

<b>Title of Report</b>	Treasury Management Strategy 2026/27
<b>For Consideration By</b>	Audit Committee
<b>Meeting Date</b>	13th January 2026
<b>Classification</b>	Open
<b><u>Ward(s) Affected</u></b>	All Wards
<b><u>Group Director</u></b>	Naeem Ahmed, Group Director, Finance & Corporate Resources

## 1. Introduction

- 1.1 This report introduces the draft Treasury Management Strategy for 2026/27 for the Audit Committee, setting out the expected treasury operations for the 2026/27 financial year, ahead of it being submitted to Cabinet and Council as part of the annual budget setting process, for formal adoption.

## 2. Recommendations

### 2.1 The Audit Committee is recommended to:

- **Approve the draft Treasury Management Strategy 2026/27 to 2028/29 for submission to Council, subject to the Capital programme that is being finalised ahead of budget report, with delegation to the Group Director, Finance and Corporate Resources to approve the final Treasury Management Strategy for submission to Council.**

## 3. Reason(s) for decision

- 3.1 The Treasury Management Strategy is required under 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 Authority 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.

## 4. Background

*Policy Context*

- 4.1 The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis.

*Equality impact assessment*

- 4.2 There are no equality impact issues arising from this report.

*Sustainability and climate change*

- 4.3 There are no sustainability and climate changes issues arising from this report.

*Consultations*

- 4.4 No consultations are required in respect of this report.

*Risk assessment*

- 4.5 There are no risks arising from this report as it is setting the strategy for the future. Clearly though the treasury management function is a significant area of potential risk for the Council, we have embedded controls in our procedures and policies to ensure that the function is carried out properly and monitored by those charged with responsibility for oversight. Regular reporting on treasury management ensures that the Committee is kept informed to enable robust oversight of the function

**5. Comments of the Group Director, Finance and Corporate Resources**

- 5.1 The Treasury Management Strategy sets out how the Council's cash flow will be managed during the financial year 2026/27. The actual cost of borrowing and interest on investments will depend on market conditions and timing will be an important factor in decisions to be taken on the debt portfolio. The prudential indicators are still to be finalised as part of the annual budget setting process relating to the capital programme.
- 5.2 The impact on the UK from the Government's Autumn Budget will influence 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, slower economic growth, together with ongoing uncertainties around the global economy, stock market sentiment, and ongoing geopolitical issues.
- 5.3 The Council is transitioning to a more borrowing oriented approach to address its increasing capital financing requirements. Over time, cash balances have decreased due to the delivery of the Council's capital schemes and depletion of cash reserves and with the further reduction in reserves from recent financial pressures, our reliance on internal borrowing to fund capital

programmes, which has resulted in an under borrowed position, is changing. Going forward, the Council is going to be borrowing more, this has been reflected in the Council's medium term financial planning.

## **6. Comments of the Director of Legal, Democratic and Electoral Services**

- 6.1 The Accounts and Audit Regulations 2015 place obligations on the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal controls which includes arrangements for management of risk. In addition the Council's Constitution and Financial Procedure Rules require the production of an Annual Treasury Management Strategy, which shall be carried out in compliance with the CIPFA Code of Practice on Treasury Management. This report demonstrates that Treasury Management is meeting these requirements and adapting to changes as and when they arise.
- 6.2 The Council's Constitution gives the Audit Committee responsibility for adopting the annual statement of accounts and for considering whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from any audit which need to be brought to the attention of the Council.
- 6.3 There are no immediate legal implications arising from the report.

## **7. Background**

- 7.1 The Treasury Management Strategy set out in the attached appendix is set in the context of the current macro-economic environment.
- 7.2 The Council has an increasing Capital Financing Requirement (CFR) due to its ambitious capital programme and will therefore be borrowing more in future years, depending on the actual level of reserves and capital receipts and other resources available to it. Effective treasury management will remain crucial to ensure borrowing is affordable, sustainable, and within prudential limits, while optimising the use of internal resources to minimise interest costs where possible.

<b>Report Author</b>	Pradeep Waddon, 020 8356 2757, Head of Treasury, Banking and Accounts Payable <a href="mailto:pradeep.waddon@hackney.gov.uk">pradeep.waddon@hackney.gov.uk</a>
<b>Comments for the Group Director, Finance &amp; Corporate Resources</b>	Deirdre.Worrell, 020 8356 7350 Director Financial Management <a href="mailto:deirdre.worrell@hackney.gov.uk">deirdre.worrell@hackney.gov.uk</a>
<b>Comments for the Director of Legal, Democratic and Electoral Services prepared by</b>	Juliet Babb, 020 8356 6183 Assistant Director of Legal and Governance <a href="mailto:juliet.babb@hackney.gov.uk">juliet.babb@hackney.gov.uk</a>

## **TREASURY MANAGEMENT STRATEGY 2026/27 TO 2028/29**

### **1. SUMMARY**

- 1.1 The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis.

### **2. BACKGROUND**

- 2.1 The Council adopted 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.
- 2.2 This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
- 2.3 The Council invests large sums of money and therefore, potentially, has exposure to certain financial risks concerning the capital sums invested and the effect of changing interest rates. The successful identification, monitoring and control of risk, is therefore central to the Council's Treasury Management Strategy.

### **3. ECONOMIC BACKGROUND**

- 3.1 The impact on the UK from the Government's Autumn Budget will influence 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, slower economic growth, together with ongoing uncertainties around the global economy, stock market sentiment, and ongoing geopolitical issues.
- 3.2 The Bank of England's Monetary Policy Committee (MPC) maintained the 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. The view of modest economic growth going forward was echoed by the Office for Budget Responsibility in its Economic and fiscal outlook published in line with the Autumn Statement which revised down its estimate of annual real GDP to around 1.5% on average between 2025 and 2030.

- 3.3 CPI inflation slowed to 3.2% in November 2025, the lowest in eight months, compared with 3.6% in October and forecasts of 3.5%. This was also below the Bank of England's projection of 3.4%.
- 3.4 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.
- 3.5 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.

## 4 INTEREST RATE FORECAST

- 4.1 The Council's treasury management adviser, currently forecasts that the Bank of England's Monetary Policy Committee will continue to reduce Bank Rate through 2025 and 2026, reaching around 3.25%. This forecast reflects amendments made following the Autumn Budget and an assessment of the fiscal measures and their market implications.
- 4.2 Long-term gilt yields, and therefore interest rates payable on long-term borrowing, are expected to remain broadly stable on average, though with continued volatility, and to end the forecast period marginally lower than current levels. Yields are likely to stay higher than in the pre-quantitative tightening era, reflecting ongoing balance sheet reduction and elevated bond issuance. Short-term fluctuations are expected to persist in response to economic data releases and geopolitical developments.
- 4.3 A more detailed economic and interest rate forecast provided by Arlingclose is attached at **Appendix A**.

## 5 CREDIT OUTLOOK

- 5.1 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.
- 5.2 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 authority'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.

## 6 CURRENT POSITION AND BALANCE SHEET SUMMARY

- 6.1 The Council currently (as at 31.12.25) has outstanding external borrowing of £310.05m. Total investments as of the date were £40m.

**Table 1: Existing Investment & Debt Portfolio Position as at 31/12/25**

	<b>Portfolio outstanding as at 31/12/2025 £m</b>	<b>Average Rate %</b>
<b>External Borrowing:</b>		
Market – Fixed Rate	310.05	3.67
<b>Total External Borrowing</b>	<b>310.05</b>	
<b>Other Long Term Liabilities:</b>		
Private Finance Initiative (PFI)	20.186	
Finance Leases	25.757	
<b>Total Gross External Debt</b>	<b>355.993</b>	
<b>Investments:</b>		
Short-term monies - Deposits/ monies on call/MMFs	39.81	3.90
Long-term investments	0.20	
<b>Total Investments</b>	<b>40.01</b>	

- 6.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The Council has historically followed a strategy of internal borrowing. However, due to reduced cash balances and increasing capital pressures, the Council is now transitioning towards a more borrowing-led approach. The figures below are subject to change pending finalisation of the capital programme for the budget report. Forecast changes in these sums are shown in the balance sheet analysis in table 2 below.

**Table 2: Balance Sheet Summary and Forecast**

	<b>31/03/25 Actuals £m</b>	<b>31/03/26 Estimated £m</b>	<b>31/03/27 Estimated £m</b>	<b>31/03/28 Estimated £m</b>	<b>31/03/29 Estimated £m</b>
Capital financing requirement	<b>626</b>	<b>948</b>	<b>1,148</b>	<b>1,477</b>	<b>1,625</b>
Less: Other long-term liabilities *	60	46	38	30	25
<b>Loan CFR</b>	<b>566</b>	<b>902</b>	<b>1,110</b>	<b>1,447</b>	<b>1,600</b>
Less: External borrowing	158	262	203	184	145
<b>Cumulative Maximum External Borrowing Requirement</b>	<b>408</b>	<b>640</b>	<b>907</b>	<b>1,263</b>	<b>1,455</b>
Less: Balance Sheet Resources	452	422	392	362	332
<b>Cumulative Net Borrowing Requirement/ (Investments)</b>	<b>-44</b>	<b>218</b>	<b>515</b>	<b>901</b>	<b>1,123</b>

\* finance leases and PFI liabilities that form part of the Authority's debt

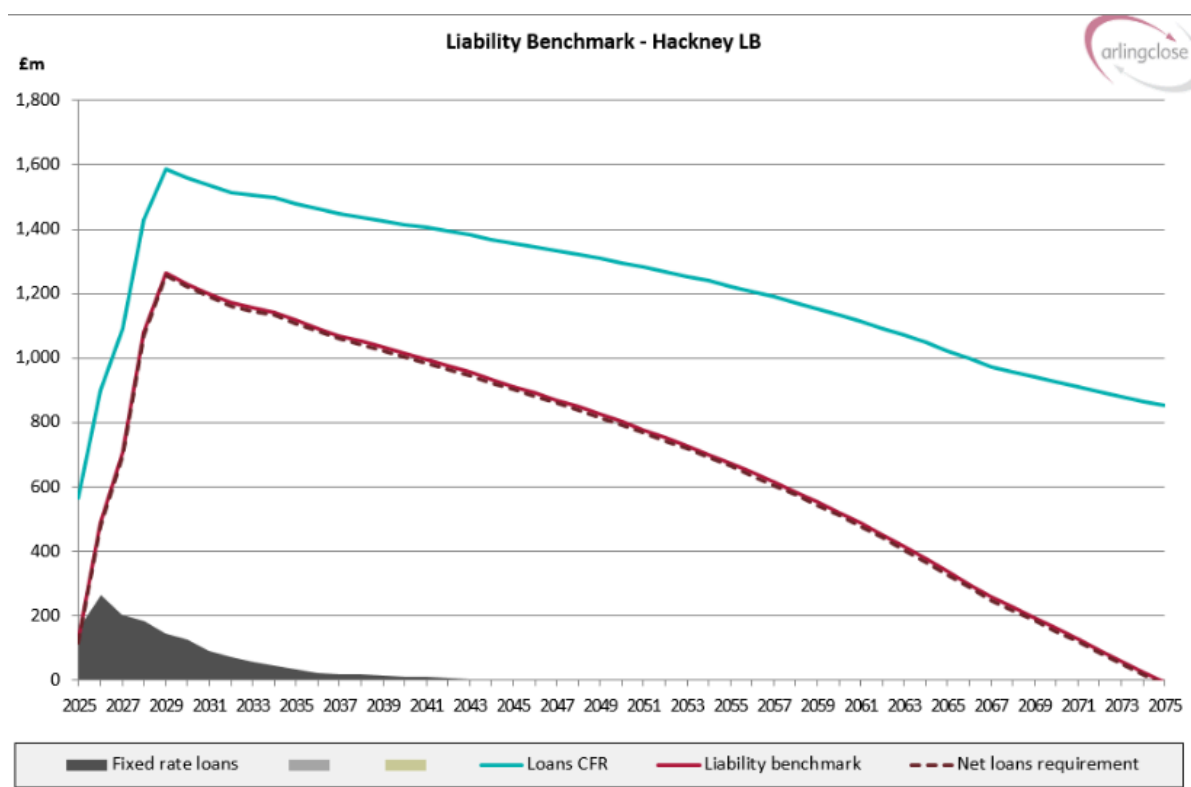
- 6.3 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 2 above, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

**Table 3: Liability benchmark**

	<b>31/03/25 Actuals £m</b>	<b>31/03/26 Estimated £m</b>	<b>31/03/27 Estimated £m</b>	<b>31/03/28 Estimated £m</b>	<b>31/03/29 Estimated £m</b>
<b>Loan CFR</b>	<b>566</b>	<b>902</b>	<b>1,110</b>	<b>1,447</b>	<b>1,600</b>
<b>Less: Balance Sheet Resources</b>	452	422	392	362	332
<b>Net loans requirement</b>	<b>114</b>	<b>480</b>	<b>718</b>	<b>1,085</b>	<b>1,268</b>
<b>Plus: Liquidity allowance</b>	10	10	10	10	10
<b>Liability benchmark</b>	<b>124</b>	<b>490</b>	<b>728</b>	<b>1,095</b>	<b>1,278</b>

Liability Benchmark Chart: The Council's liability benchmark is projected to rise to around £1,278m by 2028/29 due to a rise in the CFR and fall in usable reserves. This compares with the Council's projected debt portfolio of £145m at end 2028/29 in Table 2, suggesting a cumulative borrowing requirement over this and the next two financial years of around £1,123m.





- 6.4 The Authority currently has £310.05m in external borrowing. This is made up of a £1.05m through Hackney Green Investment initiative on a crowdfunding platform to support climate action projects, £63m short term borrowing for cash flow management and £246m long term used to finance part of the borrowing requirement within the HRA reflecting the take on debt as part of the HRA self financing in 2012 and for the financing of the housing capital programme, particularly in respect of housing regeneration.
- 6.5 Furthermore, the Council has an increasing CFR due to the delivery of its capital programme with many regeneration schemes requiring borrowing upfront ahead of the realisation of capital receipts. It is therefore likely that the Council will need to borrow over the forecast period, the actual amount depending on the actual level of reserves and other cash balances available.
- 6.6 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. Table 2 shows that the council expects to comply with this recommendation during 2026/27.
- 6.7 Table 4 sets out the operational boundary and authorised limit for the council for the coming years. The numbers for 2025/26 to 2028/29 are provisional, ahead of March's annual budget report, and as such may be subject to change.

Table 4: Operational Boundary and Authorised Limit

	2025/26 Approved £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
<b>Operational Boundary for External Debt</b>	1,029	1,221	1,542	1685
<b>Authorised Limit for External Debt</b>	1,059	1,266	1,587	1,730

## 7 BORROWING STRATEGY

- 7.1 The decision to borrow is a treasury management decision and is taken by the Head of Treasury after agreement by the S151 Officer under delegated powers of the Council's constitution and the Director Financial Management. The key objective of the Council's borrowing strategy is to secure short to medium funding for cashflow management and long-term funding for capital projects at borrowing rates that are as low as possible.
- 7.2 The Head of Treasury, Banking and Accounts Payable monitors interest rates and will recommend borrowing decisions when rates are low, while taking into account the Council's debt repayment profile and cashflow requirements.
- 7.2 The balance sheet forecast in Table 2 shows that the Council has a borrowing requirement of £907m in 2026/27. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £1,266m in 2026/27.
- 7.3 The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty 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.
- 7.4 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 have fallen over the past year, and are expected to fall a little further, 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.
- 7.5 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 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.

- 7.6 The Council has previously and lately raised all of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and 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.
- 7.7 The Council will continue to utilise the PWLB HRA rate to finance part of the borrowing requirement within the HRA associated with the delivery of the housing capital programme, particularly in respect of regeneration. This approach ensures borrowing costs are kept at minimal level, supporting financial sustainability while advancing housing development goals.
- 7.8 The Council will continue to borrow through Hackney Green Investment initiative, via crowdfunding platform to support its climate action plan. Following the success of the initial launch, this approach will play a vital role in financing sustainable initiatives and achieving the Council's climate objectives.
- 7.9 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.
- 7.10 In addition, the Council may borrow further short-term loans to cover unplanned cash flow shortages.

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 Ltd (formerly UK Infrastructure Bank Ltd)
- UK local authorities
- Any other UK public sector body
- Any institution approved for investments (see below)
- Any bank, building society or insurance company authorised to operate in the UK
- UK public and private sector pension funds (except London Borough of Hackney Pension Fund)
- Capital market bond investors
- Special purpose companies created to enable local authority bond issues

- Retail investors via a regulated peer-to-peer platform

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
- similar asset based finance

- 7.12 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.
- 7.13 Short-term and variable rate loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section 10.4).

## 8 TREASURY INVESTMENT STRATEGY

- 8.1 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.
- 8.2 As demonstrated by the liability benchmark above, 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.
- 8.3 Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's ESG

policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

- 8.4 The Council may invest its surplus funds with any of the counterparty types in table below, subject to the limits shown.

**Table 5 Treasury investment counterparties and limits:**

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£10m	Unlimited
Secured investments - government collateral	25 years	£10m	Unlimited
Secured investments - other collateral*	10 years	£10m	Unlimited
Banks (unsecured)*	13 months	£5m	Unlimited
Building societies (unsecured)*	13 months	£5m	£10m
Registered providers (unsecured)*	5 years	£5m	£25m
Money market funds*	n/a	£10m	Unlimited
Strategic pooled funds	n/a	£10m	£50m
Real estate investment trusts	n/a	£10m	£25m
Other investments*	5 years	£5m	£10m

- 8.5 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 (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £5m per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

8.6 Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. 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 on the next working day 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.

8.7 The maximum that will be lent to any one organisation (other than the UK Government) will be £10 million to reduce the chance of a credit event placing the council under undue financial pressure. 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.

**Table 6 - Additional investment limits**

	<b>Cash limit</b>
Any group of pooled funds under the same management	£25m per manager
Investments held in a broker's nominee account	£25m per broker
Foreign countries	£10m per country

8.8 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.

- 8.9 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.
- 8.10 For secured investments, 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.
- 8.11 The Council will invest using the following types of instruments: Treasury bills, Bonds, Certificate of deposits, Commercial Papers, Pooled Funds, Revolving Credit Facility, Repurchasing agreements, Alternatives.
- 8.12 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.
- 8.13 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 other local authorities. This will cause investment returns to fall but will protect the principal sum invested.
- 8.14 The proposed 2026/27 Treasury Management Strategy has considered a full range of risks and Officers will apply the strategy to ensure that security of deposits is the prime consideration. However, in agreeing the proposed strategy, Members should be aware that there is always a risk of default of counterparties other than the Debt Management Office which is guaranteed by the Government.
- 8.15 The Council uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated 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.

## **9 TREASURY MANAGEMENT INDICATORS**

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

- 9.2 **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.

**Table 7 - Credit Risk Target**

	Target
Portfolio average credit rating	A-

- 9.3 **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.notice.

**Table 8 - Liquidity Risk Target**

	Target
Total cash available within 3 months	£20m

- 9.4 **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:

**Table 9 - Interest Exposure indicator**

	2026/27
Upper limit on one-year revenue impact of a 1% rise in interest rates	£0.30m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£0.30m

1% rise in interest rate - It is unlikely that the borrowing to this extent will be done on a short term basis but if borrowing takes place on a short term basis then the impact of 1% increase in interest rates will be funded from reserves.

1% fall in interest rate exposure is calculated based on the current investment portfolio of the council. In the event of a fall in interest rate investment strategy will be revisited to identify measures to be put in place to nullify the impact of fall in interest rate.



- 9.5 **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 fixed rate borrowing will be:

**Table 10 - Maturity Structure Indicator**

	Upper	Lower
Under 12 months	40%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	60%	0%
10 years and above	80%	0%

The maturity limits have been updated from those approved in the previous year to reflect the Council's move to a more borrowing-led funding strategy as the capital programme progresses. The revised limits provide more control over refinancing risk by placing limits on the proportion of borrowing maturing in each period, rather than the previous 100% limits, while continuing to allow sufficient flexibility to support cashflow management and long-term funding requirements.

- 9.6 **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 total principal sum invested to final maturities beyond the period end will be:

**Table 11 - Principal Sum Limit Indicator**

	2026/27	2027/28	2028/29	No Fixed Date
Limit on principal invested beyond year end	£20m	£20m	£20m	£10m

## 10 Related Matters

- 10.1 The CIPFA Code requires the Council to include the following in its treasury management strategy.
- 10.2 **Policy on Use of 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 (e.g. Lender

Option Borrower Option (LOBO) loans and callable deposits). 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).

- 10.3 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.
- 10.4 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.
- 10.5 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.
- 10.6 **Policy on Apportioning Interest to the HRA:** The Council has adopted a two pooled approach following the self-financing settlement in March 2012. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. Where the HRA needs to borrow from the General Fund to meet its remaining borrowing requirement the General Fund is compensated based on what the Council would have to borrow from the PWLB, with rates based on a best decision from a treasury management perspective and the current interest rate outlook. This will be determined annually following advice from the Council's treasury advisers and the interest transferred between the General Fund and the HRA at the year end.
- 10.7 **Markets in Financial Instruments Directive:** The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

- 10.8 **Investment Training:** The needs of the Council's treasury management staff for training in investment management are assessed as part of individual staff appraisal processes, and additionally when the responsibilities of individual members of staff change. Training will be arranged as required for members of the Audit Committee who are charged with reviewing and monitoring the Council's treasury management policies.
- 10.9 Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.
- 10.10 **Investment Advisers:** The Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. Arlingclose is an independent treasury advisory company providing unbiased financial advice and capital financing expertise for the public sector. They provide advice on investment trends, developments and opportunities consistent with the council's chosen strategy relating to investments, debt repayment and restructuring, and also for economic information and data interpretation.
- 10.11 Although the Council uses the expertise of an external provider for treasury management advice relating to investing, borrowing and restructuring of the portfolios, the council remains fully accountable for any decisions made.
- 10.12 Regular communications are received in relation to economic data releases, interest rate forecasts and debt structuring opportunities with, sometimes, daily communications in respect of counterparties. Officers also attend training sessions facilitated by Arlingclose relating to the Prudential Code, and the Treasury Management Code of Practice and Accounting.
- 10.13 Meetings are held on a quarterly basis with Officers of the Council, including the Director Financial Management, to discuss treasury management strategies, which may, from time to time, include discussions in regard to enhancement of the service provision if required. Additional ad-hoc meetings are arranged as required if specific issues arise during the course of the year outside of scheduled quarterly meetings.
- 11 Other Options Considered**
- 11.1 The CIPFA Treasury Management Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Group Director Finance and Corporate Resources believes 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.

**Table 12 - Alternative Strategy Options**

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

### Arlingclose Economic & Interest Rate Forecast December 2025

#### Underlying assumptions:

- The Budget signalled further fiscal (tax/spend) tightening across this parliament. Most tax changes take effect from 2028, while welfare and spending start from April 2026. Taken together, the timing of these announcements means the fiscal stance is likely to be slightly looser than expected for the next two years (with increased government spending), before tightening sharply from 2028 (with large tax rises).
- Despite the near-term looser fiscal stance, the new policies add little support for activity in 2026. Even before the Budget, economic data was pointing to a slower growth outlook. Meanwhile, disinflation has been evident and planned government actions on train fares and energy bills will also dampen inflation next year.
- The close vote in November to keep the Bank Rate at 4% reflected pre-Budget uncertainty. With no major growth or inflation boosts in the Budget, a cut to 3.75% in December continues to look highly likely.
- Inflation fell to 3.6% in October. Business surveys point to weaker pricing power and household inflation expectations are easing, although they remain high. Wage growth is moderating amid rising unemployment and overall activity is flat. Confidence has been hit by the run-up to the Budget and a strong rebound seems improbable in the near term.
- Weak growth and softer inflation strengthen the case for dovish MPC members to push for further Bank Rate cuts, while undermining arguments of more hawkish members. There will still be questions over whether the Government can deliver the fiscal tightening it set out, given a history of U-turns, and timing ahead of the next General Election. The December meeting will offer a clearer view of how divided the MPC really is.
- Risks to the growth and inflation outlook lie to the downside, which if crystallised may ultimately deliver lower Bank Rate than our central case.
- Lower inflation expectations and a tighter fiscal stance have helped bring down gilt yields, especially at the long end. Even so, sustained heavy borrowing across advanced economies, the DMO's move towards issuing more short-dated gilts and lingering doubts about the government's fiscal plans will keep short to medium yields above the levels implied by interest rate expectations alone.

#### Forecast:

- Following the 2025 Budget, we continue to forecast a 0.25% Bank Rate cut in December to 3.75%.
- Continuing disinflation, rising unemployment, softening wage growth and low confidence suggests that monetary policy will be eased to stimulate activity ahead of incoming fiscal tightening post-2028.

## Appendix A

- Arlingclose now expects Bank Rate to be cut to 3.25% by Q2 2026, with risks weighted to the downside.
- Medium and long-term gilt yields continue to incorporate premia for UK government credibility and global uncertainty. These issues may not be resolved quickly and we expect yields to remain higher than would normally be consistent with Bank Rate expectations.
- However, the lower path for Bank Rate maintains the downside risks to Arlingclose's gilt yield forecasts.

	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>													
Upside risk	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central Case	4.00	3.75	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Downside risk	0.00	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
<b>3-month money market rate</b>													
Upside risk	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central Case	3.90	3.65	3.50	3.40	3.35	3.35	3.35	3.35	3.35	3.35	3.35	3.35	3.35
Downside risk	0.00	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
<b>5yr gilt yield</b>													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	3.92	3.90	3.85	3.80	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.80	3.80
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
<b>10yr gilt yield</b>													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.48	4.40	4.35	4.30	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.30	4.30
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
<b>20yr gilt yield</b>													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	5.13	4.90	4.85	4.80	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.80	4.80
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
<b>50yr gilt yield</b>													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.73	4.50	4.50	4.45	4.45	4.45	4.45	4.45	4.45	4.45	4.45	4.50	4.50
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85

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%

### Glossary of Terms

**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.

**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 Authority 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 Authority 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 be either withdrawn after a notice period or sold on an exchange, their performance and continued suitability in meeting the Authority'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 Authority's investment at risk.



## TREASURY MANAGEMENT POLICY STATEMENT

### 1. Approved Activities

In accordance with the Council's Constitution and Delegated Powers, the Group Director Finance and Corporate Resources and Officers authorised by the Group Director, may arrange all investments, borrowing, repayment of debt outstanding and leasing required and permitted by the Local Government Act 2003.

Borrowing must be contained within the limit determined under the Authorised Limit of the Prudential Code and used solely for the purpose of the Council's statutory functions. Treasury management operations will comply with the CIPFA Code of Practice.

### 2. Treasury Management Policy Objectives

The Council defines its treasury management activities as:

*"The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

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 performance measurement techniques, within the context of effective risk management.

The treasury management activities of the Council will be conducted to achieve the following policy objectives: -

- (a) To ensure that risk to the Council's financial position is minimised by the adoption of sound debt management and investment practices;
- (b) The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

- (c) To have a policy to repay debt, take opportunities to make premature debt repayments, and restructuring of debt when and where it is advantageous to the Council to do so.

### **3. Adoption of the CIPFA Code of Practice**

The Council has adopted the key recommendations of CIPFA Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 2 of that Code.

Accordingly, this organisation will create and maintain, as the cornerstones for effective treasury management:

- A Treasury Management Policy Statement, stating policies and objectives of its treasury management activities.
- Suitable Treasury Management Practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, prescribing how the Council will manage and control those activities.

The contents of the Policy Statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the Council. Such amendments will not result in the Council materially deviating from the Code's key recommendations.

- The Council will receive reports on its treasury management policies practices and activities, including, as a minimum, an annual strategy and plan in advance of the year.
- The Council delegates responsibility for the implementation, monitoring of its treasury management policies and practices to the Audit Committee, and for the execution and administration of treasury management decisions to the Group Director, Finance and Corporate Resources, who will act in accordance with the policy statement, TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

### **4. Investment of Cash Balances**

Investment of all balances arising from day to day cash flows, capital receipts, minimum revenue provisions and other financial reserves and provisions will be in accordance with Government regulations or guidelines to produce a maximum return having regard to the security of funds and the minimisation of risk.

The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the council's investments followed by

the yield earned on investments remain important but are secondary considerations.

The spread of risk will be controlled by reference to the approved criteria and financial limits. Investment liquidity will be structured with regard to cash flow projections maintained under the authority of the Group Director, Finance and Corporate Resources.

### **5. Investment Names/Financial Limits**

Investments are to be made only to those institutions, which meet the approved criteria for lending, and within the current maximum financial limits as approved, Audit Committee/Council. Where investments in any of these institutions were made at a time where a higher maximum limit applied, the new maximum limit will be applied as existing investments mature.

Between reports to the Audit Committee/Council, the Group Director Finance and Corporate Resources, under delegated powers, is authorised to revise, and further restrict or relax, the investment names/limits to reflect changes in market sentiment, information and credit ratings.

### **6. Risk Appetite Statement**

The Council's objectives in relation to debt and investment is to assist the achievement of the Council's service objectives by obtaining funding and managing the potential debt and investments at a net cost which is as low as possible, consistent with a degree of interest cost stability and a very low risk to sums invested.

This means that the Council takes a low risk position but is not totally risk averse. Treasury management staff have the capability to actively manage treasury risk within the scope of the Council's treasury management policy and strategy.

### **7. Legal Issues**

Borrowing and investment will be arranged efficiently through a range of brokers practising in the money markets and, in addition, the Group Director of Finance and Corporate Resources (S151) and Director of Financial Management (Deputy S151) is authorised to deal directly with counterparties where it is advantageous to do so.

## 8. Use of Bankers

Approved agreements are currently in place with the Lloyds Bank and the RBS/Natwest Bank for the conduct of banking business for the Council and schools respectively.

The Group Director, Finance and Corporate Resources is authorised to negotiate appropriate changes to the mandates which may be needed to cover any exceptional market circumstances to protect the Council's finances.

## 9 Review

The Group Director, Finance and Corporate Resources will report to the Audit Committee on the Treasury Management performance as follows:

- **Treasury Management Strategy**

Frequency - once a year, setting investment and borrowing limits, prudential indicators, and the strategy for the year ahead.

To – Audit Committee and Council

- **Treasury Management Outturn Report –**

Frequency - once a year against the TM Strategy and Prudential Indicators approved for the previous financial year, no later than September of the current financial year

To – Audit Committee

- **Treasury Management Half-Year Activity Report –**

Frequency – a report on its treasury activity, it is anticipated to be no later than January of the current financial year

To – Audit Committee

- **Treasury Management Quarterly Activity Report –**

Frequency - report to be submitted on treasury activity for the previous quarter

To – Audit Committee

- **Ad-hoc –**

Additional reports will be submitted to the Audit Committee/Council as required, in order to react to extreme fluctuations in market conditions and/or increased levels of treasury activity.

The Group Director Finance and Corporate Resources will make such arrangements as are necessary for monitoring daily activities in the treasury functions.