

Audit Committee – 13 February 2026

Treasury Management Strategy 2026/27

Purpose	For Review
Classification	Public
Executive Summary	The Treasury Management Strategy Statement sets out how the Council's treasury service will support the capital expenditure and financing decisions taken over the three-year period from 2026/27 to 2028/29. The day-to-day treasury management function and the limitations on activity through treasury indicators are also set out in the statement.
Recommendations	It is recommended that Audit Committee recommend to Full Council that: 1) the Treasury Management Strategy 2026/27 to 2028/29 including the Annual Treasury Management Investment Strategy for 2026/27 (and the remainder of 2025/26), and the Treasury Indicators contained within, as provided in Appendix 1 be approved; and 2) authority is delegated to the Section 151 Officer, who in turn delegates to Hampshire County Council's Director of Corporate Operations, as agreed in the Service Level Agreement, to manage all Council investments and borrowing according to the Treasury Management Strategy Statement as appropriate.
Reasons for recommendation(s)	To comply with the statutory guidance issued by the Government in January 2018 and the CIPFA 2021 Prudential and Treasury Management Codes requiring all local authorities to approve a Treasury Management Strategy Statement

	(TMSS) 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.
Ward(s)	All
Portfolio Holder(s)	Councillor Jeremy Heron - Finance and Corporate
Strategic Director(s)	Alan Bethune - Strategic Director Corporate Resources (Section 151 Officer)
Officer Contact	Daniel O'Rourke Corporate Accountant, Hampshire County Council 0370 779 1728 Daniel.O'Rourke@hants.gov.uk

Introduction and background

1. The Treasury Management Strategy is a high-level document, giving an overview of how the Council manages and invests its surplus cash and its associated investment assets.
2. Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested 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.
3. Treasury risk management at the Council is conducted within the framework of the CIPFA Code which requires the Council to approve a Treasury Management Strategy Statement (TMSS) 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. Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

Policies and approvals required

Treasury Management Strategy Statement

5. The Treasury Management Strategy Statement sets out how the Council's treasury service will support the capital expenditure and financing decisions taken over the three-year period from 2026/27 to 2028/29. The day-to-day treasury management function and the limitations on activity through treasury indicators are also set out in the statement.
6. This report has been prepared prior to the adoption of the Capital Programme for 2026/27 and subsequent years. Therefore, the target indicators may be subject to minor variation. These indicators are targets only and minor adjustments will not be reported.
7. Any adjustments to the treasury management limits will be reported.

Treasury Management Investment Strategy

8. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in Public Services: Code of Practice (the CIPFA Code). This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
9. The Treasury Management investment strategy sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.
10. These criteria are shown in Appendix 1 in Section 5.
11. The policies and parameters included in this report provide an approved framework within which officers undertake the day-to-day treasury activities.
12. This strategy aims to strike a balance between allowing for current investment levels to continue, whilst also considering the Council's intention to directly invest in both commercial and residential property.

Corporate plan priorities

13. Management of the Council's cash flows, borrowing and investments, and the associated risks ensures we are being financially responsible which underpins the delivery of all our priorities.

Options appraisal

14. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Section 151 Officer believes that the strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed in Table 1.

Table 1: Alternative strategies and their implications

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	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising

Table 1: Alternative strategies and their implications

Alternative	Impact on income and expenditure	Impact on risk management
instead of long-term fixed rates		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

Consultation undertaken

15. This report has been produced in consultation with Hampshire County Council's Investments & Borrowing team.

Financial and resource implications

16. Hampshire County Council's Investments and Borrowing Team carry out the day-to-day management of the Council's cash balances and investments. The council's in-house finance team undertake the accounting, and the Section 151 Officer retains responsibility for strategic pooled fund investment and long-term borrowing decisions.
17. This is a financial report with any additional implications already detailed and considered in the main body of the report and appendices.

Legal implications

18. To comply with the statutory guidance issued by the Government in January 2018 and the CIPFA 2021 Prudential and Treasury Management Codes requiring all local authorities to approve a Treasury Management Strategy Statement (TMSS) 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.

19. The Council's Treasury Management Strategy Statement follows the latest codes of practice and the MHCLG and CIPFA guidance.
20. With effect from February 2014 Hampshire County Council (HCC) and New Forest District Council ("the Council") established arrangements for the joint discharge of functions under Section (101) (1) and (5) of the Local Government Act 1972 and Section 9EA and 9EB Local Government Act 2000. Under this arrangement, HCC's Investments and Borrowing Team provide a Treasury Service which includes the management of the Council's cash balances and investment of surplus cash or sourcing of borrowing in accordance with the agreed Treasury Management Strategy Statement.

Environmental / climate and nature implications

21. There are no environmental implications arising directly from this report.

Equalities implications

22. There are no equality implications arising directly from this report.

Crime and disorder implications

23. There are no crime and disorder implications arising directly from this report.

Data protection / information governance / ICT implications

24. There are no data protection, information governance or ICT implications arising directly from this report.

Appendices:

Appendix 1 – Treasury
Management Strategy 2026/27 –
2028/29

Background Papers:

None

TREASURY MANAGEMENT STRATEGY 2026/27 – 2028/29

1. INTRODUCTION

- 1.1. Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested 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.
- 1.2. Treasury risk management at the Council is conducted within the framework of the CIPFA Code which requires the Council to approve a Treasury Management Strategy Statement (TMSS) 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.
- 1.3. Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

2. EXTERNAL CONTEXT

- 1.4. The following paragraphs explain the economic and financial background against which the TMSS is being set.

Economic background

- 1.5. 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.
- 1.6. The Bank of England's Monetary Policy Committee (MPC) voted to cut Bank Rate by 25 basis points, from 4.00% to 3.75%, in December 2025.

Credit outlook

- 1.7. Credit Default Swap (CDS) prices, which are used as an indicator of credit risk where higher premiums indicate higher perceived risks, spiked in April 2025 following President Trump's 'Liberation Day' tariff announcements, and have since trended lower, returning to levels broadly consistent with their 2024 averages. Although CDS prices rose modestly in October 2025, the overall credit outlook remains stable, and credit conditions are expected to remain close to the range seen over the past two years.
- 1.8. 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 Arlingclose's (the Council's treasury management advisor) 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 (December 2025)

- 1.9. Arlingclose forecasts that the Bank of England's Monetary Policy Committee will continue to reduce Bank Rate through 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.
- 1.10. 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
- 1.11. A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

3. BALANCE SHEET SUMMARY AND FORECAST

1.12. On 31 December 2025, the Council held £129.9m of borrowing and £47.1m of investments. This is set out in further detail at Appendix B. Forecast changes in these sums are shown in the balance sheet analysis in Table 2.

Table 2: Balance Sheet Summary and Forecast	31/03/25 Actual £m	31/03/26 Estimate £m	31/03/27 Forecast £m	31/03/28 Forecast £m	31/03/29 Forecast £m
General Fund CFR	27.3	34.5	34.7	32.9	33.5
Housing Revenue Account CFR	27.4	37.9	52.4	69.6	87.8
HRA Settlement	109.9	105.8	101.7	97.6	93.5
Total CFR	164.6	178.2	188.7	200.0	214.9
Less: Other debt liabilities *					
- Leases	2.9	2.9	2.9	2.9	2.9
Loans CFR	167.4	181.1	191.6	202.9	217.7
Less: External borrowing ***	(132.9)	(115.8)	(109.2)	(102.6)	(96.0)
Internal borrowing	34.5	65.3	82.4	100.3	121.7
Less: Balance sheet resources	(66.9)	(53.8)	(43.9)	(36.8)	(35.6)
New borrowing or Treasury investments (-)	(32.4)	11.5	38.5	63.5	86.1

* Leases liabilities that form part of the Council's debt

** IFRS 16 requires the Council to change how it recognises its leases from 1 April 2024

*** shows only loans to which the Council is committed and excludes optional refinancing

1.13. 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.

1.14. The General Fund CFR is showing an increase over the period as the Council implements the new Waste Strategy. New commercial and residential investment schemes have currently been put on hold due to the current interest rates making schemes less viable. The Housing Revenue Account (HRA) CFR is also increasing as the Council looks to deliver the requirements arising from Housing Energy Improvements, Planned Maintenance and the current Housing Development Programme. Table 1 demonstrates that the Council will be internally borrowed beyond the resources available for investment. At this point, an external borrowing position sets in. At the appropriate time the Council will consult with its treasury advisors on how best to service its borrowing requirements, including the possibility of renewing maturing loans on the HRA.

1.15. 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.

1.16. **Liability benchmark**

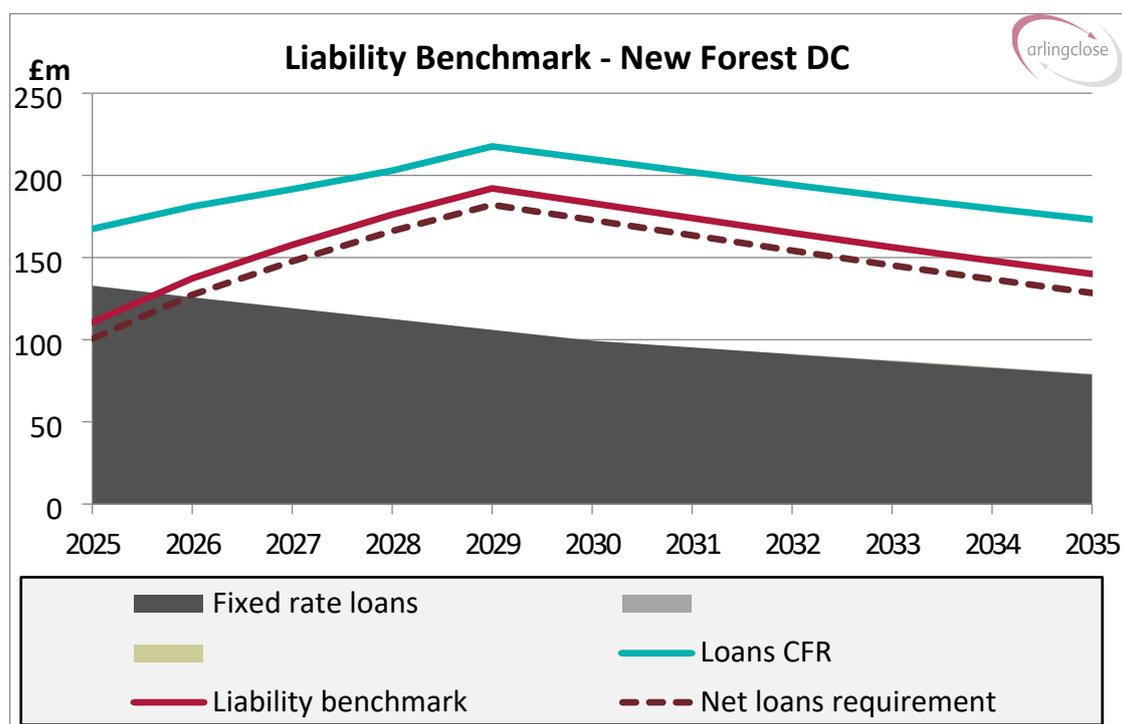
1.17. To compare the Council's actual borrowing against an alternative strategy, CIPFA requires that a liability benchmark is calculated to show the lowest risk level of borrowing. This assumes the same forecasts as Table 2 but that cash and liquid investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

1.18. 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.

Table 3: Liability benchmark	31/03/25 Actual £m	31/03/26 Estimate £m	31/03/27 Forecast £m	31/03/28 Forecast £m	31/03/29 Forecast £m
Loans CFR	167.4	181.1	191.6	202.9	217.7
Less: Balance sheet resources	(66.9)	(53.8)	(43.9)	(36.8)	(35.6)
Net loans requirement	100.5	127.3	147.7	166.1	182.1
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0
Liability benchmark	110.5	137.3	157.7	176.1	192.1

1.19. At the start of the period, 31 March 2025, the Council had a Loans CFR of £167.4 million, external borrowing of £132.9m, balance sheet resources of £66.9m and a liability benchmark of £110.5m. The difference of £34.5m between the CFR and external borrowing is internal borrowing which is where the Council has used its own resources to fund its borrowing requirement.

Graph 1: Liability Benchmark



The full 50-year liability benchmark is available at Appendix D to this report.

- 1.20. The liability benchmark is the lowest level of debt the Council could hold if it used all of its balances, reserves and cash flow surpluses to fund its CFR. The liability benchmark graph is based on five years of data which explains why the Loans CFR line in Graph 1 continues to reduce past the initial five-year period – the diagram assumes that no new capital projects will begin after 2028/29, which is a very unlikely scenario but a reflection of the current horizon for capital expenditure forecasts.
- 1.21. The Council expects a positive liability benchmark across the forecast period, due to a rising CFR in combination with an expectation that balance sheet resources will drop, which generally means an authority is required to take external borrowing to fund the gap between its resources and the CFR.
- 1.22. The chart shows that it is expected that the external borrowing the Council has already arranged will not be sufficient, with it being below the minimum borrowing requirement, and so indicates that additional borrowing may be required to rectify this.

1.23. Unfortunately, a limitation of liability benchmarking is that the further out the forecast, the less it can be relied upon (particularly after 2028/29 after the end of the current capital expenditure forecast period) and so as time passes, the requirement to borrow may change and either may not be there for the whole period, or alternatively cash flow requirements that are not known about today may become present later which may require the Council to take additional external borrowing in the future.

4. BORROWING STRATEGY

1.24. The Council currently holds £129.9m of loans. The balance sheet forecast in Table 1 shows that the Council is forecast to maintain a net borrowing position and so may need to borrow to fund capital expenditure to maintain its long-term and minimum level of investments. The Council may also borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £236.7m.

Objectives

1.25. 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.

Strategy

1.26. 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.

- 1.27. The benefits of internal and 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 costs low, even if this causes additional cost in the short-term.
- 1.28. The Council has previously raised all of its long-term borrowing from the Public Works Loan Board (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. The Council may take the decision to retain the level of current borrowing attributed to the Housing Revenue Account to meet forthcoming pressures related to maintenance and building requirements. The level of borrowing could be retained through rearranging PWLB loans on maturity.
- 1.29. The Council may also arrange forward starting loans during 2026/27, 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. The council may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money.
- 1.30. In addition, the Council may borrow short-term loans (normally for up to one month) to cover unplanned cash flow shortages.

Sources of borrowing

- 1.31. 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)
- any institution approved for investments
- any other bank, building society or insurance company authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Hampshire Pension Fund)
- capital market bond investors
- retail investors via a regulated peer-to-peer platform
- special purpose companies created to enable local authority bond issues

Other sources of debt finance

1.32. 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 (PFI)
- sale and leaseback
- similar asset-backed finance

Short-term and variable rate loans

1.33. These loans leave the Council exposed to the risk of short-term interest rate rises, which is monitored through the indicator on interest rate exposure in the treasury management indicators below.

Debt rescheduling

1.34. 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 could arise and the opportunity to reschedule is kept under review.

5. TREASURY INVESTMENT STRATEGY

1.35. The Council holds 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 £27.9m and £82.4m.

Objectives

1.36. 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. The council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy

1.37. 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.

Environmental, social and governance factors

1.38. 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 does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in strategic pooled funds, the Council will prioritise 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.

Business models

- 1.39. Under the new IFRS 9 standard, the accounting for certain investments depends on the 'business model' for managing them. The Council aims to achieve value from its internally managed treasury investments through 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.

Investments in pooled funds

- 1.40. The Council continues to invest in pooled funds which enables it to achieve a greater degree of diversification than could effectively be achieved by directly owning individual assets. Pooled funds are managed by specialist external fund managers who are best placed to select and manage investments, for example with property investments in selecting appropriate buildings and then managing the relationship with tenants and the maintenance of those buildings.
- 1.41. Diversification in itself does not guarantee positive outcomes. The selection of a pooled fund is carefully managed to target funds with a strong performance track record and objectives that are well aligned to the Council's income returns aims without putting its initial investment at undue risk over the longer term. The Council is therefore currently invested in pooled funds that specialise in providing income returns to support the revenue budget. As a result of their income focus these funds may not achieve the same capital growth and therefore total return, as other more general investment funds, however they are likely to deliver good income returns for the longer term.

- 1.42. The investible universe for pooled funds is vast, and part of the service provided by Arlingclose as treasury advisers is to conduct research and suitable due diligence on pooled funds prior to making recommendations to their clients.
- 1.43. Past performance does not guarantee that funds can replicate successful outcomes in future and knowing which funds will perform well is not an exact science. The Council will therefore continue to conduct its own ongoing review and scrutiny of the performance of its pooled fund investments on a regular basis, including the active decisions of continuing to invest or redeem these investments, particularly with the requirement to take on additional borrowing approaching. The Council will also discuss these investments regularly with Arlingclose, who provide advice based on regular meetings with representatives from the pooled funds and their own ongoing due diligence on areas such as performance and investment style, strategy and process.
- 1.44. The Council is aware of the risks involved with investing in pooled funds that hold underlying investments in equities and property. When the Council began to specifically target higher returns from a proportion of its investments, it also established a Treasury Management Reserve to mitigate the risk of an irrecoverable fall in the value of these investments. The balance held in this reserve is currently £0.300m.
- 1.45. At the current time, the Council's pooled fund investments are valued with an unrealised capital loss of £0.336m. To date, the statutory override in place of IFRS 9 for local authorities exempts the Council from taking this unrealised loss to the Comprehensive Income and Expenditure Statement (CIES). This override has been extended to 31 March 2028 for investments made before 1 April 2024, at which time the Council will be expected to reflect any gains and losses in the CIES.

Investment limits

- 1.46. The maximum that will be lent to any one organisation (other than the UK Government) will be £7m. Over the longer term it is expected that the Council's cash balances will reduce, and new external borrowing will

need to be taken. This limit allows the flexibility to ensure that all of the Council's cash can be invested in accordance with this TMSS.

1.47. 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 as shown in Table 4.

Table 4: Investment limits	Cash limit
Any single organisation, except the UK Central Government	£7m each
UK Central Government	Unlimited
Any group of pooled funds under the same management	£17.5m per manager

Approved counterparties

1.48. The Council may invest its surplus funds with any of the counterparty types in Table 5, subject to the limits shown.

Table 5: Sector and counterparty 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 - government collateral	3 years	£7m	Unlimited
Secured investments - other collateral*	3 years	£7m	Unlimited
Banks (unsecured) *	13 months	£3.5m	Unlimited
Building societies (unsecured) *	13 months	£3.5m	£7m
Registered providers	3 years	£3.5m	£17.5m
Money market funds *	n/a	£7m	Unlimited
Strategic pooled funds	n/a	£7m	£35m

Real estate investment trusts	n/a	£7m	£17.5m
Other investments *	5 years	£3.5m	£7m

This table must be read in conjunction with the notes below

Time limit

- 1.49. Borrowing to invest primarily for financial return is in contravention of the CIPFA Treasury Management Code. To reflect the expectation that long-term borrowing will be a requirement for the Council, time limits for investment have therefore been shortened to a maximum of 3 years.

*** Minimum credit rating**

- 1.50. 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-/A3. 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 known factors including external advice will be taken into account.
- 1.51. For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

UK Government

- 1.52. 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 3 years.

Local authorities and other government entities

- 1.53. Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities, supranational banks 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.
- 1.54. The counterparty limit for loans to local authorities will be increased to an unlimited amount where (a) the government has announced that the Council will merge with the borrowing authority and (b) the loan is scheduled to be repaid after the expected date of the merger.

Secured investments

- 1.55. 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 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. A higher limit applies for investments fully secured on UK or other government collateral.

Banks and building societies (unsecured)

- 1.56. 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)

- 1.57. Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and 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

- 1.58. 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

- 1.59. 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 be either 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.

Other investments

- 1.60. This category covers treasury investments not listed above, for example certificates of deposit (CDs), unsecured corporate bonds and unsecured loans to companies. Non-bank companies cannot be bailed-in but can become insolvent placing the Council's investment at risk.

Operational bank accounts

1.61. The Council may incur operational exposures, for example through current accounts, 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 low. The Council's operational bank account is with Lloyds and aims to keep the overnight balances held in current accounts as positive, and as close to £0 as possible. 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

1.62. 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.

1.63. 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.

Other information on the security of investments

1.64. 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 and 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.

- 1.65. 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, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will likely lead to investment returns falling but will protect the principal sum invested.

Liquidity management

- 1.66. The Council has due regard for its future cash flows when determining the maximum period for which funds may prudently be committed. Historic cash flows are analysed in addition to significant future cash movements, such as payroll, grant income and council tax precept. Limits on long-term investments are set by reference to the Council's medium term financial position (summarised in Table 1) and forecast short-term balances.
- 1.67. The Council will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds), of which at least two will be UK domiciled, to ensure that access to cash is maintained in the event of operational difficulties at any one provider, except in cases of extreme market stress whereby the Council will be able to invest all of its liquid cash in one provider only, being the Debt Management Office.

6. TREASURY MANAGEMENT PRUDENTIAL INDICATORS

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

Interest rate exposures

1.69. The following table shows the sensitivity of the Council's current investments and borrowing to a change in interest rates. Fixed rate investments maturing during the year are assumed to be variable for the remainder of the year.

Table 6: Interest rate exposures	31 December 2025	Impact of +/- 1% interest rate change
	£m	£m
Sums subject to variable interest rates		
Investment	47.1	+/- 0.5
Borrowing	(2.5)	+/- (0.0)

Maturity structure of borrowing

1.70. 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:

Table 7: Refinancing rate risk indicator	Upper	Lower
Under 12 months	25%	0%
12 months and within 24 months	25%	0%
24 months and within 5 years	25%	0%
5 years and within 10 years	35%	0%
10 years and above	100%	0%

1.71. 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

1.72. 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:

Table 8: Price risk indicator	2026/27	2027/28	2028/29	No fixed date
Limit on principal invested beyond a year	£15m	£10m	£5m	£10m

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

1.74. In effect, the annual limit and the no fixed date limit would be added together to reach the total limit on principal invested beyond year end.

7. RELATED MATTERS

1.75. The CIPFA Code requires the Council to include the following in its TMSS.

Financial derivatives

1.76. 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. 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).

1.77. 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.

- 1.78. 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.
- 1.79. 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.

Housing Revenue Account

- 1.80. On 1 April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. 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. This balance will be measured each month and interest transferred between the General Fund and HRA at the Bank of England base rate (Bank Rate).

Investment of money borrowed in advance of need

- 1.81. The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may

change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

Markets in Financial Instruments Directive

1.82. 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 s151 Officer believes this is the most appropriate status.

8. FINANCIAL IMPLICATIONS

1.83. The budget for investment income in 2026/27 is £1.7m, whilst the budget for debt interest paid in 2026/27 is £5.7m, based on an average debt portfolio of £150.8m at an average interest rate of 3.77%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different. Interest paid on any new borrowing will depend on the actual level of borrowing necessary and the interest rates obtained on that borrowing.

Appendix A – 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 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 took place.
- 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 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:

- Bank Rate was cut by 0.25% 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.
- 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.

Appendix A

	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
Official Bank Rate													
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
3-month money market rate													
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
5yr gilt yield													
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
10yr gilt yield													
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
20yr gilt yield													
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
50yr gilt yield													
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%

Appendix B – Existing Investment & Debt Portfolio Position at 31 December 2025

Treasury investment position

Investments	30/09/25 Balance £m	Net moveme nt £m	31/12/25 Balance £m	31/12/25 Income return %	31/12/25 Weighted average maturity years
Short term Investments					
Banks and building societies:					
- Unsecured	6.0	4.2	10.2	3.95	0.04
Money Market Funds	7.1	9.7	16.8	3.94	0.00
Government:					
- Debt Management Office	0.0	7.0	7.0	3.76	0.13
- UK Treasury Bills	5.0	(3.0)	2.0	3.82	0.10
Cash plus funds	2.0	0.0	2.0	4.02	0.01
	20.1	17.9	38.0	3.91	0.03
Long term investments					
- Pooled property*	7.6	0.0	7.6	4.46	N/A
- Pooled equity*	1.5	0.0	1.5	7.60	N/A
	9.1	0.0	9.1	4.98	N/A
TOTAL INVESTMENTS	29.2	17.9	47.1	4.11	0.03

* The rates provided for pooled fund investments are reflective of annualised income returns over the year to 31 December 2025 based on the market value of investments 12 months earlier.

Treasury management position	31/12/2025 Balance £m	31/12/2025 Rate %
External borrowing		
- PWLB	(129.9)	3.55
Other long-term liabilities		
- Leases	0	
Investments		
- Investments	47.1	4.11
Net Debt	(82.9)	

Appendix C - Q3 2025/26 Treasury Management Indicators at 31 December 2025

Debt limits	2024/25 Maximum £m	31/12/24 Actual £m	2024/25 Operational Boundary £m	2024/25 Authorised Limit £m	Complied
Total debt	(134.9)	(129.9)	(213.9)	(233.5)	✓

Refinancing rate risk indicator	31/12/25 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	5%	25%	0%	✓
12 months and within 24 months	5%	25%	0%	✓
24 months and within 5 years	13%	25%	0%	✓
5 years and within 10 years	16%	35%	0%	✓
10 years and above	61%	100%	0%	✓

Price risk indicator	2025/26 £m	2026/27 £m	2027/28 £m	No fixed date
Actual principal invested beyond a year	-	-	-	£9.1m
Limit on principal invested beyond a year	£15m	£15m	£10m	£10m
Complied	✓	✓	✓	✓

Appendix D – 50-year Liability Benchmark graph

