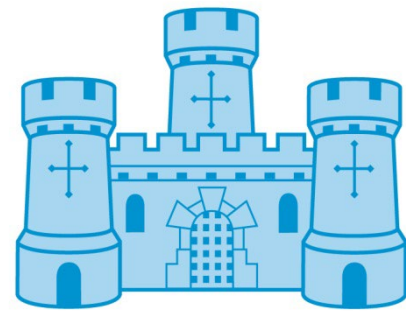




**NEWCASTLE  
UNDER LYME**  
BOROUGH COUNCIL

# Treasury Management Strategy

2026/27



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# Introduction

Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council may invest or borrow substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

## Economic Situation

### Highlights of the report supplied by Arlingclose Ltd.

#### External Context

*Economic background:* The impact on the UK from the government's Autumn Budget is likely to be one of the major influences on the Council's treasury management strategy for 2026/27. Other influences will include lower short-term interest rates alongside higher medium and longer-term rates, modest economic growth, together with ongoing uncertainties around the global economy, stock market sentiment, and ongoing geopolitical issues.

The Bank of England's Monetary Policy Committee (MPC) maintained Bank Rate at 4.00% in November 2025, following a 0.25% cut in August. At the November meeting, five members, including the Governor's deciding vote, supported holding rates steady, while four favoured a further reduction to 3.75%.

The accompanying Monetary Policy Report projected modest economic growth, with GDP expected to rise by 0.2% in the final calendar quarter of 2025. Annual growth is forecast to ease from 1.4% before improving again later, reflecting the delayed effects of lower interest rates, looser monetary conditions, stronger global activity, and higher consumer spending.

CPI inflation was 3.8% in September 2025, unchanged from the previous two months and below the 4.0% expected. Core CPI eased to 3.5% from 3.6%, contrary to forecasts of a rise to 3.7%. The Bank of England's November Monetary Policy Report projects inflation to fall from this level - expected to mark the peak - to 3.2% by March 2026, before steadily returning to the 2% target by late 2026 or early 2027.

The labour market continues to ease with rising unemployment, falling vacancies and flat inactivity. In the three months to September 2025, the unemployment rate increased to 5.0%, while the employment rate slipped to 75.0% and the inactivity rate held at 21.0%. Pay growth for the same period eased modestly, with total earnings (including bonuses) rising by 4.8% and regular pay up 4.6%. Going forward, the Bank predicts the unemployment rate will increase modestly to around 5.0% by around the end of 2025 before trending downwards at a gradual pace.

The US Federal Reserve also continued to cut rates, most recently reducing the target range for the Federal Funds Rate by 0.25% at its October 2025 meeting, to 3.75%-4.00%, in line with expectations.

Financial markets anticipate a further 0.25% cut in December, although Chair Jerome Powell has cautioned that this is not guaranteed, signalling the Fed may pause before any additional easing. A factor influencing a potential pause is the ongoing government shutdown, which has delayed the publication of several important data releases used to inform monetary policy decisions.

The European Central Bank (ECB) kept its key interest rates unchanged in October for a third consecutive month, maintaining the deposit rate at 2.0% and the main refinancing rate at 2.15%. The ECB reiterated that future policy decisions will remain data-dependent, noting that inflation is close to its 2% target and that the euro area economy continues to expand despite a challenging global environment, including heightened geopolitical risks and trade tensions.

**Credit outlook:** Credit Default Swap (CDS) prices, which spiked in April 2025 following President Trump's 'Liberation Day' tariff announcements, have since trended lower, returning to levels broadly consistent with their 2024 averages. Although CDS prices rose modestly in October, the overall credit outlook remains stable, and credit conditions are expected to remain close to the range seen over the past two years.

While lower interest rates may weigh on banks' profitability, strong capital positions, easing inflation, steady economic growth, low unemployment, and reduced borrowing costs for households and businesses all support a favourable outlook for the creditworthiness of institutions on (the Council's treasury management advisor) Arlingclose's counterparty list. Arlingclose's advice on approved counterparties and recommended investment durations is kept under continuous review and will continue to reflect prevailing economic and credit conditions.

**Interest rate forecast (10<sup>th</sup> November 2025):** Arlingclose currently forecasts that the Bank of England's Monetary Policy Committee will continue to reduce Bank Rate through 2025 and 2026, reaching around 3.75%. This forecast was issued ahead of the Autumn Budget and is likely to be revised once the fiscal measures are announced on 26<sup>th</sup> November 2025 and their market implications are assessed.

A more detailed economic and interest rate forecast provided by Arlingclose is in Appendix A.

## Local Context

On 14 January 2026, the Council held no borrowing and £8.93 million of treasury investments, largely due to grant monies temporarily held. This is set out in further detail at Annex B. Forecast changes in these sums (including borrowing relating to regeneration projects, for which capital receipts are expected from 2028/29 onwards) are shown in the balance sheet analysis in table below:

| Balance Sheet Summary and Forecast                           | 31/03/2025<br>Actual<br>£m | 31/03/2026<br>Forecast<br>£m | 31/03/2027<br>Forecast<br>£m | 31/03/2028<br>Forecast<br>£m | 31/03/2029<br>Forecast<br>£m |
|--------------------------------------------------------------|----------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| General Fund CFR                                             | 19.9                       | 27.4                         | 29.0                         | 32.3                         | 31.3                         |
| Less: Existing external borrowing                            | 0.0                        | 0.0                          | (7.5)                        | (61.3)                       | (87.6)                       |
| Less: Usable reserves                                        | (9.6)                      | (10.6)                       | (9.9)                        | (10.0)                       | (10.0)                       |
| Less: Working capital                                        | (13.4)                     | (9.3)                        | 42.2                         | 65.3                         | 52.0                         |
| <b>(New Investments or Cash)/<br/>New external borrowing</b> | <b>(3.1)</b>               | <b>7.5</b>                   | <b>53.8</b>                  | <b>26.3</b>                  | <b>(14.3)</b>                |

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. Where borrowing is required, this will be in line with Arlingclose's current advice of doing so from other local authorities on a short-term basis. This will be undertaken until it becomes advantageous to switch to long term debt, with the lowest cost option being considered.

The Council has an increasing CFR due to the capital programme and may therefore be required to borrow over the forecast period. More details in relation to the Council's CFR are included within the Capital Strategy.

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. The table above shows that the Council expects to comply with this recommendation during 2026/27. Please note that this excludes borrowing in relation to regeneration projects for which it is anticipated that capital receipts will be received (hence no capital financing requirement).

**Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as above, but that cash and investment balances are kept to a minimum level of £1m at each year-end to maintain sufficient liquidity but minimise credit risk.

The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow (note that this includes borrowing relating to regeneration projects, for which capital receipts are expected from 2028/29 onwards).

| <b>Liability Benchmark</b>    | <b>31/03/2025<br/>Actual<br/>£m</b> | <b>31/03/2026<br/>Forecast<br/>£m</b> | <b>31/03/2027<br/>Forecast<br/>£m</b> | <b>31/03/2028<br/>Forecast<br/>£m</b> | <b>31/03/2029<br/>Forecast<br/>£m</b> |
|-------------------------------|-------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| General Fund CFR              | 19.9                                | 27.4                                  | 29.0                                  | 32.3                                  | 31.3                                  |
| Less: Balance sheet resources | (23.0)                              | (19.9)                                | 32.3                                  | 55.3                                  | 42.0                                  |
| <b>Net loans requirement</b>  | <b>(3.1)</b>                        | <b>7.5</b>                            | <b>61.3</b>                           | <b>87.6</b>                           | <b>73.3</b>                           |
| Plus: Liquidity Allowance     | -                                   | 1.0                                   | 1.0                                   | 1.0                                   | 1.0                                   |
| <b>Liquidity benchmark</b>    | <b>(3.1)</b>                        | <b>8.5</b>                            | <b>62.3</b>                           | <b>88.6</b>                           | <b>74.3</b>                           |

## Borrowing Strategy

The Council does not currently hold any loans, as per the previous year, as part of its strategy for funding previous years' capital programmes.

The balance sheet forecasts, in the table above, shows that the Council expects to borrow in 2026/27, in addition to undertaking borrowing towards the backend of the current year. The Council may also

borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing.

The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

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 longer-term stability of the debt portfolio. Short-term interest rates are currently higher than in the recent past but are expected to fall in the coming year and it is therefore likely to be more cost effective over the medium-term to either use internal resources, or to borrow short-term loans instead. The risks of this approach will be managed by keeping the Council's interest rate exposure within the limit set in the treasury management prudential indicators.

By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal or short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2026/27 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Although not utilised in recent years, the Council has previously considered the option of long-term borrowing from the Public Works Loans Board (PWLB). However, consideration will now be given to long-term loans from other sources including banks, pensions and local authorities, and the Council will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council intends to avoid this activity in order to retain its access to PWLB loans.

Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages.

### Sources of borrowing:

The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board);
- National Wealth Fund (Formerly UK Infrastructure Bank Ltd);
- any institution approved for investments (see below);
- any other bank or building society authorised to operate in the UK;
- any other UK public sector body;
- UK public and private sector pension funds;
- capital market bond investors;
- retail investors via a regulated peer-to-peer platform and
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

**Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing;
- hire purchase;
- Private Finance Initiative;
- sale and leaseback; and
- Similar asset-based finance.

**Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Council.

**Short-term and variable rate loans:** These loans leave the Council exposed to the risk of short-term interest rate rises.

**Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

## Treasury Investment Strategy

The Council can hold significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance has ranged between £-0.1 million and £22.7 million. The highest figure of £22.7 million was invested in December 2024, when the Council received the yearly Disabled Facilities Grant in addition to holding Town Deal funding.

The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

The Council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.

Under the IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown.

### Approved investment counterparties and limits

| Sector            | Time limit | Counterparty limit | Sector limit |
|-------------------|------------|--------------------|--------------|
| The UK Government | 3 years    | Unlimited          | n/a          |

|                                               |           |      |           |
|-----------------------------------------------|-----------|------|-----------|
| Local authorities & other government entities | 3 years   | £7m  | unlimited |
| Secured investments*                          | 3 years   | £7m  | unlimited |
| Banks (unsecured)*                            | 13 months | £7m  | unlimited |
| Building societies (unsecured)*               | 13 months | £7m  | £7m       |
| Registered providers (unsecured)*             | 3 years   | £10m | £10m      |
| Money market funds*                           | n/a       | £7m  | unlimited |
| Real estate investment trusts                 | n/a       | £2m  | £2m       |
| Other investments                             | 3 years   | £7m  | £7m       |

\* Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made either where external advice indicates the entity to be of similar credit quality.

**UK Government:** Sterling-denominated investments with or explicitly guaranteed by the UK Government, including the Debt Management Account Deposit Facility, treasury bills and gilts. These are deemed to be zero credit risk due to the government's ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

**Local authorities and other government agencies:** Loans to, and bonds and bills issued or guaranteed by, other national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk.

**Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds, secured deposits and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

**Banks and building societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

**Registered providers (unsecured):** Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

**Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

**Strategic pooled funds:** Bond, equity and property funds, including exchange traded funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but can either be withdrawn after a notice period or sold on an exchange, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

**Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

**Other investments:** This category covers treasury investments not listed above, for example unsecured corporate bonds and unsecured loans to companies and universities. Non-bank companies cannot be bailed-in but can become insolvent placing the Council's investment at risk.

**Operational bank accounts:** The Council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £7,000,000 per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

**Risk assessment and credit ratings:** Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

**Reputational aspects:** The Council is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

**Investment limits:** In order that the Council will not be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government and Registered Providers) will be £7 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country since the risk is diversified over many countries.

#### **Additional Investment limits**

|                                                     | <b>Cash limit</b> |
|-----------------------------------------------------|-------------------|
| Any group of pooled funds under the same management | £7m per manager   |
| Investments held in a broker's nominee account      | £7m per broker    |
| Foreign countries                                   | £7m per country   |

**Liquidity management:** The Council uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

Non-treasury investments are covered by the Council's Investment Strategy.

## **Treasury Management Prudential Indicators**

The Council measures and manages its exposures to treasury management risks using the following indicators.

### **Security**

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

| <b>Credit risk indicator</b> | <b>Target</b> |
|------------------------------|---------------|
|------------------------------|---------------|

|                                 |   |
|---------------------------------|---|
| Portfolio average credit rating | A |
|---------------------------------|---|

## Liquidity

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

| Liquidity risk indicator             | Target |
|--------------------------------------|--------|
| Total cash available within 3 months | £1m    |

## Interest rate exposures

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

| Interest rate indicator                                               | Limit      |
|-----------------------------------------------------------------------|------------|
| Upper limit on one-year revenue impact of a 1% rise in interest rates | (£184,690) |
| Upper limit on one-year revenue impact of a 1% fall in interest rates | £184,690   |

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

## Maturity structure of borrowing

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

| Refinancing rate risk indicator | Upper limit | Lower limit |
|---------------------------------|-------------|-------------|
| Under 12 months                 | 100%        | 0%          |
| 12 months and within 24 months  | 100%        | 0%          |
| 24 months and within 5 years    | 100%        | 0%          |
| 5 years and within 10 years     | 100%        | 0%          |

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

## Principal sums invested for periods longer than a year

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

| Price risk indicator                        | 2025/26 | 2026/27 | 2027/28 | 2028/29 | No Fixed Date |
|---------------------------------------------|---------|---------|---------|---------|---------------|
| Limit on principal invested beyond year end | £25m    | £25m    | £25m    | £25m    | £25m          |

Long-term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

The Council's Operational Boundary and Authorised Limit for External Borrowing are detailed in the Council's Capital Strategy.

## Related Matters

The CIPFA Code requires the Council to include the following in its treasury management strategy.

**Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk. The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

**Markets in Financial Instruments Directive (MiFID II):** As the Council did not consistently hold the minimum requirement of £10m to retain professional client status, it returned to its previously held retail client status with its providers of financial services, including advisers and banks, allowing it access to a smaller range of services but with greater regulatory protections afforded to individuals and small companies. This is believed to be the most appropriate status given the size and range of the Council's treasury management activities. The Council may upgrade their client status to professional if the requirements to do so are met during the year. This will allow a greater range of services but without the same level of regulatory protections provided by retail client status.

## Financial Implications

The budget for investment income in 2026/27 is nil. The revenue budget for debt interest paid in 2026/27 is £738,780. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

Interest in respect of capital expenditure on major projects which the Council is funding ahead of a sale to the developer undertaking the project will be capitalised and recouped as part of the sale price. This interest will not impact upon the revenue account and will be separately identified for each of these projects.

## Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. It is believed that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

| Alternative                                                           | Impact on income and expenditure                                                         | Impact on risk management                                                                                                                       |
|-----------------------------------------------------------------------|------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| Invest in a narrower range of counterparties and/or for shorter times | Interest income will be lower                                                            | Lower chance of losses from credit related defaults, but any such losses may be greater                                                         |
| Invest in a wider range of counterparties and/or for longer times     | Interest income will be higher                                                           | Increased risk of losses from credit related defaults, but any such losses may be smaller                                                       |
| Borrow additional sums at long-term fixed interest rates              | Debt interest costs will rise; this is unlikely to be offset by higher investment income | Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain            |
| Borrow short-term or variable loans instead of long-term fixed rates  | Debt interest costs will initially be lower                                              | Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain |
| Reduce level of borrowing                                             | Saving on debt interest is likely to exceed lost investment income                       | Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain            |

## Annex A – Arlingclose Economic & Interest Rate Forecast November 2025

### *Underlying assumptions:*

- The economic data, monetary and fiscal commentary have heightened the downside risks to our Bank Rate forecast, making rate cuts beyond 3.75% increasingly likely. As noted in the September forecast, however, we expect the Budget on 26th November 2025 to be the deciding factor for the path for interest rates. We will therefore review our interest rate forecast after this event.
- The MPC maintained Bank Rate at 4.0% in a dovish 5-4 vote, but a cut to 3.75% looks increasingly likely as the Governor teeters precariously on the divide between the hold and cut camps. While denying the Budget was an influence on his decision, it surely played into his desire to have more information before easing policy.
- Inflation surprised by holding at 3.8% in September and is forecast to fall to 3.5% by year end. However, household inflation expectations have picked up, likely largely the result of the noticeable rise in food prices, feeding caution among some policymakers.
- While services inflation remains somewhat elevated, spare capacity has opened up in the labour market and wage growth is moderating, which should place further downward pressure on inflation. Continuation of the rapid growth in administered prices is also unlikely to occur to the same extent.
- Underlying GDP growth remains subdued. While H1 2025 has been relatively strong, Q3 GDP growth has slowed, with July/August's figures suggesting a lack of momentum. Business investment is lacklustre and private sector output constrained by weaker domestic demand and spending. Ongoing uncertainty over the global outlook is still discouraging capital investment, particularly in the manufacturing sector. Downside risks persist, most notably the high probability of a tighter fiscal environment after the Budget, which may place downward pressure on consumption and growth.
- A more hawkish fiscal stance and easing inflation expectations have delivered lower gilt yields for the government. Given the outlook for growth and inflation, the key risk for yields appears to be Labour getting its own party on side with broad-based tax rises. Failure to do so could once again undermine credibility and lift gilt yields. Other factors continue to influence yields, the persistence of which is difficult to estimate.

### Forecast:

- Bank Rate was retained at 4.0% in November. We continue to forecast a 0.25% rate cut in December to 3.75%.

- The UK Budget is an inflection point that may materially change the interest rate outlook. We will further review our interest rate forecast after this event; if in line with our expectations, our central forecast for Bank Rate will likely decrease below 3.75%.
- Short yields have declined to reflect a lower path for Bank Rate.
- Medium and long-term gilt yields have also declined but remain elevated for various reasons, both domestic and international. These issues may not be resolved quickly, but the UK Budget will be a key market driver.

|                                | Current | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 | Mar-27 | Jun-27 | Sep-27 | Dec-27 | Mar-28 | Jun-28 | Sep-28 |
|--------------------------------|---------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Official Bank Rate</b>      |         |        |        |        |        |        |        |        |        |        |        |        |        |
| <i>Upside risk</i>             | 0.00    | 0.25   | 0.25   | 0.25   | 0.25   | 0.25   | 0.25   | 0.25   | 0.50   | 0.50   | 0.50   | 0.50   | 0.50   |
| Arlingclose Central Case       | 4.00    | 3.75   | 3.75   | 3.75   | 3.75   | 3.75   | 3.75   | 3.75   | 3.75   | 3.75   | 3.75   | 3.75   | 3.75   |
| <i>Downside risk</i>           | 0.00    | 0.00   | -0.25  | -0.50  | -0.75  | -1.00  | -1.00  | -1.00  | -1.00  | -1.00  | -1.00  | -1.00  | -1.00  |
| <b>3-mth money market rate</b> |         |        |        |        |        |        |        |        |        |        |        |        |        |
| <i>Upside risk</i>             | 0.00    | 0.25   | 0.25   | 0.25   | 0.25   | 0.25   | 0.25   | 0.25   | 0.50   | 0.50   | 0.50   | 0.50   | 0.50   |
| Arlingclose Central Case       | 3.90    | 3.80   | 3.75   | 3.80   | 3.85   | 3.85   | 3.85   | 3.85   | 3.85   | 3.85   | 3.85   | 3.85   | 3.85   |
| <i>Downside risk</i>           | 0.00    | 0.00   | -0.25  | -0.50  | -0.75  | -1.00  | -1.00  | -1.00  | -1.00  | -1.00  | -1.00  | -1.00  | -1.00  |
| <b>5-yr gilt yield</b>         |         |        |        |        |        |        |        |        |        |        |        |        |        |
| <i>Upside risk</i>             | 0.00    | 0.50   | 0.55   | 0.60   | 0.65   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   | 1.00   |
| Arlingclose Central Case       | 3.94    | 4.00   | 4.00   | 4.00   | 4.00   | 4.00   | 4.00   | 4.00   | 4.00   | 4.00   | 4.00   | 4.00   | 4.00   |
| <i>Downside risk</i>           | 0.00    | -0.55  | -0.60  | -0.70  | -0.80  | -0.90  | -0.95  | -1.00  | -1.05  | -1.10  | -1.10  | -1.10  | -1.10  |
| <b>10-yr gilt yield</b>        |         |        |        |        |        |        |        |        |        |        |        |        |        |
| <i>Upside risk</i>             | 0.00    | 0.50   | 0.55   | 0.60   | 0.65   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   |
| Arlingclose Central Case       | 4.47    | 4.45   | 4.45   | 4.40   | 4.40   | 4.40   | 4.40   | 4.40   | 4.40   | 4.40   | 4.40   | 4.40   | 4.40   |
| <i>Downside risk</i>           | 0.00    | -0.55  | -0.60  | -0.70  | -0.80  | -0.90  | -0.95  | -1.00  | -1.05  | -1.10  | -1.10  | -1.10  | -1.10  |
| <b>20-yr gilt yield</b>        |         |        |        |        |        |        |        |        |        |        |        |        |        |
| <i>Upside risk</i>             | 0.00    | 0.50   | 0.55   | 0.60   | 0.65   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   |
| Arlingclose Central Case       | 5.13    | 5.10   | 5.10   | 5.00   | 5.00   | 5.00   | 5.00   | 5.00   | 5.00   | 5.00   | 5.00   | 5.00   | 5.00   |
| <i>Downside risk</i>           | 0.00    | -0.55  | -0.60  | -0.70  | -0.80  | -0.90  | -0.95  | -0.95  | -0.95  | -0.95  | -0.95  | -0.95  | -0.95  |
| <b>50-yr gilt yield</b>        |         |        |        |        |        |        |        |        |        |        |        |        |        |
| <i>Upside risk</i>             | 0.00    | 0.50   | 0.55   | 0.60   | 0.65   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   | 0.70   |
| Arlingclose Central Case       | 4.73    | 4.70   | 4.75   | 4.65   | 4.70   | 4.70   | 4.70   | 4.70   | 4.70   | 4.70   | 4.70   | 4.70   | 4.70   |
| <i>Downside risk</i>           | 0.00    | -0.55  | -0.60  | -0.70  | -0.80  | -0.90  | -0.95  | -0.95  | -0.95  | -0.95  | -0.95  | -0.95  | -0.95  |

PWLB Standard Rate = Gilt yield + 1.00%

PWLB Certainty Rate = Gilt yield + 0.80%

PWLB HRA Rate = Gilt yield + 0.40%

National Wealth Fund (NWF) Rate = Gilt yield + 0.40%

## Annex B – Existing Investment & Debt Portfolio Position

|                                        | 14/1/2026<br>Actual<br>Portfolio<br>£m | 14/1/2026<br>Average<br>Rate<br>% |
|----------------------------------------|----------------------------------------|-----------------------------------|
| <i>Treasury investments:</i>           |                                        |                                   |
| Banks & building societies (unsecured) | 0.68                                   | 2.31                              |
| Government (incl. local authorities)   | 6.25                                   | 3.71                              |
| Money Market Funds                     | 2.0                                    | 3.79                              |
| Total treasury investments             | 8.93                                   |                                   |
| Total external borrowing               | 0.0                                    |                                   |
| <b>Net investments</b>                 | <b>8.93</b>                            |                                   |

# Annex C – Minimum Revenue Provision Policy

## Background

In instances whereby Local Authorities have a positive Capital Financing Requirement (CFR), Ministry of Housing, Communities and Local Government (MHCLG) Guidance requires them to adopt a prudent approach in order to fund the repayment of debt. This may be achieved by setting aside a minimum amount from revenue, known as the Minimum Revenue Provision (MRP). This means that the Council would be required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the MRP).

MHCLG Regulations and Guidance have been issued which require the Full Council to approve **an MRP Statement** in advance of each year. Four options for prudent provision of the MRP are provided to councils, these being:

### Option 1 – Regulatory Method

For debt which is supported by the Government through the Revenue Support Grant system, authorities may continue to use the formulae in the current regulations, since the Revenue Support Grant is calculated on that basis. Although the existing regulation 28 is revoked by regulation 4(1) of the 2008 Regulations, authorities will be able to calculate MRP as if it were still in force. Solely as a transitional measure, this option will also be available for all capital expenditure incurred prior to 1 April 2008.

### Option 2 – Capital Financing Requirement Method

This is a technically much simpler alternative to Option 1 which may be used in relation to supported debt. While still based on the concept of the CFR, which is easily derived from the balance sheet, it avoids the complexities of the formulae in the old regulation 28 (though for most authorities it will probably result in a higher level of provision than Option 1).

### Option 3 – Asset Life Method

For new borrowing under the Prudential system for which no Government support is being given and is therefore self-financed, there are two options included in the guidance.

Option 3 is to make provision over the estimated life of the asset for which the borrowing is undertaken. This is a possibly simpler alternative to the use of depreciation accounting (Option 4), though it has some similarities to that approach.

Within option 3, two methods are identified. The first of these, the equal instalment method, will normally generate a series of equal annual amounts over the estimated life of the asset. The original amount of expenditure ("A" in the formula) remains constant.

The cumulative total of the MRP made to date ("B" in the formula) will increase each year. The outstanding period of the estimated life of the asset ("C" in the formula) reduces by 1 each year.

For example, if the life of the asset is originally estimated at 25 years, then in the initial year when MRP is made, C will be equal to 25. In the second year, C will be equal to 24, and so on. The original estimate of the life is determined at the outset and should not be varied thereafter, even if in reality the condition of the asset has changed significantly.

The formula allows a council to make voluntary extra provision in any year. This will be reflected by an increase in amount B and will automatically ensure that in future years the amount of provision determined by the formula is reduced.

The alternative is the annuity method, which has the advantage of linking MRP to the flow of benefits from an asset where the benefits are expected to increase in later years. It may be particularly attractive in connection with projects promoting regeneration or administrative efficiencies or schemes where revenues will increase over time.

## Option 4 – Depreciation Method

Alternatively, for new borrowing under the Prudential system for which no Government support is being given, Option 4 may be used.

This means making the MRP in accordance with the standard rules for depreciation accounting. A step in this direction was made in the last set of amendments to the MRP rules [SI 2007/573]. However, the move to reliance on guidance rather than regulations will make this approach more viable in future.

Authorities will normally need to follow the standard procedures for calculating depreciation provision. But the guidance identifies some necessary exceptions:

The MRP continues until the total provision made is equal to the original amount of the debt and may then cease.

If only part of the expenditure on the asset was financed by debt, the depreciation provision is proportionately reduced.

## MRP Policy in respect of Finance Leases

The introduction of International Financial Reporting Standards in 2011/12 resulted in some leases being reclassified as finance leases instead of operating leases. This resulted in a positive CFR and as such the need to set aside a MRP.

In accordance with the revised MHCLG Guidance this Council will set aside an annual MRP equal to the amount of the lease that has been taken to the Balance Sheet to reduce the finance lease liability i.e. the principal amount of the finance lease. This approach will produce an MRP charge which is the same as Option 3 in the guidance (Asset Life Method – annuity method). The revised guidance aims to ensure that authorities are in the same position as if the change in accounting standards had not occurred.

## MRP Policy – Other Capital Expenditure

### Capital Financing Requirement (CFR)

The Council's CFR is currently positive. This means that there is a requirement to set aside a MRP for the redemption of debt. The Prudential Indicator for the CFR, shown at Table 1 in the Treasury Management Strategy, indicates that the CFR will become positive within the period covered by the Strategy. This is based on the assumption that there will be a general overall increase in expected capital expenditure, which cannot be funded from revenue or capital resources. Accordingly, the Council needs to determine the option it will employ to make the necessary MRP in respect of the amount borrowed, when this occurs.

## Option for making MRP

The most appropriate of the four options permitted by the Regulations is Option 3, the Asset Life Method, within which there are two further options, an equal instalment method and an annuity method (as detailed in 1.1 – option 3). The Council is permitted to apply either of these two further options to projects on a scheme by scheme basis. However, preference will be the annuity method.

It should be noted that MRP does not commence until the year following that in which the asset concerned became operational; however, voluntary MRP can be made at any given time if considered prudent.

## Annex D – Treasury Management Glossary of Terms

- **Credit Default Swap** – an additional assessment of credit worthiness by providing a risk analysis of changes in credit quality as perceived by the market.
- **CFR** – the Capital Financing Requirement is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources.
- **CIPFA** – the Chartered Institute of Public Finance and Accountancy, is the professional body for accountants working in Local Government and other public sector organisations.
- **Counterparty** – an institution with whom a borrowing or investment transaction is made.
- **CPI** – a measure that examines the weighted average of prices of a basket of consumer goods and services. The Consumer Price Index is calculated by taking price changes for each item in the predetermined basket of goods/services and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living.
- **Credit Rating** – is an opinion on the credit-worthiness of an institution, based on judgements about the future status of that institution. The main rating agencies are Fitch, Standard and Poor's and Moody's.
- **Depreciation** – the measure of the cost or revalued amount of the benefits of the fixed asset that have been consumed during the period. Consumption includes wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.
- **GDP** – Gross Domestic Product is the market value of all officially recognised final goods and services produced within a country in a given period of time.
- **IFRS (International Financial Reporting Standards)** – International accounting standards that govern the treatment and reporting of income and expenditure in an organisation's accounts, which came fully into effect from 1 April 2010.
- **Leasing** - a lease is a contractual arrangement calling for the lessee (user) to pay the lessor (owner) for use of an asset.
- **Liquidity** – relates to the amount of readily available or short term investment money which can be used for either day to day or unforeseen expenses. For example, Call Accounts allow instant daily access to invested funds.
- **MHCLG** – Ministry of Housing, Communities, and Local Government (formerly the Department for Communities and Local Government).
- **Money Market Funds (MMF)** – Money Market Funds are investment funds that are invested by a Fund Manager in a wide range of money market instruments. MMF's are monitored by the official ratings agencies and due to many requirements that need to be fulfilled; the funds usually receive the highest quality rating (AAA) so provide minimal risk. They are very flexible and can be withdrawn in the same way as any other call deposit.
- **MPC** – interest rates are set by the Bank of England's Monetary Policy Committee. The MPC sets an interest rate it judges will enable the inflation target to be met
- **MRP** – the Minimum Revenue Provision represents the revenue charge for the repayment of debt.
- **PWLB** – the Public Works Loan Board is a statutory board that is run within the UK Debt Management Office (DMO), its function is to lend money to Local Authorities and other prescribed bodies.