b>5 yr PWLB</b>	4.80	4.70	4.50	4.40	4.30	4.30	4.30	4.20	4.20	4.20	4.20	4.10	4.10
<b>10 yr PWLB</b>	5.30	5.20	5.00	4.90	4.80	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60
<b>25 yr PWLB</b>	6.10	5.90	5.70	5.70	5.50	5.50	5.50	5.40	5.40	5.30	5.30	5.30	5.20
<b>50 yr PWLB</b>	5.80	5.60	5.40	5.40	5.30	5.30	5.30	5.20	5.20	5.10	5.10	5.00	5.00

## 10.2 Treasury Management Strategy Statement

The Council approved the 2025/26 Treasury Management Strategy Statement (TMSS) at its meeting on 18 February 2025.

The Council's stated 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.

The Council is currently maintaining an under-borrowed position; so, the actual borrowings of the Council are below the Council's borrowing requirement, as it has taken advantage of internal borrowings. This means that the Council's borrowing need (the Capital Financing Requirement), 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 is illustrated by the Liability benchmark indicator per Appendix B.

### 10.3 Investments

The Council can utilise the Government's Debt Management Office (DMO) account and a reserve account with Barclays, these accounts have not been utilised during the period.

Appendix A sets out the institutions that the Council can use for deposits, this is known as the Counterparty list.

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.

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.

The Council's investments held at 30 September 2025 were:

#### **Money Market Funds**

Amount	Investment	Interest rate*
£10,000,000	Federated Short-Term Sterling Prime Fund	4.28%
£0	CCLA - The Public Sector Deposit Fund	4.25%
£2,000,000	BlackRock Institutional Sterling Liquidity Fund	4.20%
£10,000,000	Aberdeen Standard Liquidity Fund	4.27%

\* Interest rate is variable (therefore rates quoted were the average as at 30 September 2025)

#### **Fixed Term Deposits – Current**

The Council had no Fixed Term Deposits as at 30 September 2025.

#### **Property Funds**

Amount	Investment	Dividend Yield Q1
£5,000,000	CCLA – LAMIT Property Fund	5.39%

### 10.4 Borrowings

The Council's long-term borrowing is currently £162.454 million (£90.210 million General Fund and £72.244 HRA) and there is short-term borrowing of £10 million. Details of existing loans are set out below:

Principal Amount outstanding as at 30/09/2025	Lender	Interest rate	Loan type	Date of repayment
£56,884,000	PWLB (HRA)	3.48%	Maturity	28/03/2062
£1,744,752	PWLB	2.34%	Annuity	11/01/2044
£1,730,508	PWLB	2.08%	Annuity	04/04/2044
£3,889,847	PWLB	1.61%	Annuity	26/09/2049
£7,638,227	PWLB	1.71%	Annuity	26/09/2054
£33,181,286	PWLB	1.80%	Annuity	26/09/2069
£15,360,000	PWLB (HRA)	1.31%	Maturity	14/04/2070
£42,024,998	PWLB	1.78%	Annuity	24/12/2071
£10,000,000	PWLB	4.87%	Maturity	12/03/2026

Given the ongoing high costs of borrowing the capital programme is being funded by internal temporary borrowing. The liability benchmark treasury indicator at Appendix B compares the current Capital Financing Requirement with existing debt.

The ongoing borrowing requirement will be monitored and a decision of whether to take further borrowing will be made considering need and current and forecast interest rates. If additional borrowing is required advice will be sought from the Council's treasury management advisors to ensure that the most cost-effective form of borrowing can be secured.

## 10.5 Compliance with Treasury and Prudential Limits

During the half year ended 30 September 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 set out in the TMSS were not breached during the period ended 30<sup>th</sup> September 2025.

To support the risk management of the capital financing requirement a graphical indication of the Council's borrowing liability and actual loans for the General Fund and HRA combined is shown on Appendix B.

## 10.6 Net Interest Position

The General Fund shows a £173k expected adverse position against the estimate for net interest payable, the position is:

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	<b>Estimate 2025/26 £</b>	<b>Actual to 30 September 2025 £</b>	<b>Estimated Outturn £</b>	<b>Variation £</b>
<b>Interest paid</b>	2,334,390	1,150,946	2,334,390	-
<b>Interest earned</b>				
Temporary investment interest	(1,400,000)	(595,652)	(1,042,391)	357,609
Other interest earned	(48,500)	(47,098)	(94,195)	(45,695)
<b>Less</b>				
Interest to HRA	800,000	307,752	615,504	(184,496)
Interest to deposits held	4,000	7,277	14,554	10,554
Interest to Trust Funds & Lord Mayor's Charity	10,500	16,046	32,091	21,591
GF interest (received) / paid out	(634,000)	(311,675)	(474,437)	159,563
<b>Net Interest</b>	<b>1,700,390</b>	<b>839,271</b>	<b>1,859,953</b>	<b>159,563</b>
CCLA – LAPF Dividend	(225,000)	(109,135)	(211,214)	13,786
<b>Net Interest after dividends</b>	<b>1,475,390</b>	<b>730,136</b>	<b>1,648,739</b>	<b>173,349</b>

Net interest receivable on investments is projected to be £160k lower than budget due to reduced cash balances and falling interest rates. CCLA dividends are projected to be £14k lower than budgeted based on the first two quarters' dividend payments.

#### 10.7 Repayment of Debt (MRP) Position

	<b>Estimate 2025/26 £</b>	<b>Estimated Outturn £</b>	<b>Variation £</b>
<b>Repayment of Debt</b>	2,702,000	2,702,000	-

The Minimum Revenue Provision (MRP) for 2025/26 is expected to be in line with budget.

## 10.8 Future Position

The short-term cash surplus will be invested in line with the Council's Treasury Management Strategy and will ensure that funds are available to meet demands, whilst also maximising returns.

The Council's Money Market Funds, which are AAA, rated, currently offer rates between 4.20% to 4.28%, the rates are liable to fluctuation in the year. The short-term investments that are made through the money market funds ensure cash can be accessed immediately. This has an impact on returns but ensures the liquidity of funds.

The Council will also lend, when possible, to institutions on the Council's counterparty list which includes other Local Authorities, UK and Foreign owned banks, building societies and the Debt Management Office. The Council will also consider its Treasury Management – Environmental, Social and Governance policy when making investment decisions. Due to reduced cash balances the Council currently has no short-term deposits.

Officers have regular meetings with the Treasury Management advisors to seek advice on how to maximise investment returns and to minimise the need to borrow whilst taking into account investment risk.

Officers continually explore the possibility of widening the investment options available to the Council. If the options are proved to be of interest, and viable, they will be included in the Treasury Management Strategy which will be presented to committee for approval in February 2026.

This will be closely reviewed, and advice will be sought from our financial advisors to ensure our counterparty list is adequate and robust enough. Any adjustments to the list and the impact of this will be presented to committee for approval in the Treasury Management Strategy 2026/27.

## 11. How does the decision contribute to the Council's Corporate Plan?

Treasury Management supports the Council in generating additional funds for investing in Services, whilst minimising the amount of interest paid on borrowings. It does not in itself contribute to the Council's Corporate Plan.

## 12. What risks are there and how can they be reduced?

The Council uses Treasury Management advisors who continually provide updates on the economic situation, interest rates and credit ratings of financial institutions. They also provide a counterparty list which details the financial institutions which meet the council's Treasury Management strategy.

The volatility of the world economy is being closely monitored, and daily updates are provided by our financial advisors and investment brokers.

### **13. Are there any other options?**

No

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### **Local Government (Access to Information) Act 1972 (as amended)**

Background papers used in compiling this report:

None

List of Appendices:

Appendix A – Counterparty list

Appendix B – Liability Benchmark