

### 2026/27 Treasury Management Strategy

#### Enclosures:

- Annex 1 – Prudential and treasury indicators and MRP statement
- Annex 2 – Interest rate forecasts
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- Annex 5 – Approved countries for investments
- Annex 6 – Treasury management scheme of delegation
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#### 1.0 Background

- 1.1 The Council is required to operate a balanced budget, which broadly means that the cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.
- 1.4 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities (arising usually from capital expenditure), and are separate from the day to day treasury management activities.
- 1.5 CIPFA defines treasury management as:  
*"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks*

*associated with those activities; and the pursuit of optimum performance consistent with those risks.”*

**1.6** In the latest Devon Audit Partnership audit (December 2022), a Substantial Assurance opinion was given, meaning the Council has “a sound system of governance, risk management and control, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited”.

## **2.0 Reporting requirements**

### **2.1 Treasury Strategy**

2.1.1 The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed; and
- the implications for future financial sustainability.

2.1.2 The aim of this treasury strategy is to ensure that all elected members of the Council fully understand the overall long-term policy objectives and resulting treasury strategy requirements, governance procedures and risk appetite.

### **2.2 Treasury Management reporting**

2.2.1 The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

**a. Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised), including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

**b. A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, members will receive quarterly treasury updates as part of the financial monitoring.

**c. An annual treasury report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

2.2.2 **Scrutiny.** The above reports are required to be adequately scrutinised before being recommended to the Council. The Cabinet undertakes this role.

## **2.3 Treasury Management Strategy for 2026/27**

2.3.1 The strategy for 2026/27 covers two main areas:

### **2.3.2 Capital issues**

- The capital expenditure plans and the associated prudential indicators; and
- The minimum revenue provision (MRP) policy (**Annex 2**).

### **2.3.3 Treasury management issues**

- The current treasury position;
- Treasury indicators which limit the treasury risk and activities of the Council;
- Prospects for interest rates;
- The borrowing strategy;
- Policy on borrowing in advance of need;
- Debt rescheduling;
- The investment strategy;
- Creditworthiness policy; and
- The policy on the use of external service providers.

2.3.4 These elements cover the requirements of the Local Government Act 2003, the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code, Department for Levelling Up, Housing and Communities (DLUHC – now Ministry of Housing, Communities and Local Government [MHCLG]) MRP Guidance, the CIPFA Treasury Management Code and DLUHC (now MHCLG) Investment Guidance.

## **2.4 Training**

2.4.1 The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for Scrutiny.

2.4.2 Furthermore, the Code states that all organisations are expected to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

2.4.3 The scale and nature of this will depend on the size and complexity of the organisation's treasury management needs. Organisations should consider how to assess whether treasury management staff and council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

2.4.4 As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified;
- Prepare tailored learning plans for treasury management officers and board/council members;

- Require treasury management officers and board/council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation); and
- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis.

2.4.5 In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management', which is available from the CIPFA website to download.

2.4.6 Training requirements of members are being reviewed and training will be arranged as required.

2.4.7 The training needs of treasury management officers are periodically reviewed.

2.4.8 A formal record of the training received by officers central to the Treasury function will be maintained by the S151 (Deputy Chief Executive). Similarly, a formal record of the treasury management/capital finance training received by members will be maintained by the Democratic Services Manager.

## **2.5 Treasury management consultants**

2.5.1 The Council uses MUFGE Corporate Markets (previously known as Link Group) as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers.

2.5.2 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

## **3.0 The Capital Prudential Indicators 2026/27 – 2028/29**

3.1.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the Prudential Indicators, which are designed to assist members' overview and confirm capital expenditure plans.

### **3.2 Capital expenditure and financing**

3.2.1 This Prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The below table shows planned expenditure in the 2026/27 Capital Programme of £48,929k, (£33,157k new budget for new or continuing projects plus the projected slippage from prior years of £15,772k).

*Prudential Indicator: Estimates of Capital Expenditure*

<b>Capital Expenditure £000</b>	<b>2024/25 Actual</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>	<b>2027/28 Estimate</b>	<b>2028/29 Estimate</b>
General Fund	8,376	8,709	24,157	13,977	2,497
HRA	14,732	16,596	24,772	22,752	14,463
<b>Total</b>	<b>23,108</b>	<b>25,306</b>	<b>48,929</b>	<b>36,729</b>	<b>16,960</b>

For Members clarity, the NHS Hub loan is treated as General Fund.

3.2.2 Other long-term liabilities – The above financing need excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments.

3.2.3 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

<b>Financing of capital expenditure £000</b>	<b>2024/25 Actual</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>	<b>2027/28 Estimate</b>	<b>2028/29 Estimate</b>
Capital receipts	1,207	1,655	2,716	1,006	890
Capital grants	8,030	10,397	24,455	18,785	4,768
Capital reserves	0	0	0	0	0
Revenue	3,769	4,268	5,233	3,921	3,690
<b>Net financing need for the year</b>	<b>10,102</b>	<b>8,986</b>	<b>16,525</b>	<b>13,017</b>	<b>7,612</b>

### **3.3 The Council's borrowing need (the Capital Financing Requirement)**

3.3.1 The second Prudential Indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

3.3.2 The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

3.3.3 The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £3.868m of such schemes within the CFR.

### 3.3.4 The Council is asked to approve the CFR projections below:

#### *Prudential Indicator: Estimates of Capital Financing Requirement*

Capital Financing Requirement £000	2024/25 Actual	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
CFR - General Fund	18,452	18,587	15,560	14,847	13,913
CFR - Housing	49,596	56,199	67,627	78,253	83,478
<b>Total CFR</b>	<b>68,048</b>	<b>74,786</b>	<b>83,187</b>	<b>93,100</b>	<b>97,391</b>
<b>Movement in CFR*</b>	<b>5,814</b>	<b>6,738</b>	<b>8,401</b>	<b>9,913</b>	<b>4,291</b>

*\*The movement in CFR will not directly match the Net Financing Need (see 3.2.3) due to the annual MRP charge reducing the balance in line with each asset's expected life, plus any capital receipts applied to the CFR.*

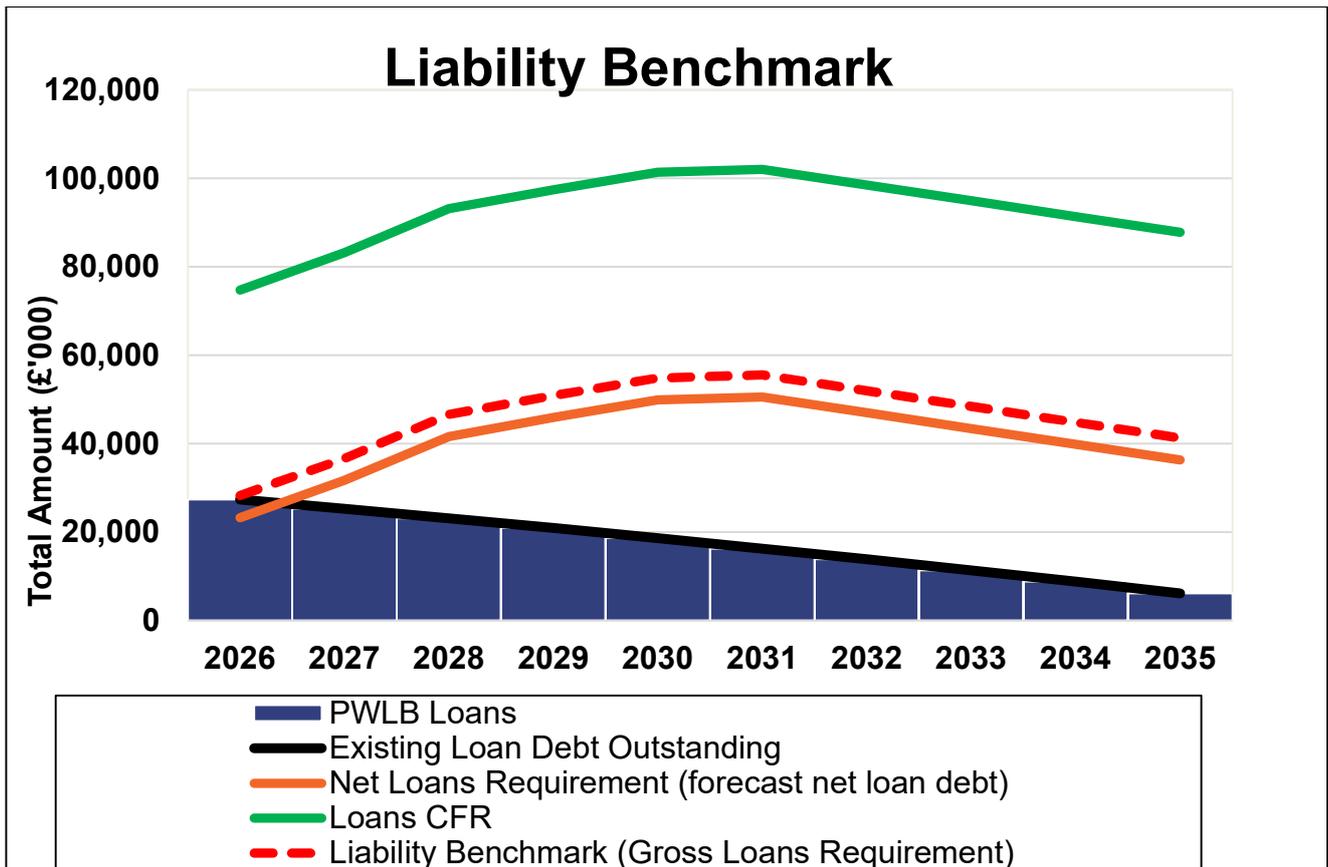
### 3.4 Liability Benchmark

3.4.1 The Authority is required to estimate and measure the Liability Benchmark (LB) for the forthcoming financial year and the following two financial years, as a minimum.

3.4.2 There are four components to the LB:

- 1 **Existing loan debt outstanding:** the Council's existing loans that are still outstanding in future years.
- 2 **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
- 3 **Net loans requirement:** this will show the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
- 4 **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus a short-term liquidity allowance.

3.4.3 The Council's Liability Benchmark for years ending March 2026 to March 2035 is shown below:



3.4.4 The chart can be interpreted as follows:

- The liability benchmark (red dashed line) is the Council's need for external borrowing.
- Where the liability benchmark exceeds the existing loans (black line) then there is a need for new borrowing. Where the liability benchmark is below the existing loans then the Council is holding surplus cash that will be put into short-term investments.
- The area between the liability benchmark and net loans requirement (orange line) shows the cash required to manage the Council's day-to-day cash flow need, which is estimated to be £5m.
- The area between the loans CFR (green line) and liability benchmark shows the potential for internal borrowing, which currently stands at circa £46m.

## 4.0 Borrowing

4.1 The capital expenditure plans set out in Section 3 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. This strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

## 4.2 Current portfolio position

4.2.1 The overall treasury management portfolio as at 31 March 2025 and the position as at 31 December 2025 are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
	Actual	Actual	Current	Current
	31/03/2025	31/03/2025	31/12/2025	31/12/2025
Treasury Investments	£000	%	£000	%
Banks*	1,951	11%	2,774	13%
Building Societies	0	0%	0	0%
Local Authorities	9,000	52%	5,000	24%
DMADF (H.M.Treasury)	1,500	9%	8,000	39%
Other Public Bodies	0	0%	0	0%
<b>Total Managed In-House</b>	<b>12,451</b>	<b>71%</b>	<b>15,774</b>	<b>76%</b>
Property Funds	5,000	29%	5,000	24%
<b>Total Managed Externally</b>	<b>5,000</b>	<b>29%</b>	<b>5,000</b>	<b>24%</b>
<b>Total Treasury Investments</b>	<b>17,451</b>	<b>100%</b>	<b>20,774</b>	<b>100%</b>
<b>Treasury External Borrowing</b>				
Local Authorities	0	0%	0	0%
PWLB	29,398	100%	28,389	100%
<b>Total External Borrowing</b>	<b>29,398</b>	<b>100%</b>	<b>28,389</b>	<b>100%</b>
<b>Net Treasury Investments / (Borrowing)</b>	<b>-11,947</b>		<b>-7,615</b>	

\*Banks includes balances held in the Council's NatWest call accounts

4.2.2 The Council's forward projections for borrowing are summarised below. The table shows the actual external debt (the treasury management operations) against the underlying capital borrowing need (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

External Debt £000	2024/25 Actual	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
<b>Debt at 1 April</b>	<b>31,373</b>	<b>29,398</b>	<b>27,366</b>	<b>32,473</b>	<b>41,320</b>
Expected Change in Debt	-1,975	-2,033	5,108	8,846	3,783
<b>Other Long-Term Liabilities (OLTL) at 1 April</b>	<b>2,017</b>	<b>4,355</b>	<b>3,868</b>	<b>7,190</b>	<b>7,495</b>
Expected Change in OLTL	2,338	-487	3,321	305	-535
<b>Actual Gross Debt at 31 March</b>	<b>33,753</b>	<b>31,233</b>	<b>39,663</b>	<b>48,814</b>	<b>52,063</b>
<b>The Capital Financing Requirement</b>	<b>68,048</b>	<b>74,786</b>	<b>83,187</b>	<b>93,100</b>	<b>97,391</b>
<b>Under / (Over) Borrowing</b>	<b>34,295</b>	<b>43,553</b>	<b>43,524</b>	<b>44,286</b>	<b>45,328</b>

4.2.3 Within the range of Prudential Indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the

total of the CFR in the preceding year plus the estimates of any additional CFR for 2026/27 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

4.2.4 The S151 (Deputy Chief Executive) reports that the Council complied with this Prudential Indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

### 4.3 Treasury Indicators: limits to borrowing activity

4.3.1 **The operational boundary.** This is the limit which external debt is not normally expected to exceed. This is the CFR, split between debt and other long term liabilities (leases) and rounded up to the nearest million.

#### *Prudential Indicator: Operational Boundary*

<b>Operational boundary £000</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>	<b>2027/28 Estimate</b>	<b>2028/29 Estimate</b>
Debt	71,000	76,000	86,000	91,000
Other long-term liabilities	4,000	8,000	8,000	7,000
<b>Total</b>	<b>75,000</b>	<b>84,000</b>	<b>94,000</b>	<b>98,000</b>

4.3.2 **The Authorised Limit for external debt.** This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Council. It reflects the level of external debt, which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

4.3.3 This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised. The authorised limit is set at the CFR plus £5m for debt and £4m for other long term liabilities, to cover exceptional circumstances and borrowing ahead of need to secure interest rates.

4.3.4 **The Council is asked to approve the following authorised limit:**

#### *Prudential Indicator: Authorised Limit*

<b>Authorised limit £000</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>	<b>2027/28 Estimate</b>	<b>2028/29 Estimate</b>
Debt	76,000	81,000	91,000	96,000
Other long-term liabilities	8,000	12,000	12,000	11,000
<b>Total</b>	<b>84,000</b>	<b>93,000</b>	<b>103,000</b>	<b>107,000</b>

### 4.4 Prospects for interest rates

4.4.1 The Council has appointed MUFG Corporate Markets (previously known as Link Group) as its treasury advisor and part of their service is to assist the Council to formulate a

view on future interest rates. The following table gives their view as at 22 December 2025.

Interest Rates	Mar-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 View	3.75%	3.50%	3.50%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%
5yr PWLB Rate	4.60%	4.50%	4.30%	4.20%	4.10%	4.10%	4.10%	4.10%	4.10%	4.10%	4.10%	4.10%	4.10%
10yr PWLB Rate	5.20%	5.00%	4.90%	4.80%	4.80%	4.70%	4.70%	4.70%	4.70%	4.60%	4.60%	4.60%	4.70%
25yr PWLB Rate	5.80%	5.70%	5.60%	5.50%	5.50%	5.40%	5.30%	5.30%	5.30%	5.20%	5.20%	5.20%	5.20%
50yr PWLB Rate	5.60%	5.50%	5.40%	5.30%	5.30%	5.20%	5.10%	5.10%	5.10%	5.00%	5.10%	5.00%	5.00%

4.4.2 The Bank of England’s Monetary Policy Committee further reduced Bank Rate to 3.75% at its 18 December meeting, following a steep fall in CPI inflation in a single month from 3.6% to 3.2%. With wage growth still over 4.5% and Bank Rate nearing a neutral level, any further cuts are likely to be gradual.

4.4.3 A more thorough economic outlook provided by our Treasury Advisors is detailed in **Annex 2 and 3**.

#### 4.5 Borrowing strategy

4.5.1 The Council is currently maintaining an under-borrowed position. This means that the capital 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. With significant levels of capital expenditure expected to continue during 2026/27, it is recommended that the Council continues to utilise internal borrowing until a point where additional funds are required to maintain cash flow liquidity, when external borrowing options will then be considered. This strategy is prudent as investment returns are lower than the cost of borrowing and counterparty risk is still an issue that needs to be considered.

4.5.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2026/27 treasury operations. The S151 (Deputy Chief Executive) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- If it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed;
- If it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.
- The Council will consider all external loan options available in the market including Public Works Loans Board, Banks, Other Local Authorities and the Municipal Bond Agency. The term and repayment profile of any loans will be determined by the periods financing is required. The level of borrowing will stay within the above limits.

4.5.3 Any decisions will be reported to the Cabinet at the next available opportunity.

#### **4.6 Policy on borrowing in advance of need**

- 4.6.1 The Council can not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.
- 4.6.2 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequently reported through the mid-year or annual reporting mechanism.

#### **4.7 Debt rescheduling**

- 4.7.1 Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the penalties currently being applied to premature repayments are prohibitive. If rescheduling is done, it will be reported to the Cabinet at the earliest meeting following its action.

#### **4.8 New financial institutions as a source of borrowing and / or types of borrowing**

- 4.8.1 Currently the PWLB Certainty Rate is set at gilts + 80 basis points. There is also a temporary HRA rate set at gilts + 40 basis points, which had been due to end March 2026. The government has just confirmed that this will be extended, but have yet to confirm how long for. Despite these discounted rates, there are more competitive rates available elsewhere for some durations, and so consideration will still need to be given to sourcing funding from the following sources:
- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate for some durations)
  - Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry”)
- 4.8.2 The degree to which any of these options proves cheaper than PWLB Certainty Rate is constantly evolving but our advisors will keep us informed.

#### **4.9 Approved Sources of Long and Short Term Borrowing**

<b>On Balance Sheet</b>	<b>Fixed</b>	<b>Variable</b>
PWLB	●	●
Local Authorities	●	
Banks	●	●
Leases	●	●

## 5.0 Annual Investment Strategy

### 5.1 Investment policy – management of risk

5.1.1 The MHCLG and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with financial investments (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy (a separate report).

5.1.2 The Council’s investment policy has regard to the following:

- MHCLG’s Guidance on Local Government Investments (“the Guidance”);
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 (“the Code”); and
- CIPFA Treasury Management Guidance Notes 2021

5.1.3 The Council’s investment priorities will be Security first, portfolio Liquidity second and then Yield (return) – known as the SLY Principle.

5.1.4 The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

5.1.4.1 Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

5.1.4.2 **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets, which the Council will achieve through engaging with its advisors to maintain a monitor on market pricing.

5.1.4.3 **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

5.1.4.4 The Council has defined the list of **types of investment instruments** that the treasury management team are authorised to use. See **Annex 4** for a list.

5.1.4.5 **Lending and transaction limits** (amounts and maturity) for each counterparty will be set through applying the matrix table in paragraph 5.2.6.

5.1.4.6 The Council will set a limit for the amount of its investments which are invested for **longer than 365 days** (see paragraph 5.4.9).

5.1.4.7 Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** (see paragraph 5.3.2).

- 5.1.5 The Council has engaged external consultants (see paragraph 2.5.1) to provide expert advice on how to optimise an appropriate balance of Security, Liquidity and Yield, given the risk appetite of the Council in the context of the expected level of cash balances and need for liquidity throughout the year.
- 5.1.6 All investments will be denominated in sterling.
- 5.1.7 As a result of the change in accounting standards for 2019/20 under IFRS 9, the Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. In November 2018, MHCLG concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023. This override was since extended to 31 March 2025, and more recently to 31 March 2029, but only for those pooled investments made before 1 April 2024.
- 5.1.8 However, the Council will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance (see section 5.5). Regular monitoring of investment performance will be carried out during the year.
- 5.1.9 The above criteria are unchanged from last year.

## 5.2 Creditworthiness policy

- 5.2.1 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:
- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
  - It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.
- 5.2.2 The S151 (Deputy Chief Executive) will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.
- 5.2.3 Credit rating information is supplied by MUFG Corporate Markets (previously known as Link Group), our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the

counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty with the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

5.2.4 The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

- Banks 1 - good credit quality – the Council will only use banks which:
  - i. are UK banks; and/or
  - ii. are non-UK and domiciled in a country which has a minimum sovereign Long Term Fitch rating of AAA; and
  - iii. have, as a minimum, a credit rating of F1 (Fitch), with regard for Moody’s and Standard & Poor’s credit ratings (where rated).
- Banks 2 – The Council’s own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.
- Building Societies – The Council will use all societies which:
  - i. Meet the Fitch rating for banks outlined above; and
  - ii. Have assets in excess of £1bn;
- Money Market Funds Fitch CNAV AAmmf/AAA
- Money Market Funds LNAV AAmmf/AAA
- Money Market Funds VNAV AAmmf/AAA
- UK Government (including gilts, Treasury Bills and the DMADF)
- Local authorities, Police, Fire, parish councils and other public bodies

5.2.5 **Use of additional information other than credit ratings.** Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information will be applied to compare the relative security of differing investment opportunities.

5.2.6 **Time and monetary limits applying to investments.** The time and monetary limits for institutions on the Council’s counterparty list are as follows (these will cover both specified and non-specified investments):

Details	Fitch Short term Rating	Money and/or % Limit	Transaction Limit	Time Limit
The Council’s bank* (currently NatWest)	F1	£5m + balance of grant funds	n/a	n/a
Banks 1 (good credit quality)	F1	£5m	£5m	2yr
Banks 2 (Council’s banker if not meeting Banks 1)	F2/F3	£5m (call account)	£5m (call account)	1 day

<b>DMADF</b>	UK sovereign rating	unlimited	unlimited	unlimited
<b>Local authorities &amp; other public bodies</b>	N/A	unlimited	unlimited	unlimited
<b>Building Societies</b>	F1	£5m	£5m	2yr
<b>Money Market Funds - CNAV</b>	AAAmmf/AAA	£2m	£2m	liquid
<b>Money Market Funds - LVNAV</b>	AAAmmf/AAA	£2m	£2m	liquid
<b>Money Market Funds - VNAV</b>	AAAmmf/AAA	£2m	£2m	liquid

*\*This limit was approved in the TMSS for 2021/22 to allow the continued administration of business grant funds.*

The above table relates to financial investments only – non-financial investments, such as commercial loans or purchases of income yielding assets are covered in the Capital Strategy.

5.2.7 The proposed criteria for specified and non-specified investments are shown in **Annex 4** for approval.

### 5.2.8 Creditworthiness

5.2.9 Significant levels of downgrades to short- and long-term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. Nonetheless, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

## 5.3 Other limits

5.3.1 Due care will be taken to consider the country, group and sector exposure of the Council's investments.

5.3.2 **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AAA. The list of countries that qualify using this credit criteria as at the date of this report are shown in **Annex 5**. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

5.3.3 **Other limits.** In addition:

- no more than 30% of overall investment balances will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies; and
- the Council will not hold more than £5m with any banking group.

## 5.4 Annual Investment strategy

### 5.4.1 In-house funds

5.4.2 Over recent years, the Council has typically held upwards of £20m in short term investments with the objective of managing cash flows whilst earning a return at the same time. These returns had grown over a few years following the increases to Bank Rate, which peaked during 2023/24 when financial markets started to forecast in potential cuts to Bank Rate. Returns on short term investments hit £1,191k in 2023/24 before falling back slightly to £1,037k in 2024/25, and are forecast to fall further to £586k in 2025/26.

5.4.3 There is no fixed minimum cash balance (short term investments + current account) that the Council must hold, however an average balance of £5m to £10m would be enough to ensure fluctuations in cash flows can be managed. Therefore, internal borrowing will be used to finance capital expenditure where cash balances remain sufficient, with external borrowing only sought where necessary to meet financial obligations. Although there is currently not much difference between interest rates currently available from PWLB and rates available for short term investments, taking out new PWLB loans would expose the Council to high rates of interest for the duration of those loans. With interest rates expected to fall further over the next year, maximising internal borrowing is still the most prudent approach.

5.4.4 Cash balances have reduced during 2025/26, and will reduce further in 2026/27, so there will be a need to further reduce the average maturity on investments to ensure a regular turnover of maturities, which will be matched with the Council's large cash outflows. This will mean the primary consideration for investments will be the core balance and cash flow requirements, with the outlook for short-term interest rates only considered where significant changes are expected. Greater returns are usually obtainable by investing for longer periods, however this needs to be balanced with the Council's cash requirements.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

### 5.4.5 Investment returns expectations

5.4.6 The current forecast shown in paragraph 4.4.1 includes a forecast for Bank Rate to fall to a low of 3.25% in 2026.

5.4.7 The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Year	%
<b>2026/27</b>	3.40%
<b>2027/28</b>	3.30%
<b>2028/29</b>	3.30%
<b>2029/30</b>	3.50%
<b>Later years</b>	3.50%

5.4.8 **Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

5.4.9 **The Council is asked to approve the following treasury indicator and limit:**

<b>Upper limit for principal sums invested for longer than 365 days</b>	<b>2026/27 (£m)</b>	<b>2027/28 (£m)</b>	<b>2028/29 (£m)</b>
Principal sum invested for longer than 365 days but not exceeding 2 years.	5	5	5

5.4.10 For its cash flow generated balances, the Council will seek to utilise money market funds and short-dated deposits (overnight to 365 days) in order to benefit from the compounding of interest.

## **5.5 Investment performance / risk benchmarking**

5.5.1 The Council will use an investment benchmark to assess the performance of its investment portfolio of the average overnight SONIA rate (Sterling Overnight Index Average).

## **5.6 End of year investment report**

5.6.1 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

## **5.7 Commercial and Non-Financial Investments**

5.7.1 **Property Investments.** A limit of £5m will be applied to the use of non-specified investments. This principally relates to property funds, which is within the Local Authorities' Property Fund via CCLA.

5.7.2 **Non-Financial Investments.** The only non-financial investment held by the Council is a loan balance held with Redland Primary Care for the development of the NHS hub in Crediton. This is being repaid in instalments over 27 years.

5.7.3 Please refer to the Capital Strategy for a more detailed programme and borrowing streams.

# ANNEX 1

## 1.0 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2026/27 – 2028/29

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

### 1.1 Capital expenditure

See section 3.2 for the breakdown of capital expenditure.

### 1.2 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. **The Council is asked to approve the following indicators:**

#### Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

%	2024/25 Actual	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
General Fund	3.29%	5.69%	7.89%	9.26%	9.44%
HRA	16.77%	10.64%	11.57%	15.82%	18.02%

The estimates of financing costs include current commitments and the proposals in this budget report.

### 1.3 Minimum Revenue Provision (MRP) Policy Statement

Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 has been amended with full effect from April 2025 to expressly provide that in determining a prudent provision local authorities cannot exclude any amount of the CFR from its calculation, unless by an exception set out in statute.

The Authority is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

The MRP Guidance 2024 requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP.

## **The Council is recommended to approve the following MRP Statement:**

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Based on CFR** – MRP will be based on the CFR.

This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction)

This option provides for a reduction in the borrowing need over approximately the asset's life.

The MRP requirement for a finance lease or PFI contract is deemed to be equal to the element of the charge/rent that goes to write down the balance sheet liability.

There is no requirement on the HRA to make a Minimum Revenue Provision but there is a requirement for a charge for depreciation to be made.

For capital expenditure loans to third parties that are expected to be repaid in full, the Council will make nil MRP but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement. Where it becomes probable that a loan will not be repaid in full, MRP will be charged in accordance with the Expected Credit Loss (ECL) model outlined in IFRS 9.

MRP will not be charged against capital expenditure in the year it is incurred but will instead commence the following year. Capital expenditure incurred during 2025/26 will not be subject to a MRP charge until 2026/27.

### **1.4 MRP Overpayments**

Under the MRP Guidance, charges made in excess of the statutory MRP can be made and are known as voluntary revenue provision (VRP). VRP can be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2025, the total VRP overpayments were £0m.

## ANNEX 2 – Provided by MUFG Corporate Markets (MDDC’s Treasury Advisor)

### 2.0 INTEREST RATE FORECASTS 2026-2028

#### MUFG Corporate Markets Interest Rate View

Interest Rates	Mar-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 View	3.75%	3.50%	3.50%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%
5yr PWLB Rate	4.60%	4.50%	4.30%	4.20%	4.10%	4.10%	4.10%	4.10%	4.10%	4.10%	4.10%	4.10%	4.10%
10yr PWLB Rate	5.20%	5.00%	4.90%	4.80%	4.80%	4.70%	4.70%	4.70%	4.70%	4.60%	4.60%	4.60%	4.70%
25yr PWLB Rate	5.80%	5.70%	5.60%	5.50%	5.50%	5.40%	5.30%	5.30%	5.30%	5.20%	5.20%	5.20%	5.20%
50yr PWLB Rate	5.60%	5.50%	5.40%	5.30%	5.30%	5.20%	5.10%	5.10%	5.10%	5.00%	5.10%	5.00%	5.00%

- 2.1 Our last interest rate forecast update was undertaken on 11 August. Since then, a combination of tepid growth (0.2% q/q GDP for Q2 and 0.1% q/q GDP for Q3), falling inflation (currently CPI is 3.2%), and a November Budget that will place more pressure on the majority of households’ income, has provided an opportunity for the Bank of England’s Monetary Policy Committee to further reduce Bank Rate from 4% to 3.75% on 18 December.
- 2.2 Surprisingly, to most market commentators, the recent steep fall in CPI inflation in one month from 3.6% to 3.2% did not persuade most “dissenters” from the November vote (Lombardelli, Greene, Mann and Pill) to switch to the rate-cutting side of the Committee. Instead, it was left to Bank Governor, Andrew Bailey, to use his deciding vote to force a rate cut through by the slimmest of margins, 5-4.
- 2.3 Given the wafer-thin majority for a rate cut it was not unexpected to hear that although rates would continue on a “gradual downward path”, suggesting a further rate cut or cuts in the offing, MPC members want to assess incoming evidence on labour market activity and wage growth. Indeed, with annual wage growth still over 4.5%, the MPC reiterated that the case for further rate cuts would be “a closer call”, and Governor Bailey observed there is “limited space as Bank Rate approaches a neutral level”.
- 2.4 Accordingly, the MUFG Corporate Markets forecast has been revised to price in a rate cut in Q2 2026 to 3.5%, likely to take place in the wake of a significant fall in the CPI inflation reading from 3% in March to 2% in April (as forecast by Capital Economics), followed by a short lull through the summer whilst more data is garnered, and then a further rate cut to 3.25% in Q4.
- 2.5 As in August, nonetheless, threats to that central scenario abound. What if wage increases remain stubbornly high? There are, after all, several sectors of the domestic economy, including social care provision and the building/construction industries, where staff shortages remain severe. Moreover, by May 2026, following the local elections, we will have a better handle on whether or not the Starmer/Reeves team is going to see out the current Parliament or whether they face a Leadership challenge from within their own party. If so, how will gilt markets react to these variables...and will there be additional geo-political factors to also bake in, particularly the Fed’s monetary policy decisions in 2026 and the ongoing battle to lower rates whilst inflation remains close to 3%.
- 2.6 Accordingly, our updated central forecast is made with several hefty caveats. We are confident, as we have been for some time, that our forecast for Bank Rate and the 5-year PWLB Certainty Rate is robust, and we have marginally brought forward the timing of the

next rate cut(s). But for the 10-, 25- and 50-years part of the curve, the level of gilt issuance, and the timing of its placement, will be integral to achieving a benign trading environment. That is not a “given”, and additionally, the inflation outlook and political factors domestically and, crucially, in the US, are also likely to hold sway. Matters should be clearer by June in the UK, but the US mid-term elections are scheduled for November.

2.7 Our revised PWLB rate forecasts are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012. Please note, the lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 for those authorities with an HRA (standard rate minus 60 bps) and is set to prevail until at least the end of March 2026. Hopefully, there will be a further extension to this discounted rate announced in January.

2.8 Money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.

### 2.9 **Gilt yields and PWLB rates**

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, but the risks to our forecasts are generally to the upsides. Our target borrowing rates are set **two years forward** (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below:

<i>PWLB borrowing</i>	<i>Current borrowing rates as at 22.12.25 p.m.</i> %	<i>Target borrowing rate now (end of Q4 2027)</i> %	<i>Target borrowing rate previous (end of Q4 2027)</i> %
<b>5 years</b>	4.81	4.10	4.20
<b>10 years</b>	5.39	4.70	4.70
<b>25 years</b>	6.01	5.30	5.30
<b>50 years</b>	5.78	5.10	5.10

### 2.10 **Borrowing advice:**

Our long-term (beyond 10 years) forecast for the neutral level of Bank Rate remains at 3.5%. As all PWLB certainty rates are still above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve (<5 years PWLB maturity/<10 years PWLB EIP) and short-dated fixed LA to LA monies should also be considered. Temporary borrowing rates will, generally, fall in line with Bank Rate cuts.

2.11 We will continue to monitor economic and market developments as they unfold. Typically, we formally review our forecasts following the quarterly release of the Bank of England’s Monetary Policy Report but will consider our position on an ad-hoc basis as required.

2.12 Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

## **ANNEX 3 – Provided by MUFG Corporate Markets (MDDC’s Treasury Advisor)**

### **3.0 ECONOMIC BACKGROUND**

3.1 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, but picked up to 0.1% m/m in August before falling back by 0.1% m/m in September.
- The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% to 4.6% in September.
- CPI inflation has ebbed and flowed but finished September at 3.8%, whilst core inflation eased to 3.5%.
- The Bank of England cut interest rates from 4.50% to 4.25% in May, and then to 4% in August (and subsequently to 3.75% in December).
- The 10-year gilt yield fluctuated between 4.4% and 4.8%, ending the half year at 4.70% (before falling back to 4.43% in early November).

3.2 From a GDP perspective, the financial year got off to a bumpy start with the 0.3% m/m fall in real GDP in April as front-running of US tariffs in Q1 (when GDP grew 0.7% on the quarter) weighed on activity. Despite the underlying reasons for the drop, it was still the first fall since October 2024 and the largest fall since October 2023. However, the economy surprised to the upside in May and June so that quarterly growth ended up 0.3% q/q (subsequently revised down to 0.2% q/q). Nonetheless, the 0.0% m/m change in real GDP in July, followed by a 0.1% m/m increase in August and a 0.1% decrease in September will have caused some concern. GDP growth for 2025 - 2028 is currently forecast by the Office for Budget Responsibility to be in the region of 1.5%.

3.3 Sticking with future economic sentiment, the composite Purchasing Manager Index (PMI) for the UK increased to 52.2 in October. The manufacturing PMI output balance improved to just below 50 but it is the services sector (52.2) that continues to drive the economy forward. Nonetheless, the PMIs suggest tepid growth is the best that can be expected in the second half of 2025 and the start of 2026. Indeed, on 13 November we heard that GDP for July to September was only 0.1% q/q.

3.4 Turning to retail sales volumes, and the 1.5% year-on-year rise in September, accelerating from a 0.7% increase in August, marked the highest gain since April. On a monthly basis, retail sales volumes rose 0.5%, defying forecasts of a 0.2% fall, following an upwardly revised 0.6% gain in August. Household spending remains surprisingly resilient, but headwinds are gathering.

3.5 Prior to the November Budget, the public finances position looked weak. The £20.2 billion borrowed in September was slightly above the £20.1 billion forecast by the OBR. For the year to date, the £99.8 billion borrowed is the second highest for the April to September period since records began in 1993, surpassed only by borrowing during the COVID-19 pandemic. The main drivers of the increased borrowing were higher debt interest costs, rising government running costs, and increased inflation-linked benefit payments, which outweighed the rise in tax and National Insurance contributions.

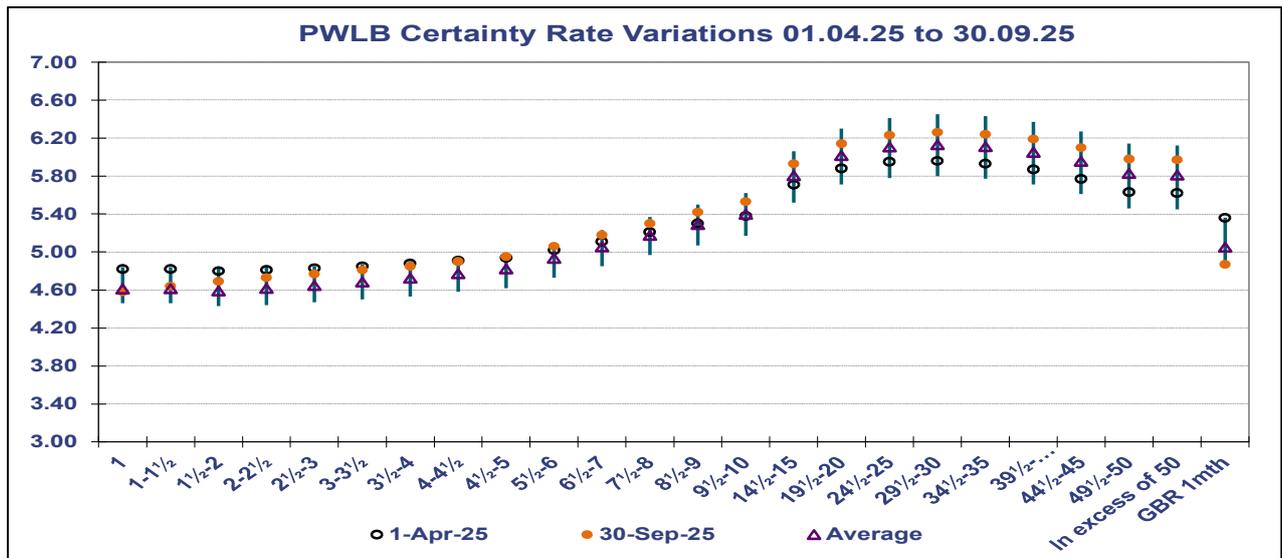
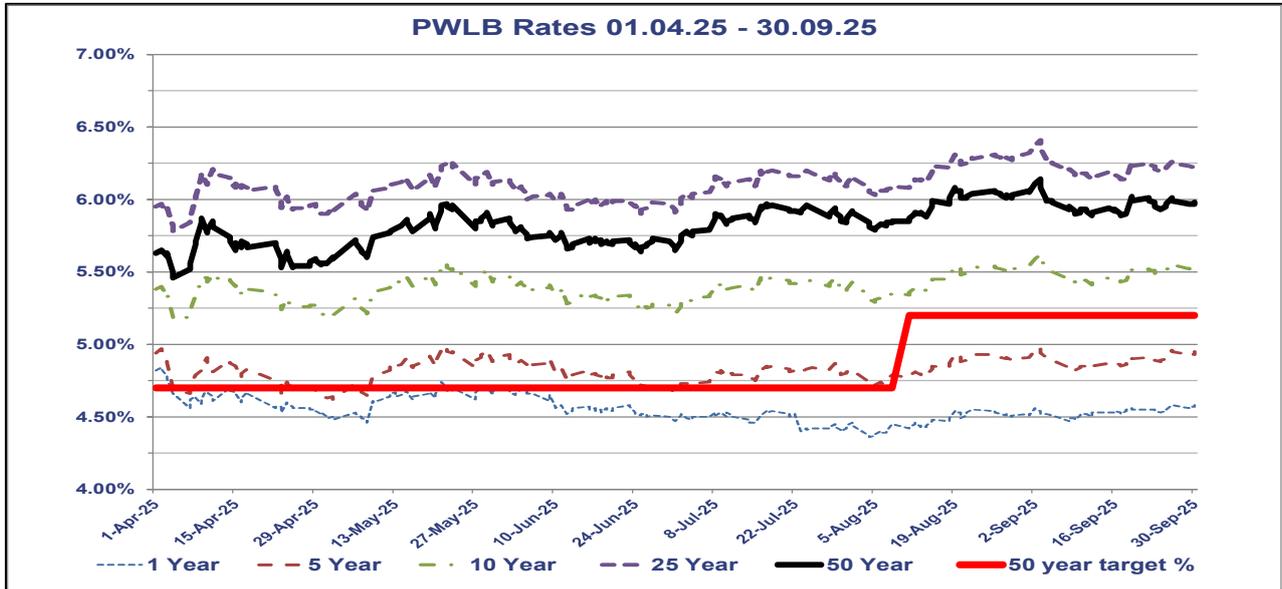
- 3.6 Following the 26 November Budget, the Office for Budget Responsibility (OBR) calculated the net tightening in fiscal policy as £11.7bn (0.3% of GDP) in 2029/30, smaller than the consensus forecast of £25bn. It did downgrade productivity growth by 0.3%, from 1.3% to 1.0%, but a lot of that influence was offset by upgrades to its near-term wage and inflation forecasts. Accordingly, the OBR judged the Chancellor was going to achieve her objectives with £4.2bn to spare. The Chancellor then chose to expand that headroom to £21.7bn, up from £9.9bn previously.
- 3.7 Moreover, the Chancellor also chose to raise spending by a net £11.3bn in 2029/30. To pay for that and the increase in her headroom, she raised taxes by £26.1bn in 2029/30. The biggest revenue-raisers were the freeze in income tax thresholds from 2028/29 (+£7.8bn) and the rise in NICs on salary-sacrifice pension contributions (+£4.8bn). The increase in council tax for properties worth more than £2.0m will generate £0.4bn.
- 3.8 The weakening in the jobs market looked clear in the spring. May's 109,000 m/m fall in the PAYE measure of employment was the largest decline (barring the pandemic) since the data began and the seventh in as many months. The monthly change was revised lower in five of the previous seven months too, with April's 33,000 fall revised down to a 55,000 drop. More recently, however, the monthly change was revised higher in seven of the previous nine months by a total of 22,000. So instead of falling by 165,000 in total since October, payroll employment is now thought to have declined by a smaller 153,000. Even so, payroll employment has still fallen in nearly all the months since the Chancellor announced the rises in National Insurance Contributions (NICs) for employers and the minimum wage in the October 2024 Budget. The number of job vacancies in the three months to November 2025 stood at 729,000 (the peak was 1.3 million in spring 2022). All this suggests the labour market continues to loosen, albeit at a slow pace.
- 3.9 A looser labour market is driving softer wage pressures. The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% in April to 4.6% in September (still at that level in November). The rate for the private sector has slipped just below 4% as the year end approaches.
- 3.10 CPI inflation remained at 3.8% in September but dropped to 3.2% by November. Core inflation also fell to 3.2% by November while services inflation fell to 4.4%. Nonetheless, 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.
- 3.11 An ever-present issue throughout recent months has been the pressure being exerted on medium and longer dated gilt yields. The yield on the 10-year gilt moved sideways in the second quarter of 2025, rising from 4.4% in early April to 4.8% in mid-April following wider global bond market volatility stemming from the "Liberation Day" tariff announcement, and then easing back as trade tensions began to de-escalate. By the end of April, the 10-year gilt yield had returned to 4.4%. In May, concerns about stickier inflation and shifting expectations about the path for interest rates led to another rise, with the 10-year gilt yield fluctuating between 4.6% and 4.75% for most of May. Thereafter, as trade tensions continued to ease and markets increasingly began to price in looser monetary policy, the 10-year yield edged lower, and ended June at 4.50%.
- 3.12 More recently, the yield on the 10-year gilt rose from 4.46% to 4.60% in early July as rolled-back spending cuts and uncertainty over Chancellor Reeves' future raised fiscal concerns. Although the spike proved short lived, it highlighted the UK's fragile fiscal position. In an era of high debt, high interest rates and low GDP growth, the markets are now more sensitive to fiscal risks than before the pandemic. During August, long-dated gilts underwent a particularly pronounced sell-off, climbing 22 basis points and reaching a 27-year high of 5.6% by the end of the month. While yields have since eased back, the market sell-off was driven by investor

concerns over growing supply-demand imbalances, stemming from unease over the lack of fiscal consolidation and reduced demand from traditional long-dated bond purchasers like pension funds. For 10-year gilts, by late September, sticky inflation, resilient activity data and a hawkish Bank of England kept yields elevated over 4.70% although by late December had fallen back again to a little over 4.50%.

- 3.13 The FTSE 100 fell sharply following the “Liberation Day” tariff announcement, dropping by more than 10% in the first week of April - from 8,634 on 1 April to 7,702 on 7 April. However, the de-escalation of the trade war coupled with strong corporate earnings led to a rapid rebound starting in late April. As a result, the FTSE 100 ended June at 8,761, around 2% higher than its value at the end of March and more than 7% above its level at the start of 2025. Since then, the FTSE 100 has enjoyed a further 4% rise in July, its strongest monthly gain since January and outperforming the S&P 500. Strong corporate earnings and progress in trade talks (US-EU, UK-India) lifted share prices and the index hit a record 9,321 in mid-August, driven by hopes of peace in Ukraine and dovish signals from Fed Chair Powell. September proved more volatile and the FTSE 100 closed September at 9,350, 7% higher than at the end of Q1 and 14% higher since the start of 2025. Future performance will likely be impacted by the extent to which investors’ global risk appetite remains intact, Fed rate cuts, resilience in the US economy, and AI optimism. A weaker pound will also boost the index as it inflates overseas earnings. In early November, the FTSE100 climbed to a record high just above 9,900. By late December, the index had clung on to most of those gains standing at 9,870 on 23 December.
- 3.14 There were six Monetary Policy Committee (MPC) meetings held between April and December. In May, the Committee cut Bank Rate from 4.50% to 4.25%, while in June policy was left unchanged. In June’s vote, three MPC members (Dhingra, Ramsden and Taylor) voted for an immediate cut to 4.00%, citing loosening labour market conditions. The other six members were more cautious, as they highlighted the need to monitor for “signs of weak demand”, “supply-side constraints” and higher “inflation expectations”, mainly from rising food prices. By repeating the well-used phrase “gradual and careful”, the MPC continued to suggest that rates would be reduced further.
- 3.15 In August, a further rate cut was implemented. However, a 5-4 split vote for a rate cut to 4% laid bare the different views within the Monetary Policy Committee, with the accompanying commentary noting the decision was “finely balanced” and reiterating that future rate cuts would be undertaken “gradually and carefully”. Ultimately, Governor Bailey was the casting vote for a rate cut but with the CPI measure of inflation expected to reach at least 4% later this year, the MPC was wary of making any further rate cuts until inflation begins its slow downwards trajectory back towards 2%.
- 3.16 With wages still rising by just below 5%, it was no surprise that the September meeting saw the MPC vote 7-2 for keeping rates at 4% (Dhingra and Taylor voted for a further 25bps reduction). Moreover, the Bank also took the opportunity to announce that they would only shrink its balance sheet by £70bn over the next 12 months, rather than £100bn. The repetition of the phrase that “a gradual and careful” approach to rate cuts is appropriate suggested the Bank still thought interest rates will fall further.
- 3.17 At the 6 November meeting, Governor Bailey was once again the deciding vote, keeping Bank Rate at 4% but hinting strongly that a further rate cut was imminent if data supported such a move. By 18 December, with November CPI inflation having fallen to 3.2%, and with Q2 GDP revised down from 0.3% q/q to only 0.2% q/q, and Q3 GDP stalling at 0.1%, the MPC voted by 5-4 to cut rates further to 3.75%. However, Governor Bailey made it clear that any further reductions would require strong supporting data, and the pace of any further

decreases would be slow compared to recent months. The markets expect Bank Rate to next be cut in April.

### PWLB RATES 01/04/2025 – 30/09/2025



### HIGH/LOW/AVERAGE PWLB RATES FOR 01/04/2025 – 30/09/2025

	1 Year	5 Year	10 Year	25 Year	50 Year
<b>01/04/2025</b>	4.82%	4.94%	5.38%	5.95%	5.63%
<b>30/09/2025</b>	4.58%	4.95%	5.53%	6.23%	5.98%
<b>Low</b>	4.36%	4.62%	5.17%	5.78%	5.46%
<b>Low date</b>	04/08/2025	02/05/2025	02/05/2025	04/04/2025	04/04/2025
<b>High</b>	4.84%	4.99%	5.62%	6.41%	6.14%
<b>High date</b>	02/04/2025	21/05/2025	03/09/2025	03/09/2025	03/09/2025
<b>Average</b>	4.55%	4.82%	5.40%	6.11%	5.83%
<b>Spread</b>	0.48%	0.37%	0.45%	0.63%	0.68%

## ANNEX 4

### 4.0 TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

- 4.1 **Specified Investments:** All investments with a high level of credit quality subject to a maturity limit of one year.
- 4.2 **Non-Specified Investments:** Any investments that do not meet the specified investment criteria. These may be of a lower credit quality, for periods in excess of one year, or are more complex instruments which require a greater consideration by members and officers before being authorised for use. A maximum of £5m will be held in aggregate in non-specified investment.
- 4.3 A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories.
- 4.4 The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria	Max % of total investments / £ limit per institution	Max. maturity period
<b>DMADF – UK Government</b>	N/A	100%	Any
<b>UK Government gilts</b>	UK sovereign rating	100%	Any
<b>UK Government Treasury bills</b>	UK sovereign rating	100%	Any
<b>Money Market Funds CNAV</b>	AAAmmf/AAA	£2m	Liquid
<b>Money Market Funds LNAV</b>	AAAmmf/AAA	£2m	Liquid
<b>Money Market Funds VNAV</b>	AAAmmf/AAA	£2m	Liquid
<b>Local authorities</b>	N/A	100%	Any
<b>Term deposits with banks and building societies</b>	F1 (Fitch) / £1bn asset base for building societies	£5m	2 Years
<b>Term deposits with Non-UK banks and building societies</b>	Sovereign Fitch rating of AAA	£3m	1 Year
<b>Gilt funds</b>	UK sovereign rating	100%	Any
<b>Property funds</b>	LA Property Fund	£5m	Ongoing

- 4.5 In addition to the minimum credit criteria outlined in the above table, all term deposits with banks and building societies will be subject to the maximum recommended duration set out by MUFG Corporate Markets.
- 4.6 **Accounting treatment of investments.** The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by the Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.
- 4.7 **Environmental, Social and Governance (ESG) factors.** Following changes to the CIPFA Treasury Management Code 2021, the Council is required to consider ESG factors as part of its investment policy. This is still an evolving area within the short-

term financial markets, so the impact on investment decisions will be limited for the coming year.

- 4.8 **Governance** is by far the most important part of ESG when considering treasury investments, as this is most likely to impact on the financial performance of an entity and its ability to repay deposits. Governance issues already play a role in the selection of acceptable investment counterparties, as any banks or building societies with significant governance concerns are unlikely to achieve the high credit ratings required for the Council to deposit funds.
- 4.9 **Environmental and Social factors** have less of an impact when considering short-term investments. This is because investments specifically for environmental or social gain are typically longer term and inherently riskier, which isn't aligned with the Security, Liquidity and Yield (SLY) principle the Council currently follows. Only the larger banks and building societies are able to achieve the credit ratings required by the Council, all of which are likely to have environmental and social aims broadly aligned with that of the Council, so further consideration of these factors are currently unlikely to influence the Council's investment decisions.
- 4.10 Further work on ESG is required by the financial markets before the Council can incorporate this into its investment policy. Trying to do this too early could result in artificially limiting potential counterparty options, thus decreasing diversification and increasing financial risk. This could then lead to the need to widen credit criteria to find more counterparties, again increasing financial risk beyond what is considered prudent and acceptable. Members will be updated on any significant advances by the financial markets that could allow the formulation of ESG criteria to include in the Council's investment policy.

## **ANNEX 5**

### **5.0 APPROVED COUNTRIES FOR INVESTMENTS**

#### AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

The sovereign ratings shown above are at 23 December 2025 from MUFG Corporate Markets.

## **ANNEX 6**

### **6.0 TREASURY MANAGEMENT SCHEME OF DELEGATION**

#### **(i) Full Council**

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

#### **(ii) Cabinet**

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

#### **(iii) Cabinet**

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

#### **(iv) Delegation from the S151 (Deputy Chief Executive) to the nominated post(s) for the taking of the investment decisions:**

- Head of Finance, Property & Climate Resilience (Deputy S151)

## ANNEX 7

### 7.0 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

#### The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe for example 25+ years;
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities;
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority;
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above;
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following
  - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
  - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*

- *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*
- *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*
- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*