

REPORT TO COUNCIL

Date of Meeting: 16th June 2026

Report of: Strategic Director – Corporate Resources & s151 Officer

Title: Treasury Management 2025/26

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 Treasury Management performance for the 2025/26 financial year and the position regarding investments and borrowings at 31 March 2026. The report is a statutory requirement and is for information only with no key decisions required.

2. Recommendations:

- 2.1 That Members of the Council receive the Treasury Management report in respect 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 2025/26 financial year. Therefore, there are no financial or non-financial resource implications.

5. Section 151 Officer comments:

- 5.1 As Bank rate has reduced over the year, the income received in respect of interest has reduced. The impact has impacted both the General Fund and HRA. Whilst Bank Rate has dropped, Local Government and PWLB rates remain high, making long term borrowing financially unviable.

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 this Council is implementing best practice in accordance with the Code. Adoption of the Code is required by regulations laid 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 powers 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 cover the duty to control borrowing and the duty to determine affordable borrowing limits. Section 12 covers 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. The Monitoring Officer has no additional comments.

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 The Economy and Interest Rates

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 forecasts on 25 March 2026 were:

MUFG Corporate Markets Interest Rate View 25.03.26												
	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28	Mar-29
BANK RATE	3.75	3.75	3.75	3.75	3.75	3.50	3.50	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	4.00	3.90	3.80	3.80	3.70	3.50	3.50	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	4.20	4.10	4.00	3.90	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.50
12 month ave earnings	4.60	4.50	4.40	4.20	4.20	4.00	4.00	3.80	3.80	3.80	3.80	3.80
5 yr PWLB	5.00	5.00	4.90	4.80	4.60	4.40	4.20	4.20	4.10	4.10	4.10	4.10
10 yr PWLB	5.50	5.50	5.40	5.30	5.10	4.90	4.70	4.70	4.60	4.60	4.60	4.60
25 yr PWLB	6.00	6.00	5.90	5.80	5.60	5.40	5.20	5.20	5.20	5.20	5.10	5.10
50 yr PWLB	5.80	5.80	5.70	5.50	5.40	5.20	5.00	5.00	5.00	5.00	4.90	4.90

Interest rate forecasts initially suggested gradual reductions in short, medium and longer-term fixed borrowing rates during 2025/26. Bank Rate did reduce to 3.75% as anticipated, but the initial expectation of significant rate reductions across the whole curve did not transpire, primarily because inflation concerns were very elevated in March 2026.

PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields.

Since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid, then because of the inflationary impact of the war in Ukraine. More recently, the Middle East conflict is likely to see inflation spike higher from late spring 2026 through to early 2027.

As with 2024/25, UK inflation has proved somewhat stubborn throughout 2025/26. Having started the financial year at 3.5% y/y (April), the CPI measure of inflation peaked at 3.8% from July to September, before dipping to 3% in January and February.

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.

During the year the £10m short-term loan from PWLB was refinanced for another 1 year to support working balances. This will need to be re-financed over a longer period when long-term borrowing rates have reduced.

10.3 Investments

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 can utilise the Government's Debt Management Office (DMO) account, this has not been utilised during the period.

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 31 March 2026 were:

Money Market Funds

Amount	Investment	Interest rate*
£10,000,000	Federated Short-Term Sterling Prime Fund	4.11%
£0	CCLA - The Public Sector Deposit Fund	4.10%
£1,000,000	BlackRock Institutional Sterling Liquidity Fund	4.00%

£10,000,000	Aberdeen Standard Liquidity Fund	4.10%
-------------	----------------------------------	-------

* Interest rate is variable (therefore rates quoted were the average as at 31 March 2026)

Fixed Term Deposits – Current

The Council had no Fixed Term Deposits as at 31 March 2026.

Property Funds

Amount	Investment	Dividend Yield Q4
£5,000,000	CCLA – LAMIT Property Fund	4.67%

10.4 Borrowings

The Council's long-term borrowing is currently £161.668m (£89.424m General Fund and £72.244m HRA). In addition, during 2025/26 £10m short-term loan from PWLB was refinanced for a further one year. Details of existing loans are set out below

The Council made a one-off payment on 28 March 2012, to buy itself out of the HRA subsidy system. The final settlement figure of £56.884m was confirmed in February 2012. The amount was borrowed from the Public Works Loans Board over a 50-year period and is repayable on maturity at the end of the loan term. The interest rate was 3.48% fixed for the term of the loan.

Existing loans

Due to the costs of borrowing no further long-term PWLB loans were taken out during the year, although £10m was borrowed for a further 1 year to support working balances.

The section 151 Officer confirms that all long-term borrowing has only been undertaken for a capital purpose and that Council borrowing is affordable and in accordance with the provisions of the Local Government Act 2003 the MHCLG's Guidance and CIPFA Code of Practice.

Principal Amount outstanding as at 31 March 2026	Lender	Interest rate	Loan type	Date of repayment
£56,884,000	PWLB (HRA)	3.48%	Maturity	28/03/2062
£1,706,798	PWLB	2.34%	Annuity	11/01/2044
£1,693,143	PWLB	2.08%	Annuity	04/04/2044
£3,823,138	PWLB	1.61%	Annuity	26/09/2049

£7,535,948	PWLB	1.71%	Annuity	26/09/2054
£32,932,427	PWLB	1.80%	Annuity	26/09/2069
£15,360,000	PWLB (HRA)	1.31%	Maturity	14/04/2070
£41,732,722	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 2025/26 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 year ended 31st March 2026.

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 slight adverse position against the estimate for net interest payable; the position is:

	2025/26 Budget £	Outturn £	Variation £
Interest paid	2,334,000	2,398,635	64,635
Interest earned			
Temporary investment interest	(1,400,000)	(1,243,208)	156,792
Other interest earned	(48,500)	(22,859)	25,641

Less			
Interest to HRA	788,000	691,039	(96,961)
Interest to deposits held	4,000	10,202	6,202
Interest to Trust Funds & Lord Mayor's Charity	22,500	26,943	4,443
GF interest (received) / paid out	(634,000)	(537,883)	96,117
Net Interest	1,700,000	1,860,752	160,752
CCLA – LAPF Dividend	(225,000)	(233,381)	(8,381)
Net Interest after dividends	1,475,000	1,627,371	152,371

Net interest after dividends for 2025/26 was £152k higher than budget. An expected overspend of £173k was reported in the Treasury Management half year update to Council at its meeting on 9th December 2025, so outturn was slightly better than anticipated at the half-year stage.

The key reasons for the variance to budget are as follows:

Interest payable was £65k higher than budgeted. The interest element of finance leases was £91k higher than budgeted, largely due to new fleet leases during the year. This was offset by lower-than-expected interest on PWLB loans, largely due to £10m short-term rolled-over loan that was taken out at marginally lower interest rate than expected.

Interest rates on temporary investments and money market funds started falling during the year. This resulted in a net £96k lower-than-expected interest received after paying over interest relating to the HRA and other funds held.

The CCLA Property Fund yielded £8k higher than budgeted dividends.

The Housing Revenue Account (HRA) earned £691k interest on its balances compared with the budget of £788k. This is calculated on the following:

- HRA working balance
- The balance of funds in the Major Repairs Reserve and Useable Capital Receipts

The Council borrowed £56,884k to buy itself out of the HRA subsidy scheme since the borrowing cap was lifted in October 2018, and the HRA has since borrowed a further £15,360k towards new Council housing development projects.

The HRA has approval to borrow a further £7.7m however due to currently high interest rates no external borrowing has been undertaken during 2025/26 and the borrowing has been delayed to future years, so HRA interest payable was £321k lower than the £2,502k originally budgeted for 25/26. £9k has been charged on the borrowing used to fund the Council's Own Build properties which was included in the budget.

10.7 Repayment of Debt (MRP) Position

For enquiries please contact: democratic.services@exeter.gov.uk

Repayment of Debt	Estimate 2025/26 £	Outturn £	Variation £
Minimum Revenue Provision	2,702,000	2,671,826	(30,174)
Voluntary Revenue Provision	-	-	-
TOTAL	2,702,000	2,671,826	(30,174)

The MRP for the year was largely in line with budget.

10.8 Future Position

The approved capital programme for 2026/27 includes a borrowing requirement of £32.774m (£25.026m General Fund and £7.748m HRA). The decision of whether to take external long-term borrowing will be made considering current and forecast interest rates and the decision is delegated to the Section 151 Officer and Leader of the Council.

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 4.00% to 4.11%, 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 will continue to liaise to treasury advisors in respect of new investment opportunities. Any decisions taken will comply with the code of practice that requires the council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. In addition to these 3 core principles the Council will also consider Environmental, Social and Governance risks in accordance with the approved Environmental, Social and Governance Policy. If an amendment to the current treasury management strategy is required, a report will be presented to Council requesting the necessary amendments.

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

Strategic Director Corporate Resources, David Hodgson

Author: Kayleigh Searle

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