

## Appendix 1

### **Treasury Management Strategy 2026/27** (Including the Annual Investment Strategy)

#### **Content**

##### **Key Considerations**

###### **1.0 Introduction**

- 1.1 Policy Statement and Background
- 1.2 Reporting Requirements
- 1.3 Treasury Management Strategy
- 1.4 Training
- 1.5 Treasury Management Consultants

###### **2.0 Capital Prudential Indicators 2026/27 to 2028/29**

- 2.1 Capital Expenditure and Financing
- 2.2 The Borrowing Need (Capital Financing Requirement)
- 2.3 Liability Benchmark
- 2.4 Core Funds and Expected Investment Balances

###### **3.0 Borrowing**

- 3.1 Current Portfolio Position
- 3.2 Treasury Indicators: Limits to Borrowing Activity
- 3.3 Interest Rate Forecasts
- 3.4 Borrowing Strategy
- 3.5 Policy on Borrowing in Advance of Need
- 3.6 Rescheduling
- 3.7 Sources and Types of Borrowing
- 3.8 Approved Sources of Long and Short Term Borrowing

###### **4.0 Annual Investment Strategy**

- 4.1 Investment Policy – Management of Risk
- 4.2 Creditworthiness Policy
- 4.3 Limits
- 4.4 Investment Strategy
- 4.5 Investment Performance and Risk Benchmarking
- 4.6 End of Year Investment Report

###### **5.0 Annexes**

- 5.1 Capital Prudential and Treasury Indicators 2026/27 to 2028/29
- 5.2 Interest Rate Forecasts 2025-2028
- 5.3 Economic Background
- 5.4 Treasury Management Practice (TMP1)
- 5.5 Approved Countries for Investment
- 5.6 Treasury Management Scheme of Delegation
- 5.7 The Treasury Management Role of the S151 Officer
- 5.8 Glossary

## **Key Considerations**

### **2021 revised CIPFA Treasury Management Code and Prudential Code – changes which will impact on future TMSS/AIS reports and the risk management framework.**

CIPFA published the revised Codes on 20th December 2021 and stated that revisions need to be included in the reporting framework from the 2023/24 financial year. This Council, therefore, has to have regard to these Codes of Practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.

**The Treasury Management Code required all investments and investment income to be attributed to one of the following three purposes: -**

#### **Treasury management**

Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

#### **Service delivery**

Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

#### **Commercial return**

Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. A council must not borrow to invest primarily for financial return.

**The revised Treasury Management Code requires a council to implement the following: -**

- 1. Adopt a liability benchmark treasury indicator** to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained;
- 2. Long-term treasury investments**, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case;

3. **Pooled funds** are to be included in the indicator for principal sums maturing in years beyond the initial budget year;
4. Amendment to the **knowledge and skills register** for officers and members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council;
5. **Reporting to members is to be done quarterly.** Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The CFO is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and should be reported as part of the Council's integrated revenue, capital and balance sheet monitoring;
6. **Environmental, social and governance (ESG)** issues to be addressed within the Council's treasury management policies and practices (TMP1).

**The main requirements of the Prudential Code relating to service and commercial investments are: -**

1. The risks associated with service and commercial investments should be proportionate to their financial capacity – i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services;
2. A council must not borrow to invest for the primary purpose of commercial return;
3. It is not prudent for local authorities to make any investment or spending decision that will increase the CFR, and so may lead to new borrowing, unless directly and primarily related to the functions of the Council, and where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose;
4. An annual review should be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt;
5. A prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream;
6. Create new Investment Management Practices to manage risks associated with non-treasury investments, (similar to the current Treasury Management Practices).

## **1.0 Introduction**

### **1.1 Policy Statement and Background**

#### **1.1.1 Treasury Management Policy Statement**

- The Council defines its treasury management activities as the management of the organisation's borrowing, investments and cash flows, including 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.
- The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation and any financial instruments entered into to manage these risks.
- The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable, comprehensive performance measurement techniques within the context of effective risk management.

#### **1.1.2 Background**

The Council is required to operate a balanced revenue budget, which broadly means that 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.

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 it 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 risk or cost objectives.

The contribution the treasury management function makes to the Council 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.

CIPFA defines treasury management as:

*“The management of the local council’s borrowing, investments and cash flows, including 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.”*

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.

## **1.2 Reporting Requirements**

### **1.2.1 Capital Strategy**

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
- the implications for future financial sustainability

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

### **1.2.2 Treasury Management Reporting**

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 Annual 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, this Council will receive quarterly update reports.
- 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.

### **Scrutiny**

The above reports are required to be adequately scrutinised before being recommended to the Full Council. This role is undertaken by the Overview and Scrutiny Panel (Performance and Growth).

**Quarterly reports** – In addition to the three major reports detailed above, quarterly reporting (end of June/end of December) is also required. However, these additional reports do not have to be reported to Full Council but do require to be adequately scrutinised. This role is undertaken by the Overview and Scrutiny Panel (Performance and Growth). (The reports, specifically, should comprise updated Treasury/Prudential Indicators.)

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

The strategy for 2026/27 covers two main areas:

#### **Capital issues**

- the capital expenditure plans and the associated prudential indicators
- the minimum revenue provision (MRP) policy (separate appendix)

#### **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 use of external service providers

These elements cover the requirements of the Local Government Act 2003, MHCLG Investment Guidance, MHCLG MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

#### **1.4 Training**

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.

Furthermore, pages 47 and 48 of the Code state that they expect “all organisations 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. The scale and nature of this will depend on the size and complexity of the organisation’s treasury management needs.

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

- Prepare tailored learning plans for treasury management officers and councilors.
- Require treasury management officers and councilors to undertake self-assessment against the required competencies.
- Have regular communication with officers and councilors, encouraging them to highlight training needs on an ongoing basis.”

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.

The training needs of treasury management officers are periodically reviewed. A formal record of the training received by officers central to the Treasury function will be maintained as part of the officer’s CPD record.

#### **1.5 Treasury Management Consultants**

The Council uses MUFG Corporate Markets, 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. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services 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.

## 2. CAPITAL PRUDENTIAL 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 councillors' overview and confirm capital expenditure plans are prudent, affordable and sustainable.

### 2.1 Capital Expenditure and Financing

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. Members are asked to approve the capital expenditure forecasts: -

Capital expenditure	2024/25 Actual £000s	2025/26 Forecast £000s	2026/27 Budget £000s	2027/28 Budget £000s	2028/29 Budget £000s
Property, Plant and Equipment	4,003	15,412	18,598	17,105	6,922
Investment Property	70	1,192	700	0	0
Intangible Assets	72	30	104	70	30
REFCUS	11,171	7,314	8,785	1,600	1,600
Infrastructure Assets	0	0	550	0	0
Community Assets	667	0	720	500	0
Loans	0	100	0	0	0
Assets Under Construction	868	0	0	0	0
<b>Total</b>	<b>16,851</b>	<b>24,048</b>	<b>29,457</b>	<b>19,275</b>	<b>8,552</b>

<sup>(1)</sup>REFCUS is Revenue Expenditure Financed from Capital Under Statute, this would include DFGs and other grants given.

Other long-term liabilities - the above financing need excludes other long-term liabilities, such as leasing arrangements that already include borrowing instruments.

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.

Financing of capital expenditure	2024/25 Actual £000s	2025/26 Forecast £000s	2026/27 Budget £000s	2027/28 Budget £000s	2028/29 Budget £000s
Capital receipts	261	100	50	50	2,009
Capital grants	2,050	12,722	4,001	4,001	4,001
Capital reserves	10,858	2,140	0	0	0
Earmarked Reserve	275	0	0	0	0
S106	0	0	0	0	0
MRP	2,824	2,861	3,350	3,943	4,115
<b>Total Financing</b>	<b>16,337</b>	<b>17,823</b>	<b>13,336</b>	<b>7,994</b>	<b>10,125</b>
Internal Borrowing	514	6,225	16,121	11,281	(1,573)
<b>Total</b>	<b>16,851</b>	<b>24,048</b>	<b>29,457</b>	<b>19,275</b>	<b>8,552</b>

## 2.2 The Borrowing Need (the Capital Financing Requirement)

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.

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.

The CFR includes any other long-term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility provided by the lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £0.6m of such schemes within the CFR.

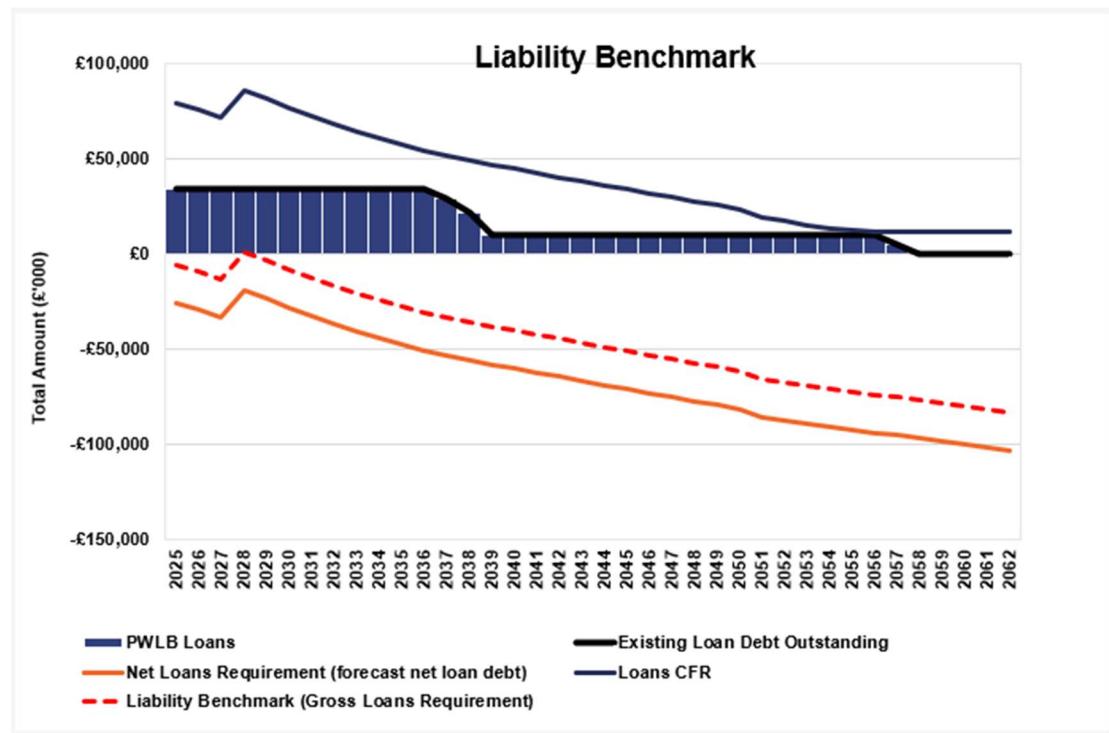
The Council is asked to approve the CFR projections below:

	2024/25 Actual £000s	2025/26 Forecast £000s	2026/27 Budget £000s	2027/28 Budget £000s	2028/29 Budget £000s
<b>Capital Financing Requirement</b>					
General Fund	72,855	79,080	95,201	106,479	104,902
<b>Total CFR</b>	<b>72,855</b>	<b>79,080</b>	<b>95,201</b>	<b>106,479</b>	<b>104,902</b>
<b>Movement in CFR</b>	<b>514</b>	<b>6,225</b>	<b>16,121</b>	<b>11,281</b>	<b>(1,573)</b>

<b>Movement in CFR represented by</b>					
Net financing needed for the year (above)	3,338	9,086	19,471	15,224	2,542
Less MRP and other financing movements	(2,824)	(2,861)	(3,350)	(3,943)	(4,115)
<b>Movement in CFR</b>	<b>514</b>	<b>6,225</b>	<b>16,121</b>	<b>11,281</b>	<b>(1,573)</b>

## 2.3 Liability Benchmark

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



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. This includes only current borrowing not future unplanned borrowing.
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 short-term liquidity allowance. In practice this is the amount required to pay the regular precept payments.

The Council is currently in an under-borrowed position (external borrowing is less than the CFR, internal borrowing is being used i.e. reserves and working capital to fund capital expenditure), this according to the liability benchmark will continue until the mid 2050s, although as plans evolve the CFR will likely move

outwards. The CFR is being gradually reduced by application of the minimum revenue provision (MRP) charge to revenue, although as new expenditure plans are made the CFR line will reduce at a slower rate, and will not in reality reach zero.

The cash available to invest will increase as the MRP builds up in the cash balances, but this may be used to finance expenditure rather than external borrowing. The liability benchmark line (dotted) is the cash available to invest less a liquidity buffer to meet any immediate cashflow needs.

## 2.4 Core Funds and Expected Investment Balances

The application of resources (e.g., capital receipts, reserves) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (e.g., asset sales). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

One of the resources that can be used to finance capital expenditure is income from the Community Infrastructure Levy (CIL). CIL is a planning charge that local authorities can apply to most new developments in their area, which they can use to ensure that the new development contributes financially to the infrastructure needed to support population growth. Finance and Planning have submitted a separate report recommending a more flexible approach in the use of CIL to support the Councils capital infrastructure projects. This new approach will allow HDC to ensure that the CIL balance included below can be used to better meet the needs of future residents within our region.

Year End Resources	2024/25 Actual £000s	2025/26 Forecast £000s	2026/27 Budget £000s	2027/28 Budget £000s	2028/29 Budget £000s
General Fund Balance	2,175	2,175	2,175	2,175	2,175
Earmarked Reserves	36,911	36,609	35,820	35,622	35,686
Capital Receipts Reserve	4,721	4,527	4,527	4,527	4,527
Capital Grants Unapplied	4,415	119	0	0	0
CIL Reserve	54,915	54,989	55,000	50,000	45,000
<b>Total core funds</b>	<b>103,137</b>	<b>98,419</b>	<b>97,522</b>	<b>92,234</b>	<b>87,388</b>
Balance Sheet Resources (Working capital) <sup>(1)</sup>	2,141	10,000	20,000	30,000	30,000
Under/over borrowing	(38,592)	(44,826)	(60,657)	(71,488)	(69,966)
<b>Expected investments</b>	<b>66,686</b>	<b>63,593</b>	<b>56,865</b>	<b>50,836</b>	<b>47,422</b>

<sup>(1)</sup>Working capital balances shown are estimated year-end; these may be higher mid-year

## 3. BORROWING

The capital expenditure plans set out in Section 2 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. The strategy covers the relevant treasury and prudential indicators, the current and projected debt positions, and the Annual Investment Strategy.

### 3.1 Current Portfolio Position

The overall treasury management portfolio as at 01/04/2025 and for the position as at [31/12/2025](#) are shown below for both borrowing and investments.

TREASURY PORTFOLIO					
	Actual 01.04.25	Actual 01.04.25	Actual 31.12.25	Actual 31.12.25	
<b>Treasury investments</b>	£000s	%	£000s	%	
Banks	333	0.5	613	1	
DMADF (H.M.Treasury)	47,750	69.1	58,000	73	
Money Market Funds	17,030	24.6	16,980	21	
Property Fund	4,000	5.8	4,000	5	
<b>Total treasury investments</b>	<b>69,113</b>	<b>100</b>	<b>79,593</b>	<b>100</b>	
<b>Treasury external borrowing</b>					
PWLB	34,255	99.97	34,255	99.99	
Salix	9	0.03	4	0.01	
<b>Total external borrowing</b>	<b>34,264</b>	<b>100</b>	<b>34,259</b>	<b>100</b>	
<b>Net treasury investments / (borrowing)</b>		<b>34,849</b>		<b>45,334</b>	

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

		2024/25 Actual £m	2025/26 Forecast £m	2026/27 Budget £m	2027/28 Budget £m	2028/29 Budget £m
<b>External Debt</b>						
Debt at 1 April		34.3	34.3	34.3	34.3	34.3
Expected change in Debt		0.0	0.0	0.0	0.0	0.0
Other long-term liabilities (OLTL)		0.6	0.6	0.6	0.6	0.6
Expected change in OLTL		0.0	0.0	0.0	0.0	0.0
Actual gross debt at 31 March		<b>34.9</b>	<b>34.9</b>	<b>34.9</b>	<b>34.9</b>	<b>34.9</b>
The Capital Financing Requirement		<b>72.9</b>	<b>79.1</b>	<b>95.2</b>	<b>106.4</b>	<b>104.9</b>
Under / (over) borrowing		<b>38.0</b>	<b>44.2</b>	<b>60.3</b>	<b>71.5</b>	<b>70.0</b>

Within the range of prudential indicators there are several 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 2025/26 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.

The Corporate Director (Finance and Resources) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes account of current commitments, existing plans and the proposals in this budget report.

### 3.2 Treasury Indicators: Limits to Borrowing Activity

**The Operational Boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational Boundary	2025/26 Limit £m	2025/26 Limit £m	2026/27 Limit £m	2027/28 Limit £m
General Debt including other long-term liabilities <sup>(1)</sup>	75	75	75	75
Loans	15	15	15	15
CIS	25	25	25	25
<b>Total</b>	<b>115</b>	<b>115</b>	<b>115</b>	<b>115</b>

<sup>(1)</sup>This limit has been introduced to allow for assets that may be added to the balance sheet because of the new accounting standard IFRS16, this is not extra expenditure but a new accounting treatment for existing leased assets

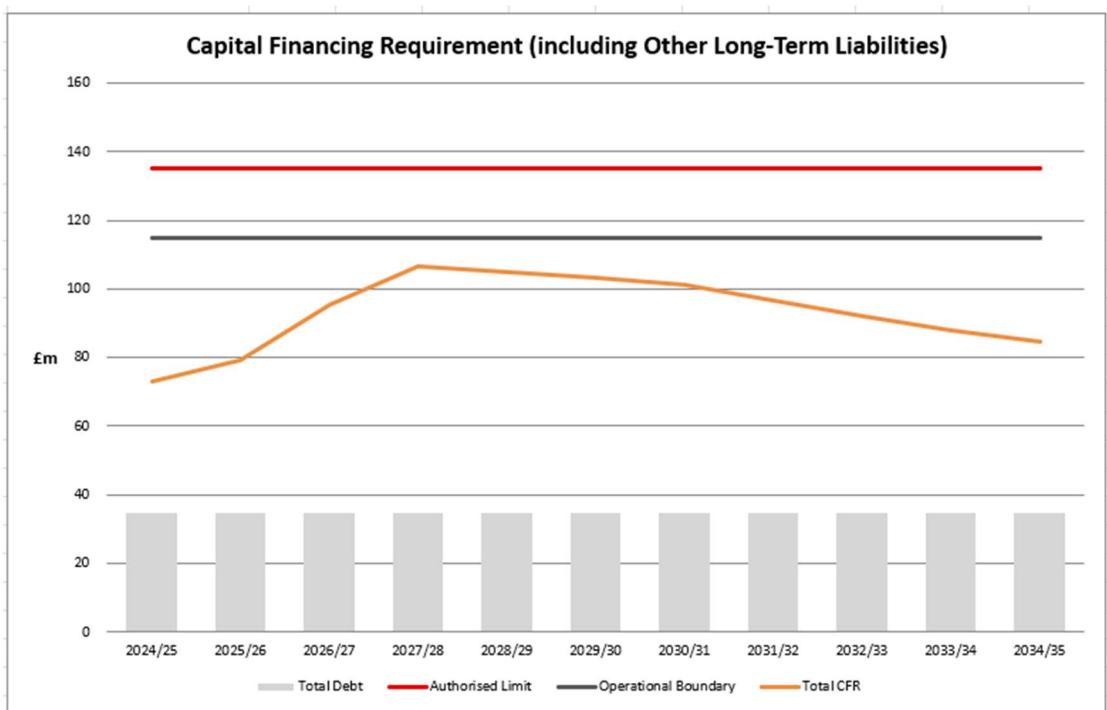
**The Authorised Limit for external debt.** This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Council. It reflects the level of external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

- 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 local council plans, or those of a specific council, although this power has not yet been exercised.
  - The Council is asked to approve the following Authorised Limit:

<b>Authorised Limit</b>	<b>2025/26 Limit £m</b>	<b>2025/26 Limit £m</b>	<b>2026/27 Limit £m</b>	<b>2027/28 Limit £m</b>
General Debt including other long-term liabilities <sup>(1)</sup>	95	95	95	95
Loans	15	15	15	15
CIS	25	25	25	25
<b>Total</b>	<b>135</b>	<b>135</b>	<b>135</b>	<b>135</b>

<sup>(1)</sup>This limit has been introduced to allow for assets that may be added to the balance sheet because of the new accounting standard IFRS16, this is not extra expenditure but a new accounting treatment for existing leased assets

## Prudential Indicator Graph CFR and Authorised/Operational Limit



### 3.3 Interest Rate Forecasts

The Council has appointed MUFG Corporate Markets as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. MUFG Corporate Markets provided the following forecasts on 22 December 2025. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 basis points.

MUFG Corporate Markets Interest Rate View 22.12.25													
	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	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
3 month ave earnings	3.80	3.50	3.50	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	3.80	3.50	3.50	3.40	3.30	3.30	3.30	3.40	3.40	3.40	3.40	3.40	3.40
12 month ave earnings	3.90	3.60	3.60	3.50	3.40	3.50	3.50	3.50	3.50	3.50	3.60	3.60	3.60
5 yr PWLB	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
10 yr PWLB	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
25 yr PWLB	5.80	5.70	5.60	5.50	5.50	5.40	5.30	5.30	5.20	5.20	5.20	5.20	5.20
50 yr PWLB	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

Additional notes by MUFG Corporate Markets on this forecast table: -

- The last interest rate forecast update was undertaken on 11 August. Since then, a combination of tepid growth (0.2% quarter on quarter GDP for Q2 and 0.1% quarter on quarter 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.
- 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.
- 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".
- 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.
- 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%.

- Accordingly, the 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.
- The revised PWLB rate forecasts are based on the Certainty Rate (the standard rate minus 20 basis points) which has been accessible to most authorities since 1 November 2012.
- Money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.

### 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: -

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

## **Borrowing advice:**

The 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.

### **3.4 Borrowing Strategy**

One of the main functions of the treasury management service is the funding of the Council's capital plans. Capital plans provide a guide to the borrowing need of the Council and help 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.

The Council's main objective when borrowing money is to strike an appropriate balance between securing low interest costs and achieving cost certainty over the period for which funds are required. Given the significant cuts to public expenditure and, in particular, to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the long term stability of the debt portfolio.

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. This strategy is prudent as medium and longer dated borrowing rates are expected to gradually fall from their current levels. Although with increased capital expenditure in the next few years borrowing may be required.

Against this background and the risks within the economic forecast, caution will be adopted with the 2026/27 treasury operations. The Corporate Director (Finance and Resources) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances, if there were a requirement to borrow then;

- 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, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

### **3.5 Policy on Borrowing in Advance of Need**

The Council will not borrow more than or in advance of its needs purely in order to generate a surplus 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.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

### **3.6 Rescheduling**

Rescheduling of current borrowing in the Council's debt portfolio may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.

If rescheduling is to be undertaken, it will be reported to the Cabinet and Council at the earliest meeting following its action.

### **3.7 Source of Borrowing and Types of Borrowing**

Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).
- 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” or to achieve refinancing certainty over the next few years).

The Council's treasury advisors, MUFG Corporate Markets, will keep the Council informed as to the relative merits of each of these alternative funding sources.

### 3.8 Approved Sources of Long and Short-term Borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
UK Municipal Bond Agency	●	●
Local Authorities	●	●
Banks	●	●
Pension Funds	●	●
Insurance Companies	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock Issues	●	●
Local Temporary Borrowing	●	●
Local Bonds	●	
Local Authority Bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance Leases	●	●

## 4 ANNUAL INVESTMENT STRATEGY

### 4.1 Investment Policy – Management of Risk

The Ministry of Housing and Communities and Local Government (MHCLG) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Investment Strategy.

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")
- CIPFA Treasury Management Guidance Notes 2021

The Council's investment priorities will be security first, portfolio liquidity second and then yield (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to the Council's risk appetite.

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider "laddering" (staggered maturity dates to allow for reinvestment, potentially at a higher rate if rates are moving upwards) investments for periods up to 6 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

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

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.
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. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.
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.

4. This Council has defined the list of **types** of investment instruments that the treasury management team are authorised to use. There are two lists in Appendix 5.4 under the categories of 'specified' and 'non-specified' investments.

**Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if, originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.

**Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified and loan investment limits.** The Council has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments of £10m.
6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2. Although lower limits may be applied in times of market stress.
7. Limits for investments are set in paragraph 4.2.
8. This Council will set a limit for its investments which are invested for **longer than 365 days**, (see paragraph 4.4).
9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).
10. This Council has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Council in the context of the expected level of cash balances and need for liquidity throughout the year.
11. All investments will be denominated in **sterling**.
12. As a result of the change to accounting standard IFRS 9, in November 2018, the 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 31.3.23. More recently, a further extension to the over-ride to 31.3.29 has been agreed by Government, but only for investments made prior to 1<sup>st</sup> April 2024. This override

applies to the CCLA Property Fund, when the override ends any movement in the funds value will be a charge to the general fund.

However, this 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 paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

### **Changes in risk management policy from last year.**

No major policy changes, for reference limit changes below were made to the **2025/26** strategy.

The local authority counterparty limit has been increased to £20m from £4m, in order to make more use of the local authority lending market especially towards year end.

## **4.2 Creditworthiness Policy**

This Council applies the creditworthiness service provided by the MUFG Corporate Markets (Link). This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays: -

1. "watches" and "outlooks" from credit rating agencies;
2. CDS spreads that may give early warning of changes in credit ratings;
3. sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, and any assigned Watches and Outlooks, in a weighted scoring system which is then combined with an overlay of CDS spreads. The end-product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will, therefore, use counterparties within the following durational bands;

- Yellow 5 years \*
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

The MUFG Corporate Markets (Link) creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically, the minimum credit ratings criteria the Council uses will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored as updates are received and taken into account for future investing. The Council is alerted to changes to ratings of all three agencies through its use of the MUFG Corporate Markets (Link) creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by MUFG Corporate Markets (Link). Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition, this Council will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long-term rating where applicable)	Monetary Limit	Time limit
<b>Banks<sup>(1)</sup></b>	Yellow	£4m	5 years
<b>Banks</b>	Purple	£4m	2 years
<b>Banks</b>	Orange	£4m	1 year
<b>Banks – part nationalised</b>	Blue	£4m	1 year
<b>Banks</b>	Red	£4m	6 months
<b>Banks</b>	Green	£4m	100 days
<b>Banks</b>	No Colour	Not to be used	
<b>Council's banker (if "No Colour")</b>	No Colour	£4m	1 day
<b>Building Societies</b>	Orange	£1m	1 Year
<b>DMADF</b>	UK sovereign rating	Unlimited	5 Years DMO limit is currently 6 months
<b>Other Government Entities</b>	UK sovereign rating	£5m	5 Years
<b>Local authorities</b>	n/a	£20m	1 year
<b>Housing associations</b>	Colour bands	£1m	As per colour band up to 1 year
	Fund rating <sup>(2)</sup>	Monetary Limit	Time Limit
<b>Money Market Funds CNAV</b>	AAA	£5m	liquid
<b>Money Market Funds LVNAV</b>	AAA	£5m	liquid
<b>Money Market Funds VNAV</b>	AAA	£5m	liquid
<b>Ultra-Short Dated Bond Funds with a credit score of 1.25</b>	Dark Pink / AAA	£2m	liquid
<b>Ultra-Short Dated Bond Funds with a credit score of 1.50</b>	Light Pink / AAA	£2m	liquid

<sup>(1)</sup> Please note: the yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt – see appendix 5.4.

<sup>(2)</sup> Please note: "fund" ratings are different to individual counterparty ratings (i.e. the counterparties the funds are invested with), coming under either specific "MMF" or "Bond Fund" rating criteria.

### **Creditworthiness.**

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 Council will not set a minimum rating for the UK.

### **CDS prices**

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards in the autumn of 2022, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. MUFG Corporate Markets (Link) monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its MUFG Corporate Markets (Link)-provided Passport portal.

### **4.3 Limits**

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

- a. Non-specified treasury management investment limit.** The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being £10m of the total treasury management investment portfolio.
- b. 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 AA- from fitch or equivalent**. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.5. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

**Other limits.** In addition: -

- no more than £2m will be placed with any non-UK country at any time (this applies to direct investments - MMFs may have exposure in excess of this)
- limits in place above will apply to a group of companies/institutions
- sector limits will be monitored regularly for appropriateness

### **4.4 Investment Strategy**

**In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods.

Accordingly, while most cash balances are required to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

**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.

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>£m</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>
Principal sums invested for longer than 365 days	10.0	9.0	8.0
Current investments as at 31/12/2025 in excess of 1 year maturing in each year	4.0	4.0	4.0

#### **4.5 Investment Performance and Risk Benchmarking**

Through the normal reporting cycle the following indicators will be reported:

- Portfolio risk score
- Average credit rating
- Weighted average maturity
- Interest rate risk
- Rate of return

Security – The target for average credit rating is A-. This is the value weighted average credit rating of the investment portfolio.

Liquidity – The target is £20m of cash available for unexpected payments, over a 3 month rolling period.

Interest rate risk – The upper limit on the 1 year revenue impact of a 1% rise or fall in interest rates. The target is £500,000.

#### **4.6 End of Year Investment Report**

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

## **5. Annexes**

1. Capital prudential and treasury indicators
2. Interest rate forecasts
3. Economic background
4. Treasury management practice 1 – credit and counterparty risk management
5. Approved countries for investments
6. Treasury management scheme of delegation
7. The treasury management role of the section 151 officer
8. Glossary

## 5.1 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2025/26 – 2027/28

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.

### 5.1.1 Capital Expenditure

Capital expenditure	2024/25 Actual £000s	2025/26 Forecast £000s	2026/27 Budget £000s	2027/28 Budget £000s	2028/29 Budget £000s
Property, Plant and Equipment	4,003	15,412	18,598	17,105	6,922
Investment Property	70	1,192	700	0	0
Intangible Assets	72	30	104	70	30
REFCUS	11,171	7,314	8,785	1,600	1,600
Infrastructure Assets	0	0	550	0	0
Community Assets	667	0	720	500	0
Loans	0	100	0	0	0
Assets Under Construction	868	0	0	0	0
<b>Total</b>	<b>16,851</b>	<b>24,048</b>	<b>29,457</b>	<b>19,275</b>	<b>8,552</b>

<sup>(1)</sup>REFCUS is Revenue Expenditure Financed from Capital Under Statute, this would include DFGs and other grants given.

### 5.1.2 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 obligations, net of investment income), against net revenue stream.

	2024/25 Actual £000s	2025/26 Forecast £000s	2026/27 Budget £000s	2027/28 Budget £000s	2028/29 Budget £000s
Net Revenue Stream	26,058	27,373	27,715	27,316	28,284
Financing Costs	3,795	3,833	4,322	4,915	5,087
<b>Total</b>	<b>15%</b>	<b>14%</b>	<b>16%</b>	<b>18%</b>	<b>18%</b>

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

### 5.1.3 Maturity Structure of Borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits: -

<b>Maturity structure of fixed interest rate borrowing 2026/27</b>		
	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	80%
12 months to 2 years	0%	80%
2 years to 5 years	0%	80%
5 years to 10 years	0%	100%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%

<b>Maturity structure of variable interest rate borrowing 2026/27</b>		
	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	80%
12 months to 2 years	0%	80%
2 years to 5 years	0%	80%
5 years to 10 years	0%	100%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%

### 5.1.4. Control of Interest Rate Exposure

Please see paragraphs 3.3, 3.4 and 4.4.

## 5.2 INTEREST RATE FORECASTS 2025-2028

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

PWLB forecasts are based on PWLB certainty rates.

### 5.3 ECONOMIC BACKGROUND (MUFG Corporate Markets review)

- 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% month on month in August before falling back by 0.1% month on month in September.
- The 3month/year on year 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.
- 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).
- From a GDP perspective, the financial year got off to a bumpy start with the 0.3% month on month 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% quarter on quarter (subsequently revised down to 0.2% quarter on quarter). Nonetheless, the 0.0% month on month change in real GDP in July, followed by a 0.1% month on month increase in August and a 0.1% decrease in September will have caused some concern. GDP growth for 2025 to 2028 is currently forecast by the Office of Budget Responsibility to be in the region of 1.5%.
- 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 0.1% quarter on quarter.
- Retail sales volumes, 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 the headwinds are gathering.
- 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.

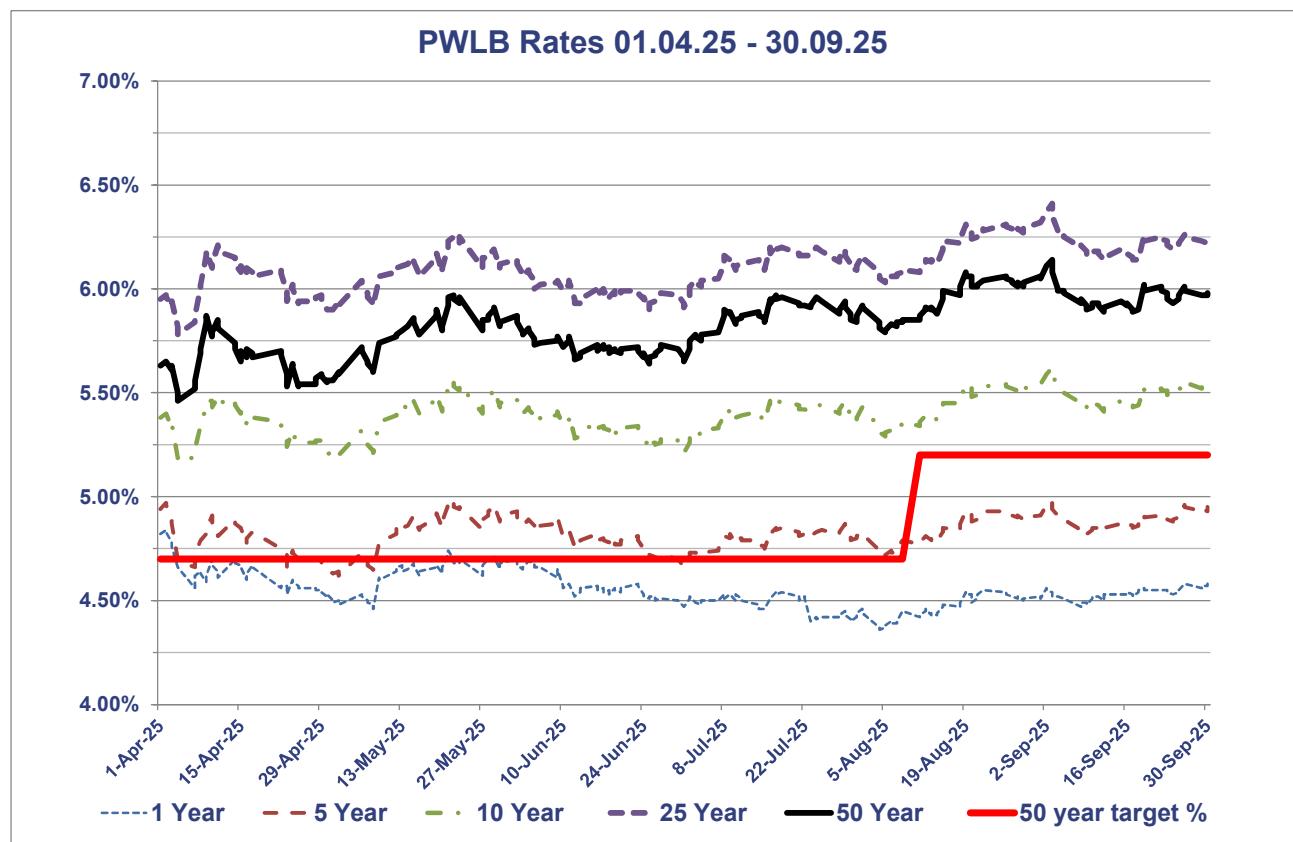
- Following the 26 November Budget, the Office for Budget Responsibility (OBR) calculated the net tightening in fiscal policy as £11.7bn (0.3% of GDP) in 2029/30, smaller than the consensus forecast of £25bn. It did downgrade productivity growth by 0.3%, from 1.3% to 1.0%, but a lot of that influence 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.
- 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.
- The weakening in the jobs market looked clear in the spring. May's 109,000 month on month 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 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.
- A looser labour market is driving softer wage pressures. The 3 month/year on year 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.
- 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.
- 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%.

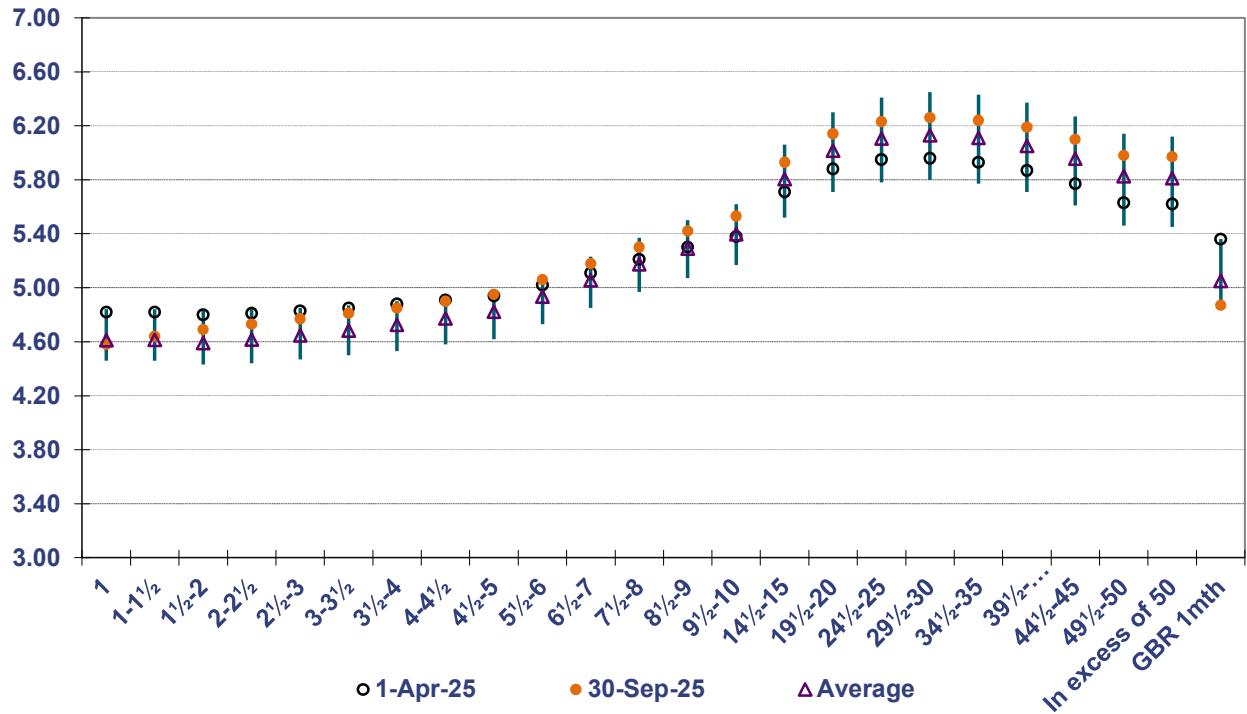
- More recently, the yield on the 10-year gilt rose from 4.46% to 4.60% in early July as rolled-back spending cuts and uncertainty over Chancellor Reeves' future raised fiscal concerns. Although the spike proved short lived, it highlighted the UK's fragile fiscal position. In an era of high debt, high 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%.
- 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.

- **MPC meetings: 8 May, 19 June, 7 August, 18 September, 6 November, 22 December 2025**
- 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.
- 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%.
- 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.
- 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 22 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 01.04.25 - 30.09.25



## PWLB Certainty Rate Variations 01.04.25 to 30.09.25



#### HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.25 – 30.09.25

	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%

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

**SPECIFIED INVESTMENTS:** All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum ‘high’ quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months.)

**NON-SPECIFIED INVESTMENTS:** These are any investments which do not meet the specified investment criteria. A maximum of £10m will be held in aggregate in non-specified investment.

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.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

Specified Investments	Minimum credit criteria / colour band	£ limit per institution	Maximum maturity period
<b>DMADF – UK Government</b>	Yellow	Unlimited	5 Years (6 months max. is set by the DMO <sup>(1)</sup> currently)
<b>UK Gilts</b>	Yellow	£2m	1 year
<b>UK Treasury Bills</b>	Yellow	£2m	364 days (max. is set by the DMO*)
<b>Bonds issued by multilateral development banks</b>	Yellow	£2m	1 year
<b>Money Market Funds CNAV</b>	AAA	£5m	Liquid
<b>Money Market Funds LNAV</b>	AAA	£5m	Liquid
<b>Money Market Funds VNAV</b>	AAA	£5m	Liquid
<b>Ultra-Short Dated Bond Funds with a credit score of 1.25</b>	Dark Pink/AAA	£2m	Liquid
<b>Ultra-Short Dated Bond Funds with a credit score of 1.5</b>	Light Pink/AAA	£2m	Liquid
<b>Local Authorities</b>	Yellow	£20m	1 year
<b>Term Deposits with Housing Associations</b>	Blue Orange Red Green No Colour	£1m	12 months 12 months 6 months 100 days Not for use
<b>Term Deposits with Banks</b>	Blue Orange Red Green No Colour	£4m	12 months 12 months 6 months 100 days Not for use
<b>Term Deposits Building Societies</b>	Orange Red Green No Colour	£1m	12 months 6 months 100 days Not for use
<b>CDs or Corporate Bonds with Banks and Building Societies</b>	Blue Orange Red Green No Colour	£4m	12 months 12 months 6 months 100 days Not for use
<b>Collective Investment Schemes structured as Open-Ended Investment Companies (OEICs)</b>			
<b>Gilt Funds</b>	UK sovereign rating	£2m	1 Year

<sup>(1)</sup> DMO – is the Debt Management Office of HM Treasury

**Accounting treatment of investments.** The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this 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.

Non-Specified Investments	Minimum Credit Criteria	£ Limit per institution	Max. maturity period
<b>Maturities of any period</b>			
<b>Property Funds - the use of these investments may constitute capital expenditure, if this is the case the investment will be an application of capital resources</b>	Yellow	£5m	Based on cash flow modelling
<b>Maturities in excess of 1 year</b>			
<b>Term Deposits – local authorities</b>	Purple	£4m	2 years
<b>Term Deposits – banks</b>	Purple	£4m	2 years
<b>Term Deposits - building societies</b>	Purple	£1m	2 years
<b>UK Gilts</b>	Yellow	£2m	2 years

## Environmental, Social & Governance (ESG) Considerations

### General Approach

The council recognises that Environmental, Social and Governance issues can have a significant impact on investment products. The council therefore will seek to be a responsible investor and consider ESG risks as part of normal treasury activity.

For treasury management Governance element of ESG is the of primary consideration. However the council will continue to comply with regulations and guidance that prioritises security, liquidity and yield (SLY) before other investment considerations.

In general ESG considerations are better developed in equity and bond markets than for short-term cash deposits, and even in these markets there is a diversity of approaches to ESG classification and analysis. This means that a consistent and well developed approach to ESG for public service organisations is currently difficult, even if local authorities are investing in those markets, which this council is not.

### ESG and Socially Responsible Investing

ESG based investing is different to Socially Responsible Investing (SRI). A SRI approach is usually directed at excluding certain types of investment based on an investor view e.g. to exclude gas or oil extraction companies from investments. The ESG approach would be to understand what ESG risks there are with a counterparty and to try to influence that

counterparty to change its business approach, increasingly taking account of ESG factors. Clearly for an investor the size of the council this is not going to be possible, but for some larger investors this may be. As a result of this pressure from larger investors, over time more appropriately sized ESG investments may become available to the council.

### **Credit Considerations**

The three main credit agencies (Fitch, Moody's, Standard and Poor's), as used by the council when assessing counterparties, incorporate ESG factors into their credit ratings, and as a result ESG factors are taken into account when investing. The council may use other financial information relating to ESG factors if available to assess investments, but SLY considerations will take precedent. The balance of portfolio, and counterparty exposure will also need to be taken account of, to ensure that investments remain within the limits set in the Treasury Management Strategy.

### **Money Market Funds**

The council makes significant investments with money market funds (MMFs) which are well rated and offer good returns, but the council is a passive investor in these funds. In general these funds will hold investments in institutions of varying ESG quality, in order that the fund can meet its return and security targets. This means that whilst the council invests in MMFs, it does not signify that the council approves of all the counterparty's ESG related practices. There are a limited number of MMFs that provide ESG investing, the council currently operates one ESG fund, HSBC ESG MMF.

### **ESG Credentials**

The institutions that the council uses for investing and banking are signed up to the UN Principles for Responsible Banking and Investments.

### **The Future**

The Council's treasury advisors, MUFG Corporate Markets (Link), also continue to look at ways in which ESG factors can be incorporated into their creditworthiness assessment service for counterparties, and they have advised clients that they will review the options and will update clients as progress is made. The current focus for investing is on the governance segment of ESG as good governance is suggestive of good financial processes and controls, and therefore a good investment prospect.

## 5.5 APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher, (the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the MUFG Corporate Markets (Link) creditworthiness service.

This list is for direct investments, it is possible money market funds may be partly invested in countries outside this list as part of their strategy to spread risk, across many counterparties.

***Based on lowest available rating (as at 23rd December 2025)***

### **AAA**

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

### **AA+**

- Canada
- U.S.A.

### **AA**

- Abu Dhabi (UAE)
- Finland
- Qatar

### **AA-**

- U.K.

### **A+**

- Belgium
- France

## **5.6 TREASURY MANAGEMENT SCHEME OF DELEGATION**

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

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

### **(ii) Overview and Scrutiny Panel (Performance and Growth)**

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

### **(iii) Cabinet**

- receiving and reviewing regular monitoring reports and acting on recommendations;

## **5.7 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.
- 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 Council.

- ensure that the Council has appropriate legal powers to undertake expenditure on non-financial assets and their financing.
- ensuring the proportionality of all investments so that the Council does not undertake a level of investing which exposes the Council 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 the Council.
- ensuring that the Council 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 (TM Code p54): -
  - *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.*

## 5.8 GLOSSARY

### **Bail in Risk**

Bail in risk arises from the failure of a bank. Bondholders or investors in the bank would be expected to suffer losses on their investments, as opposed to the bank being bailed out by government.

### **Bank Equity Buffer**

The mandatory capital that financial institutions are required to hold, in order to provide a cushion against financial downturns, to ensure the institution can continue to meet its liquidity requirements.

### **Bank Rate**

The official interest rate of the Bank of England, this rate is charged by the bank on loans to commercial banks.

### **Bank Stress Tests**

Tests carried out by the European Central Bank on 51 banks across the EU. The tests put banks under a number of scenarios and analyse how the bank's capital holds up under each of the scenarios. The scenarios include a sharp rise in bond yields, a low growth environment, rising debt, and adverse action in the unregulated financial sector.

### **Basis Point**

1/100<sup>th</sup> of 1% i.e. 0.01%. 10 basis points is 0.1%.

### **Bonds**

A bond is a form of loan, the holder of the bond is entitled to a fixed rate of interest (coupon) at fixed intervals. The bond has a fixed life and can be traded.

### **Call Account**

A bank account that offers a rate of return and the funds are available to withdraw on a daily basis.

### **Capital Financing Requirement (CFR)**

The CFR is a measure of the capital expenditure incurred historically but has yet to be financed; by for example capital receipts or grants funding. The current CFR balance is therefore financed by external borrowing, and internal borrowing (i.e. use of working capital on the balance sheet – creditors, cash etc).

### **Capital Receipts**

Funds received when an asset is sold. This can be used to fund new capital expenditure.

### **Certificate of Deposit**

Evidence of a deposit with a financial institution repayable on a fixed date. They are negotiable instruments, and have a secondary market, and can be sold before maturity.

### **Collar (Money Market Fund)**

The fund "collar" forms part of the valuation mechanism for the fund. LVNAV funds allow investors to purchase and redeem shares at a constant NAV calculated to 2 decimal places, i.e. £1.00. This is achieved by the fund using amortised cost for valuation

purposes, subject to the variation against the marked-to-market NAV being no greater than 20 basis points (0.2%). (This compares to current Prime CNAV funds which round to 50 basis points, or 0.5%, of the NAV.)

### **Constant Net Asset Value (CNAV)**

Constant Net Asset Value refers to funds which use amortised cost accounting to value all of their assets. They aim to maintain a Net Asset Value (NAV), or value of a share of the fund at £1 and calculate their price to 2 decimal places.

### **Counterparty**

Another organisation with which the Council has entered into a financial transaction with, for example, invested with or borrowed from. There will be an exposure of risk with a counterparty.

### **Credit Default Swaps (CDS)**

A financial agreement that the seller of the CDS will compensate the buyer in the event of a loan default. The seller insures the buyer against a loan defaulting.

### **Credit Ratings**

A credit rating is the evaluation of a credit risk of a debtor and predicting their ability to pay back the debt. The rating represents an evaluation of a credit rating agency of the qualitative and quantitative information, this result in a score, denoted usually by the letters A to D and including +/-.

### **DMADF**

The Debt Management Account Deposit Facility. This is run by the UK's Debt Management Office and provides investors with the ability to invest with UK central government.

### **ECB**

The European Central Bank, one of the institutions that makes up the EU. Its main function is to maintain price stability across the Eurozone.

### **ESG**

Environmental, society, and governance investing, makes reference to a set of standards for an organisation's behaviour, which can be used by a socially aware investor to make investment decisions. Environmental factors include how an organisation safeguards the environment, social criteria look at how the organisation manages its relationships with the community, employees, suppliers, and customers, and governance deals with leadership, internal controls and audits.

### **Federal Reserve (Fed)**

The central bank of the United States.

### **FOMC (Federal Open Market Committee)**

The committee within the US Federal Reserve that makes decisions about interest rates, and the US money supply.

**Forward Deal**

The act of agreeing today to deposit/loan funds for an agreed time limit at an agreed date and rate.

**GDP (Gross Domestic Product)**

The total value of all final goods and services produced and sold in a year by a country.

**Gilts**

Bonds issued by the Government in Sterling.

**Link Group**

The council's treasury advisors, who took over from Arlingclose in March 2023. Now called MUFG Corporate Markets.

**Liquidity**

The degree to which an asset can be bought or sold quickly.

**LVNAV Money Market Fund**

Low volatility net asset value. The fund will have at least 10% of its assets maturing on a daily basis and at least 30% of assets maturing on a weekly basis.

**MiFID**

Markets in Financial Instruments Directive, is a regulation that increases the transparency across the EU's financial markets and standardises the regulatory disclosures required. In force since 2008.

**Minimum Revenue Provision (MRP)**

An amount set aside annually from revenue to repay external debt.

**Monetary Policy Committee (MPC)**

A committee of the Bank of England that meets to decide on the UK interest rate.

**Monetary Policy**

A policy adopted by government to affect monetary and financial conditions in the economy.

**Money Market Funds**

An open-ended mutual fund that invests in short-term debt securities. A deposit will earn a rate of interest, whilst maintaining the net asset value of the investment. Deposits are generally available for withdrawal on the day.

**MUFG Corporate Markets**

The council's treasury advisors, were called Link Group.

**Office of Budget Responsibility (OBR)**

An independent public sector body that provides independent forecasts.

**Passive Investor**

An investor that does not usually or frequently buy individual stocks, and does not individually pick investments to beat the market. Holdings are usually long term. This contrasts with an active investor.

**Prudential Code**

The CIPFA code of practice which ensures local authorities spending plans are affordable, prudent and sustainable.

**Public Works Loans Board (PWLB)**

The PWLB is an agency of the Treasury, it lends to public bodies at fixed rates for periods up to 50 years. Interest rates are determined by gilt yields.

**Purchasing Managers Index**

Economic indicators derived from monthly surveys of private sector companies.

**REFCUS**

Revenue Expenditure Funded from Capital Under Statute. Expenditure which would normally be considered revenue expenditure, but has been statutorily defined as capital expenditure, including the giving of a loan, grant or other financial assistance to any person, whether for use by that person or by a third party, towards expenditure which would, if incurred by the authority, be capital expenditure. Or expenditure incurred on the acquisition, production or construction of assets for use by, or disposal to, a person other than the local authority which would be capital expenditure if those assets were acquired, produced or constructed for use by the local authority.

**Reserves**

The accumulation of past revenue surpluses and contributions, which can be used to meet future expenditure. The reserves can be general reserves, or earmarked for a specific purpose.

**Security, Liquidity, Yield (SLY)**

The factors taken into account when investing and are prioritised in the order.

**SONIA**

Sterling overnight index average interest rate. On each London business day, SONIA is measured as the trimmed mean, rounded to four decimal places, of interest rates paid on eligible sterling denominated deposit transactions.

**Transactional Banking**

Use of a bank for day-to-day banking requirement, e.g. provision of current accounts, deposit accounts and on-line banking.

**UN Principles for Responsible Banking**

Are a unique framework for ensuring that signatory banks' strategy and practice align with the vision society has set out for its future in the Sustainable Development Goals and the Paris Climate Agreement.

The framework consists of 6 Principles designed to bring purpose, vision and ambition to sustainable finance. They were created in 2019 through a partnership between founding banks and the United Nations. Signatory banks commit to embedding these 6 principles across all business areas, at the strategic, portfolio and transactional levels.

- Principle 1: Alignment, align business strategy with individual's goals as expressed in the sustainable development goals, the Paris Climate Agreement and national and regional frameworks.
- Principle 2: Impact and Target Setting, increase positive impacts and reduce negative impacts on, and managing the risks to people and environment.
- Principle 3: Clients and Customers, work with clients and customers to encourage sustainable practices and enable economic activities that create shared prosperity.
- Principle 4: Stakeholders, engage with stakeholders to achieve society's goals.
- Principle 5: Governance and Culture, implement the commitment to these principles through effective governance.
- Principle 6: Transparency and Accountability, periodic review of the implementation of these principles, and be transparent about and accountable for the positive and negative impacts, and the contribution to society's goals.

A 3-step process guides signatories through implementing their commitment:

1. Impact Analysis: identifying the most significant impacts of products and services on the societies, economies and environments that the bank operates in.
2. Target Setting: setting and achieving measurable targets in a banks' areas of most significant impact.
3. Reporting: publicly report on progress on implementing the Principles, being transparent about impacts and contributions.

### **UN Principles for Responsible Investments**

The 6 principles for responsible investments offer possible actions for incorporating ESG issues into investment practice.

The principles that the signatories sign up to are;

- **Principle 1:** We will incorporate ESG issues into investment analysis and decision-making processes.
- **Principle 2:** We will be active owners and incorporate ESG issues into our ownership policies and practices.
- **Principle 3:** We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- **Principle 4:** We will promote acceptance and implementation of the Principles within the investment industry.
- **Principle 5:** We will work together to enhance our effectiveness in implementing the Principles.
- **Principle 6:** We will each report on our activities and progress towards implementing the Principles.

The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.