Mid Devon
DISTRICT COUNCIL

Report for:	Cabinet
Date of Meeting:	04 November 2025
Subject:	**Treasury Management Strategy Mid-Year Review Report 2025/26**
Cabinet Member:	Cllr John Downes, Cabinet Member for Governance, Finance & Risk
Responsible Officer:	Andrew Jarrett, Deputy Chief Executive (S151)
Exempt:	N/A
Wards Affected:	All
Enclosures:	Appendix A – Economic Commentary from our Treasury Advisors (Link Group)

Section 1 – Summary and Recommendation(s)

To inform the Cabinet of the treasury performance during the first six months of 2025/26, to agree the ongoing deposit strategy for the remainder of 2025/26 and a review of compliance with Treasury and Prudential Limits for 2025/26.

Recommendation(s):

1. The Cabinet are asked to recommend to Council approval of:

- **a) A continuation of the current policy outlined at paragraphs 4.0 – 4.5 be agreed; and**
- **b) The changes to the Capital Financing Requirement, Operational Boundaries and Authorised Limits for the current year at paragraphs 5.4 – 5.5.**

Section 2 – Report

1.0 Introduction

1.1 CIPFA's Code of Practice for Treasury Management recommends the annual setting of a Treasury Management Strategy and best practice dictates a specific half yearly update on treasury performance. This report will not only update Members on the treasury performance over the first six months of 2025/26, but will also seek approval for the ongoing deposit strategy.

2.0 Treasury Performance 01/04/2025 to 30/09/2025

2.1 The table below shows the Council's overall treasury management position for the first six months of 2025/26.

Treasury Position	**Average Interest**	**Total Interest as at 30/09/2025**	**Forecast Year-End Position**
Temporary Investments and Deposits	4.51%	£368k	£587k
CCLA Dividends	4.10%	£103k	£205k
Loans to Redlands Primary Care*	3.72%	£39k	£78k
Total		**£510k**	**£870k**
Split Between:			
General Fund		£348k	£612k
Housing Revenue Account		£162k	£258k

**The Council made two loans in 2021 totalling £2.175m towards the construction of a new GP surgery in Crediton.*

2.2 The General Fund 2025/26 budget for all investment activity is £742k and for the Housing Revenue Account is £320k. Therefore, performance is below budget expectations. This is mainly due to increased use of internal balances to support the capital programme, leaving less for investment.

3.0 Economic Update

3.1 The Council's treasury advisor, MUFG Corporate Markets, provided the following forecasts on 11 August 2025 (PWLB rates are certainty rates, gilt yields plus 80bps):

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
BANK RATE	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
3 month ave earnings	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
6 month ave earnings	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
12 month ave earnings	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
5 yr PWLB	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
10 yr PWLB	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
25 yr PWLB	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
50 yr PWLB	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

3.2 This latest forecast sets out a view that the short, medium and long-dated interest rates will fall back over the next year or two, although there are upside risks in respect of the stickiness of inflation and a continuing tight labour market, as well as the size of gilt issuance.

3.3 Please refer to Appendix 1 for the economic commentary provided by the Council's treasury advisors (MUFG Corporate Markets).

4.0 Investment Portfolio

4.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite (SLY Principle).

4.2 The Council's investment portfolio as at 30 September 2025 was made up of short-term investments/deposits to the value of £12.39m, comprising of £8.00m in fixed term investments and £4.39m in NatWest call accounts. In addition to this, the Council also holds £5.00m in the CCLA commercial property fund.

4.3 Short term investments/deposits held as at 30 September 2025 are as follows:

Institution	Principal (£)	Rate	Start Date	Maturity Date
Uttlesford District Council	2,000,000	4.25%	21/05/2025	21/11/2025
NBK International PLC	3,000,000	4.28%	03/06/2025	03/12/2025
Chesterfield Borough Council	3,000,000	4.30%	09/06/2025	09/12/2025

By way of comparison to emphasise the point made in paragraph 2.2, at the same time last year, the council held short-term investments of £18.000m.

4.4 The Council received an average return of 4.51% on investments during the first six months of 2025/26, down from 5.34% at the same point in the previous year. Interest rates on offer have reduced through 2024/25 and into 2025/26, as markets price in cuts to Bank Rate. Therefore, returns during the first half of this year were strengthened slightly by maturing investments made in late 2024/25 and early 2025/26 before interest rates dropped further to their current levels. Performance is expected to reduce in the second half of 2025/26 as the full effect of the lower interest rates is felt and cash balances reduce.

4.5 The Council currently has £5m deposited with the CCLA (Churches, Charities and Local Authorities) Local Authorities' Property Fund, which pays dividends quarterly. For the first two quarters of 2025/26, dividends of £103k (4.10%) were received, down from £117k (4.69%) for the same period in 2024/25. There has been a small increase in fund value of £10k during the first half of 2025/26, with the Council's share in the fund now valued at £4.554m.

5.0 Borrowing Requirements and Prudential Indicators

5.1 The Council has no short-term borrowing but has existing PWLB loans of £28.389m as at 30 September 2025, in addition to £4.294m in finance leases.

5.2 The Council's revised capital financing requirement (CFR) for 2025/26 is £72.338m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. Table 5.6 shows the Council has forecast borrowings at 31 March 2026 of £35.365m, and so will have utilised £32.974m of cash flow funds in lieu of borrowing to finance the CFR of £72.338m shown in table 5.5.

5.3 There has so far been no new borrowing in 2025/26, however it is possible that new borrowing of up to £8.000m will be required before the end of the financial year to help fund the capital programme. This is a reduction in the level of new borrowing forecast at the start of the year, which originally stood at £18.000m, and is mainly due to slippage in the Capital Programme.

5.4 The Treasury Management Strategy Statement (TMSS) for 2025/26 was approved by Council on 19 February 2025. The underlying TMSS approved previously requires revision in light of a revised deliverable Capital Programme for 2025/26. The proposed changes are set out below:

Prudential Indicator 2025/26	Original £000	Q1 Updated Forecast £000	Revised Prudential Indicator £000
Authorised Limit	92,000	81,000	82,000
Operational Boundary	83,000	72,000	73,000
Capital Financing Requirement	81,931	71,436	72,338

5.5 The table below shows a breakdown of the revised CFR.

Prudential Indicator – Capital Financing Requirement	2025/26 Original Estimate £000	Q1 Updated Forecast £000	2025/26 Revised Estimate £000
CFR – Non Housing	19,443	17,550	15,927
CFR – Housing	62,488	53,886	56,411
Total CFR	**81,931**	**71,436**	**72,338**
Net movement in CFR*	**13,828**	**3,389**	**4,290**

**In-year movement calculated against 2024/25 CFR (estimated at £68,103k when the original 2025/26 estimate was calculated, now known to be £68,048k – 2024/25 Treasury Outturn).*

5.6 The table below shows the expected debt position at 31 March 2026, which determines the Operational Boundary and Authorised Limit shown in 5.4 above.

Prudential Indicator – External Debt	2025/26 Original Estimate £000	2025/26 Revised Estimate £000
Borrowing	45,365	35,365
Other Long Term Liabilities*	3,620	3,999
Total Debt (Year End Position)	**48,985**	**39,364**

* *Includes finance leases*

6.0 Annual Investment Strategy

6.1 Any fixed term investments in the market place (except Debt Management Office [DMO]) are restricted to a maximum term of two years (previously one year). The Council's substantial commitments (particularly the monthly precepts to Devon County Council, the Police and Fire Authority) constrain the term of investments. The Cabinet of 7 February 2019 resolved to diversify the investment portfolio to include non-UK banks with a minimum Sovereign Fitch rating of AAA (highest possible rating).

6.2 The Council will continue to have regard to the MHCLG's Guidance on Local Government Investments ("the Guidance") issued in April 2018 (3rd Edition) and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectorial Guidance Notes ("the CIPFA Treasury Management Code").

7.0 Lending Criteria and Counterparty Limits

7.1 The current policy allows the lending of funds to be deposited with major UK banks and building societies with an investment period no longer than two years and where the counterparty is required to meet the following ratings requirements: Banks (Fitch F1, F1+) and for building societies based upon a minimum Fitch rating of F1 and an asset base level of at least £1bn. The maximum lending limit to any group counterparty is £5m. The policy includes investments with CCLA property fund and money market funds with a limit of £2m on this option. Note that delegation was provided to the S151 officer and Finance Portfolio Holder in 2011/12 to make reactive decisions when market conditions changed due to volatility in rating changes when our own bankers, NatWest, were downgraded, along with other part nationalised banks. We do not invest any term deposits with the Royal Bank of Scotland Group and only have our call accounts with them.

7.2 Officers recommend a continuation of the existing policy for investments with banks and building societies, property funds and money market funds.

7.3 In addition to these fixed term deposits, the Council also uses an instant access liquidity account with NatWest (the Council's banker) to sweep any small surplus funds which cannot be placed by our brokers. Again, this account will be subject to the same £5m maximum deposit level, plus the balance of any grant fund.

7.4 The Council will also continue to lend to:

- Local Authorities, Police, Fire & Rescue, Parish Councils and other Public Bodies
- UK Government (including gilts, Treasury Bills and the DMADF)
- Other Bodies.

7.5 The investments that can be made to the organisations stated in paragraph 7.4 will not be constrained to a maximum deposit of £5m due to their lower level of risk. However, other bodies have a monetary limit of £3m.

8.0 Conclusion

8.1 The first half-year has seen a decline in treasury performance on 2024/25, due to reducing interest rates and lower cash balances available for investment. A slight decrease in performance is expected through the second half of the year as interest rates on temporary investments and deposits continue to decline. The Council's investment in the CCLA property fund has seen a reduction in dividend payments, but returns should be unaffected by future reductions in interest rates.

Financial Implications: Good financial management and administration underpins the entire strategy. The Council's Treasury Management Strategy should attempt to maximise investment return commensurate with minimum risk to the principal sums invested**.**

Legal Implications: The Council is under a statutory duty to "have regard" to the 2011 CIPFA Treasury Management Code of Practice. The Council's own Financial Regulations include requirements as to the reporting of treasury management information.

Risk Assessment: The Council considers deposit security as the paramount function in any treasury dealings or activities. It should be noted that any investment decisions will always be subject to a degree of risk. However, in complying with an agreed Treasury Management Strategy, these risks would be kept to an acceptable level.

Impact on Climate Change: There are no Climate Change implications relating to the content of this report.

Equality Impact Assessment: It is considered that the impact of this report on equality related issues will be nil.

Relationship to Corporate Plan: Maximising investment return whilst minimising risk of credit default enables the Council to finance the delivery of its Corporate Plan objectives.

Section 3 – Statutory Officer sign-off/mandatory checks

Statutory Officer: Andrew Jarrett
Agreed by or on behalf of the Section 151 Officer
Date: 24/10/2025

Statutory Officer: Maria De Leiburne
Agreed on behalf of the Monitoring Officer
Date: 24/10/2025

Chief Officer: Andrew Jarrett
Agreed by or on behalf of the Chief Executive/Corporate Director
Date: 24/10/2025

Performance and risk: Dr Stephen Carr
Agreed on behalf of the Corporate Performance & Improvement Manager
Date: 23/10/2025

Cabinet member notified: Yes

Section 4 - Contact Details and Background Papers

Contact: Kieran Knowles, Operations Manager for Financial Services
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Telephone: 01884 24(4624)

Background papers: Treasury Management Strategy Statement 2025/26 (Council 19/02/2025)

Appendix 1

1.0 Economic Commentary from the Council's Treasury Advisors (MUFG Corporate Markets)

1.1 The second quarter 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%.

1.2 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. Nonetheless, the 0.0% m/m change in real GDP in July will have caused some concern, with the hikes in taxes for businesses that took place in April this year undoubtedly playing a part in restraining growth. The weak overseas environment is also likely to have contributed to the 1.3% m/m fall in manufacturing output in July. That was the second large fall in three months and left the 3m/3m rate at a 20-month low of -1.1%. The 0.1% m/m rise in services output kept its 3m/3m rate at 0.4%, supported by stronger output in the health and arts/entertainment sectors. Looking ahead, ongoing speculation about further tax rises in the Autumn Budget on 26 November will remain a drag on GDP growth for a while yet. GDP growth for 2025 is forecast by Capital Economics to be 1.3%.

1.3 Sticking with future economic sentiment, the composite Purchasing Manager Index for the UK fell from 53.5 in August to 51.0 in September. The decline was mostly driven by a fall in the services PMI, which declined from 54.2 to 51.9. The manufacturing PMI output balance also fell, from 49.3 to 45.4. That was due to both weak overseas demand (the new exports orders balance fell for the fourth month in a row) and the cyber-attack-induced shutdown at Jaguar Land Rover since 1 September reducing car production across the automotive supply chain. The PMIs suggest tepid growth is the best that can be expected when the Q3 GDP numbers are released.

1.4 Turning to retail sales, and the 0.5% m/m rise in volumes in August was the third such rise in a row and was driven by gains in all the major categories except fuel sales, which fell by 2.0% m/m. Sales may have been supported by the warmer-than-usual weather. If sales were just flat in September, then in Q3 sales volumes would be up 0.7% q/q compared to the 0.2% q/q gain in Q2.

1.5 With the November Budget edging nearer, the public finances position looks weak. Public net sector borrowing of £18.0bn in August means that after five months of the financial year, borrowing is already £11.4bn higher than the OBR forecast at the Spring Statement in March. The overshoot in the Chancellor's chosen fiscal mandate of the current budget is even greater with a cumulative deficit of £15.3bn. All this was due to both current receipts in August being lower than the OBR forecast (by £1.8bn) and current expenditure being higher (by £1.0bn). Over the first five months of the financial year, current receipts have fallen short by a total of £6.1bn (partly due to lower-than-expected self-assessment income tax) and current expenditure has overshot by a total of £3.7bn (partly due to social benefits and departmental spending). Furthermore, what very much matters now is the OBR forecasts and their impact on the current budget in 2029/30, which is when the Chancellor's fiscal mandate bites. As a general guide, Capital Economics forecasts a deficit of about £18bn, meaning the Chancellor will have to raise £28bn, mostly through higher taxes, if she wants to keep her buffer against her rule of £10bn.

1.6 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 nine of the ten months since the Chancellor announced the rises in National Insurance Contributions (NICs) for employers and the minimum wage in the October Budget. The number of job vacancies in the three months to August stood at 728,000. Vacancies have now fallen by approximately 47% since its peak in April 2022. All this suggests the labour market continues to loosen, albeit at a declining pace.

1.7 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 4.8% in July. The rate for the private sector slipped from 5.5% to 4.7%, putting it on track to be in line with the Bank of England's Q3 forecast (4.6% for September).

1.8 CPI inflation fell slightly from 3.5% in April to 3.4% in May, and services inflation dropped from 5.4% to 4.7%, whilst core inflation also softened from 3.8% to 3.5%. More recently, though, inflation pressures have resurfaced, although the recent upward march in CPI inflation did pause for breath in August, with CPI inflation staying at 3.8%. Core inflation eased once more too, from 3.8% to 3.6%, and services inflation dipped from 5.0% to 4.7%. So, we finish the half year in a similar position to where we started, although with food inflation rising to an 18-month high of 5.1% and households' expectations for inflation standing at a six year high, 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.

1.9 An ever-present issue throughout the past six 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 Q2 at 4.50%.

1.10 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 have kept yields elevated over 4.70%.

1.11 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 closed Q2 at 8,761, around 2% higher than its value at the end of Q1 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 Q3 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.

1.12 MPC meetings: 8 May, 19 June, 7 August, 18 September 2025

1.12.1 There were four Monetary Policy Committee (MPC) meetings in the first half of the financial year. 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.

1.12.2 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 will be wary of making any further rate cuts until inflation begins its slow downwards trajectory back towards 2%.

1.12.3 The Bank of England does not anticipate CPI getting to 2% until early 2027, and 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).

1.12.4 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 suggests the Bank still thinks interest rates will fall further but possibly not until February, which aligns with both our own view and that of the prevailing market sentiment.