

# Cabinet



Report of Head of Finance

Author: Helen Ellerton

Telephone: 07598 546182

Textphone: 18001 07598 546182

E-mail: [helen.ellerton@southandvale.gov.uk](mailto:helen.ellerton@southandvale.gov.uk)

Wards affected: All

South Cabinet member responsible: Councillor Pieter-Paul Barker

Tel: 01844 212438

E-mail: [pieter-paul.barker@southoxon.gov.uk](mailto:pieter-paul.barker@southoxon.gov.uk)

To: Cabinet

Dates: 5 February 2026

# Treasury management and investment Strategy 2026/27

## Recommendations

That Cabinet:

Considers any comments from Joint Audit and Governance Committee

1. notes the treasury management strategy 2026/27, prudential indicator limits and annual investment strategy as set out in Appendix A, and

recommends these to Council:-

2. to approve the treasury management strategy 2026/27 set out in Appendix A to this report.
3. To approve the prudential indicators and limits for 2026/27 to 2028/29 as set out in Appendix A.
4. To approve the annual investment strategy 2026/27 set out in Appendix A, and the lending criteria detailed in table 6.

## Purpose of report

1. This report presents the council's Treasury Management Strategy (TMS) for 2026/27. This sets out how the council's treasury service will support financing of capital investment decisions, and how treasury management operates day to day. It sets out the limitations on treasury management activity informed by the prudential indicators, within which the council's treasury function must operate.
2. The strategy is included as appendix A to the report. This report includes the three elements required by legislation as follows:
  - The **prudential and Treasury indicators** required by the CIPFA Prudential Code 2021 for Capital Finance in Local Authorities and CIPFA TM code of Practice 2021;
  - The **annual investment strategy**. This sets out the council's criteria for selecting counterparties and limiting exposure to the risk of loss on its investments;
  - A statutory duty to approve a **minimum revenue provision** policy statement, (appendix A, paragraphs 14-17).

The council's Section 151 officer is required by the CIPFA Code of Practice on Treasury Management 2021 to bring the treasury management strategy to full Council for approval on an annual basis.

## **Corporate objectives**

3. Managing the finances of the authority in accordance with its treasury management strategies will help to ensure that resources are available to deliver services and meet the councils' strategic objectives.

## **Background**

4. Treasury management is defined as: "The management of the local authority's borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
5. The primary function of the treasury management service is to manage cashflow and ensure cash is available when needed. Surplus monies are deposited with low-risk counterparties and financial instruments with adequate liquidity to fund expenditure commitments.
6. The funding of the council's capital expenditure is also a function of treasury management. The capital programme provides a guide to the funding needs of the council and informs long-term cash flow plans to ensure that the council can meet its capital spending obligations. All expenditure of a capital nature is managed through the council's capital programme and is not covered by this report.
7. The treasury management and annual investment strategy set out the council's policies for managing investments and confirms the council gives priority to the security and liquidity of those investments. It also includes the prudential indicators for the next three years; these demonstrate that the council's capital investment plans are affordable, prudent and sustainable.
8. The council's treasury management strategy 2026/27 is attached in appendix A. Whilst every attempt has been made to minimise the technical content of this report, it is, by its very nature and the need for compliance with associated guidance, technical in parts. A glossary of terms in appendix H should aid members understanding of some technical terms used in the report.

## **Recommended changes to the treasury management strategy**

9. Council approved the 2025/26 treasury management strategy on 13 February 2025. Cabinet is asked to recommend to Council, the changes to the counterparty table 6 which have been updated to reflect current market conditions and balance risk with the associated size of the portfolio. Key changes to the counterparty table are detailed in paragraph 69.

## **Financial implications and risk assessment**

10. This report and all associated policies and strategies set out clearly the parameters the council must work within. It is important that the council follows the approved treasury management strategy which is designed to help protect the council's finances by managing its risk exposure.
11. MUFG Corporate Markets Treasury Limited has provided a counterparty methodology, but given the council's balances, we have expanded on this methodology to include additional building societies to ensure a diversified portfolio.
12. At the beginning of the financial year UK base rate was 4.50 per cent. During 2025/26, there have been three separate 0.25 per cent reductions in May, August and December 2025 with the base rate now currently at 3.75 per cent.
13. MUFG Corporate Markets Treasury Limited latest base rate forecast anticipates that the bank base rate stays at 3.75 per cent for the rest of this financial year. Table 1 below gives an estimate of the investment income achievable for the council next five years. As interest rates are not expected to fall much further and the associated reduction in income available to support council activities, officers have been looking at potential longer-term holdings, based on an understanding of the council's cash flow needs over that period.

<b>Table 1: Medium term investment income forecast</b>					
	2026/27	2027/28	2028/29	2029/30	2030/31
	£000's	£000's	£000's	£000's	£000's
Forecast as at December 2025	6,606	5,996	5,328	4,870	4,870

14. The 2026/27 budget setting report and medium-term financial plan will take into account the latest projections of anticipated investment income.

## **Legal implications**

15. There are no significant legal implications as a result of the recommendations in this report. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services and the MHCLG Ministry of Housing, Communities and Local Government, Local Government Investment Guidance provides assurance that the council's investments are, and will continue to be, within its legal powers.
16. The council must approve any amendment to the treasury management strategy and annual investment strategy in accordance with the Local Government Act 2003 (the Act), the CIPFA Code of Practice for Treasury Management in the Public Services and the MHCLG Local Government Investment Guidance under Section 15(1) (a) Local Government Act 2003 and CIPFA Prudential Code for Capital Finance.

## **Climate and ecological impact implications**

17. There are no climate or ecological implications arising from this report, however the council can make significant impact via future investment opportunities and operational changes. Numerous changes have already been made to ensure that climate is a key consideration in key documents and processes (such as the procurement strategy), and this will become more evident in future decision making. As opportunities to support the climate ambitions of the council arise, they will be considered and appropriately weighted to include any climate or ecological impacts.
18. In order to comply with treasury management professional guidance, the council's investments must prioritise security, liquidity and yield in that order. Environmental, Social and Governance (ESG) factors represent a fourth consideration in the decision-making process and whilst this is something that the councils are exploring it is in the context of the need to comply with the priorities outlined in the guidance. The council's ESG policy is shown in Appendix E.

## **Equalities implications**

19. An EqIA equalities impact assessment was completed and no negative impacts or further actions identified.

## **Risks**

20. The council operates within the treasury limits and prudential indicators set out in its treasury management strategy. Security of capital remains the main objective.

## **Conclusion**

21. This report introduces the treasury management strategy and the annual investment strategy for 2026/27 which are appended to this report, together with the prudential indicators for council approval. These documents provide the parameters within which the council's treasury management function will operate.

## **Background papers**

- Chartered Institute of Public Finance and Accounting (CIPFA) code of practice for treasury management in the public sector.
- CIPFA treasury management in the public services code of practice and cross sectoral guidance notes.
- MHCLG Local Government Investment Guidance
- Chartered Institute of Public Finance and Accounting (CIPFA) Prudential Code 2021

## **Appendices**

- Appendix A Treasury Management Strategy 2026/27  
Appendix B Economic Background  
Appendix C Risk and performance benchmarking

Appendix D Explanation of Prudential and Treasury Indicators  
Appendix E TMP1 extract  
Appendix F Extension to the responsibilities of the S151 officer  
Appendix G Treasury Management Practices (TMP's)  
Appendix H Glossary of terms

## Appendix A

### Treasury Management Strategy 2026/27

#### Introduction

1. The primary function of the treasury management service is to ensure the council's cash flow is adequately managed, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the council's low risk appetite, providing adequate liquidity initially before considering investment return. The second main function of the treasury management service is the funding of the council's capital plans.
2. Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.
3. CIPFA defines treasury management as:

*“The management of the local authority’s borrowing, 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.”*

#### Treasury Management Reporting

4. The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.
  - a) Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report is forward looking and covers:
    - the capital plans, (including prudential indicators);
    - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
    - the treasury management strategy, (how the investments and borrowings are managed), including treasury indicators; and
    - an annual investment strategy, (the parameters on how investments are to be managed).
  - b) A mid-year treasury management report – This is primarily a progress report and will update members on the mid-year treasury performance, amending prudential indicators as necessary, and whether any policies require revision.
  - c) An annual treasury report – This report reviews performance for the previous financial year and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

## **Scrutiny**

5. The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Joint Audit and Governance Committee.

## **Quarterly reports**

6. In addition to the three major reports detailed above, quarterly reporting to end of June and end of December is also required. However, these additional reports do not have to be reported to Full Council but do require to be adequately scrutinised as part of the authority's integrated revenue, capital and balance sheet monitoring.

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

7. The strategy for 2026/27 covers the areas below:

### **Capital issues**

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

### **Treasury Management issues**

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

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

## **Councillor and Officer Training**

9. The CIPFA Code requires the Head of Finance to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. The councils' Treasury Management advisors provided training in February 2024 and again in January 2026. The training needs of treasury management officers and councillors will be reviewed, and further training will be arranged as required.

As a minimum, the council will carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/council members.
- Require treasury management officers and board/council members to undertake self-assessment against the required competencies.
- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis.

### **Treasury Management Consultants**

10. The Council uses MUFG Corporate Markets Treasury Limited, as its external treasury management advisors.
11. The Council recognises that responsibility for treasury management decisions always remains with the organisation and will ensure that undue reliance is not placed upon the services of external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisors
12. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills, knowledge and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

### **Capital Prudential Indicators**

13. The Council's capital expenditure plans (as detailed in the council's capital programme) are a key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans are prudent, affordable and sustainable.

### **Minimum Revenue Provision (MRP) Policy Statement 2026/27**

14. The council's current 2026/27 capital programme will primarily be financed from internal resources, and external grant funding. If borrowing is undertaken, then the council will be required by statute to set aside funds in the annual revenue budget to amortise the principal element of any borrowing – this is the MRP. There will also be a requirement to set aside revenue budget for the interest payments on any borrowing raised. Loans will generally be taken over the life of the assets being financed and amortised accordingly.
15. The council is required by regulation to approve an annual MRP policy before the start of the year to which it relates. Any in-year changes must also be submitted to the council for approval.

16. A variety of options are provided to councils for the calculation of MRP. The council has chosen the “asset life method” as being most appropriate. Using this method MRP will be based on the estimated life of the asset, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction). Repayments included in annual PFI or finance leases are applied as MRP.
17. The council now has a positive MRP liability because some capital expenditure is to be financed by internal borrowing. The Head of Finance will determine the most appropriate repayment method, term of borrowing and duration of borrowing. The Capital Financing Requirement (CFR) estimate for the council is £16.5 million by the end of 2030/31.

<b>Table 2: Example MRP and interest calculation</b>		
Loan Amount	£16,500,000	
Loan Duration	50 Years	
PWLB Interest	5.880%	
2026/27 Tax Base	64,095	
	£	£ per Band D
MRP Element	£330,000	5.15
Annual Interest Cost	£970,200	15.14
<b>Total</b>	<b>£1,300,200</b>	<b>20.29</b>

### Prospects for Interest Rates

18. The Authority has appointed MUFG Corporate Markets as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. MUFG Corporate Markets provided the following forecasts on 23<sup>rd</sup> December 2025. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

## Interest Rate Forecast

MUFG Corporate Markets Interest Rate View 22.12.25													
	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28	Mar-29
<b>BANK RATE</b>	3.75	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	3.80	3.50	3.50	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	3.80	3.50	3.50	3.40	3.30	3.30	3.30	3.40	3.40	3.40	3.40	3.40	3.40
12 month ave earnings	3.90	3.60	3.60	3.50	3.40	3.50	3.50	3.50	3.50	3.50	3.60	3.60	3.60
5 yr PWLB	4.60	4.50	4.30	4.20	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10
10 yr PWLB	5.20	5.00	4.90	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60	4.60	4.70
25 yr PWLB	5.80	5.70	5.60	5.50	5.50	5.40	5.30	5.30	5.30	5.20	5.20	5.20	5.20
50 yr PWLB	5.60	5.50	5.40	5.30	5.30	5.20	5.10	5.10	5.10	5.00	5.10	5.00	5.00

## Economic Background and Forecasts – Provided by MUFG

- Our last interest rate forecast update was undertaken on 23<sup>rd</sup> December 2025. Since then, a combination of tepid growth (0.2% q/q GDP for Q2 and 0.1% q/q GDP for Q3), falling inflation (currently CPI is 3.2%), and a November Budget that will place more pressure on the majority of households' income, has provided an opportunity for the Bank of England's Monetary Policy Committee to further reduce Bank Rate from 4% to 3.75% on 18 December.
- Surprisingly, to most market commentators, the recent steep fall in CPI inflation in one month from 3.6% to 3.2% did not persuade most "dissenters" from the November vote (Lombardelli, Greene, Mann and Pill) to switch to the rate-cutting side of the Committee. Instead, it was left to Bank Governor, Andrew Bailey, to use his deciding vote to force a rate cut through by the slimmest of margins, 5-4.
- Given the wafer-thin majority for a rate cut it was not unexpected to hear that although rates would continue on a "gradual downward path", suggesting a further rate cut or cuts in the offing, MPC members want to assess incoming evidence on labour market activity and wage growth. Indeed, with annual wage growth still over 4.5%, the MPC reiterated that the case for further rate cuts would be "a closer call", and Governor Bailey observed there is "limited space as Bank Rate approaches a neutral level".
- Accordingly, the MUFG Corporate Markets forecast has been revised to price in a rate cut in Q2 2026 to 3.5%, likely to take place in the wake of a significant fall in the CPI inflation reading from 3% in March to 2% in April (as forecast by Capital Economics), followed by a short lull through the summer whilst more data is garnered, and then a further rate cut to 3.25% in Q4.
- As in August, nonetheless, threats to that central scenario abound. What if wage increases remain stubbornly high? There are, after all, several sectors of the domestic economy, including social care provision and the building/construction industries, where staff shortages remain severe. Moreover, by May 2026, following the local elections, we will have a better handle on whether or not the Starmer/Reeves team is going to see out the current Parliament or whether they face a Leadership challenge from within their own party. If so, how will gilt markets react to these variables...and will there be additional geo-political factors to also bake in, particularly the Fed's monetary policy decisions in 2026 and the ongoing battle to lower rates whilst inflation remains close to 3%.

- Accordingly, our updated central forecast is made with several hefty caveats. We are confident, as we have been for some time, that our forecast for Bank Rate and the 5-year PWLB Certainty Rate is robust, and we have marginally brought forward the timing of the next rate cut(s). But for the 10-, 25- and 50-years part of the curve, the level of gilt issuance, and the timing of its placement, will be integral to achieving a benign trading environment. That is not a “given”, and additionally, the inflation outlook and political factors domestically and, crucially, in the US, are also likely to hold sway. Matters should be clearer by June in the UK, but the US mid-term elections are scheduled for November.
- Our revised PWLB rate forecasts are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012. Please note, the lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 for those authorities with an HRA (standard rate minus 60 bps) and is set to prevail until at least the end of March 2026. Hopefully, there will be a further extension to this discounted rate announced in January.
- Money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.

### **Gilt yields and PWLB rates**

19. The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, but the risks to our forecasts are generally to the upsides.

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### **Treasury Limits for 2026/27 to 2028/29**

21. It is a statutory duty, under Section 3 of the Local Government Act 2003 and supporting regulations for the council to determine and keep under review how much it can afford to borrow. The amount so determined is called the “Affordable Borrowing Limit”. The Authorised Limit is the legislative limit specified in the Act.
22. The council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital expenditure remains within sustainable limits and that the impact upon its future council tax is ‘acceptable’. The Authorised Limit is set on a rolling basis, for the forthcoming financial year and two successive financial years.
23. The following indicators set the parameters within which we manage the overall capital investment and treasury management functions. There are specific treasury activity limits, which aim to contain the activity of the treasury function in order to manage risk and reduce the impact of an adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs/improve performance.

24. The limits are set out in table 3 below. **Cabinet is asked to recommend council to approve the limits:**

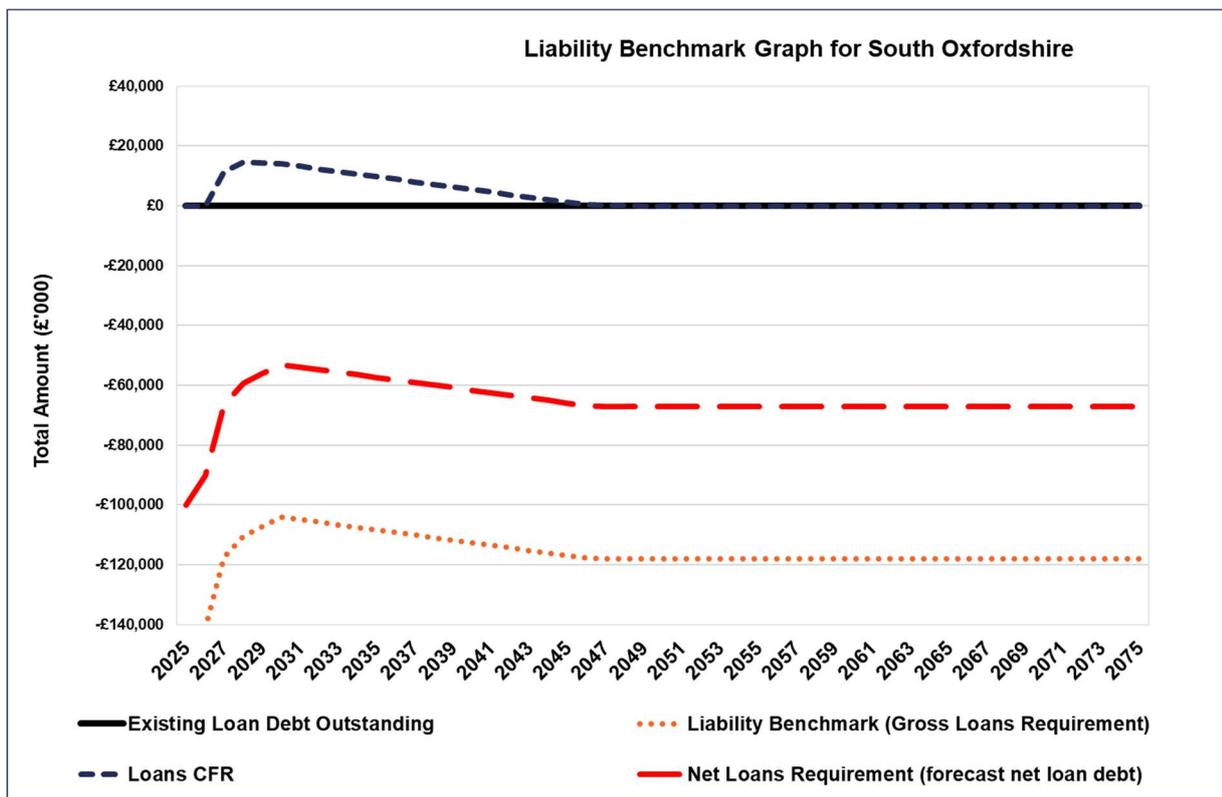
<b>Table 3: Prudential indicators</b>				
	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>
	<b>Approved</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Debt</b>				
<b>Authorised limit for external debt</b>				
Borrowing	35	35	35	35
Other long term liabilities	10	10	10	10
	<b>45</b>	<b>45</b>	<b>45</b>	<b>45</b>
<b>Operational boundary for external debt</b>				
Borrowing	30	30	30	30
Other long term liabilities	10	10	10	10
	<b>40</b>	<b>40</b>	<b>40</b>	<b>40</b>
<b>Interest rate exposures</b>				
Maximum fixed rate borrowing	100%	100%	100%	100%
Maximum variable rate borrowing	100%	100%	100%	100%
<b>Investments</b>				
<b>Interest rate exposures</b>				
Limits on fixed interest rates	100%	100%	100%	100%
Limits on variable interest rates	100%	100%	100%	100%
<b>Principal sums invested &gt; 364 days</b>				
Upper limit for principal sums invested >364 days	55	55	55	55

## Liability Benchmark

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

There are four components to the LB: -

1. **Existing loan debt outstanding:** the Authority's existing loans that are still outstanding in future years.
2. **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. **Net loans requirement:** this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance.



## Current position

26 The maturity structure of the council's investments at 31 December 2025 was as follows:

<b>Table 4: maturity structure of investments:</b>		
	<b>Total £000's</b>	<b>% holding</b>
Call	665	0%
Money market fund	24,895	14%
Less than 6 months	50,000	27%
6 months to 1 year	76,000	41%
1 year +	13,000	7%
CCLA - Property Fund	6,324	3%
Unit Trusts	13,297	7%
<b>Total investments</b>	<b>184,181</b>	<b>100%</b>

*\* The figure for total investments shown above excludes the £15 million 20-year loan to SOHA made in 2013/14.*

Note: £185 million does not represent uncommitted resource the council has at its disposal. This amount includes council tax receipts held prior to forwarding to Oxfordshire County Council and the Police and Crime Commissioner for the Thames Valley, business rate receipts prior to

payment to the government and committed capital and revenue balances. Details of the council's uncommitted balances are provided in the annual budget and council tax setting report.

- 27 At 31 December, the council held as above, 90 per cent of its investments in the form of cash deposits, 76 per cent was invested for fixed terms with a fixed investment return and 14 per cent in liquid accounts. 10 per cent of the investments were held in non-cash funds.
- 28 The council's considerations for investment will remain security, liquidity, and yield – in that order. Officers undertaking Treasury Management will work towards the optimum profile distribution.

**Investment performance for the year to 31 December 2025**

- 29 The council's budgeted investment return for 2025/26 is £6.75 million, and the actual interest received for the first nine months of the financial year is as follows:

<b>Table 5 Investment interest earned by investment type</b>				
<b>Investment type</b>	<b>Annual Budget</b> £000's	<b>Actual to date</b> £000's	<b>Annual Forecast</b> £000's	<b>Forecast Variation</b> £000's
Fixed term and call	6,700	5,616	7,091	391
SOHA	623	469	623	0
CCLA property fund	206	227	293	87
Unit Trust	360	202	376	16
	<b>6,746</b>	<b>1,687</b>	<b>2,045</b>	<b>494</b>

**Borrowing Strategy 2026/27**

- 30 The annual treasury management strategy has to set out details of the council's borrowing requirement, any maturing debt which will need to be re-financed, and the effect this will have on the treasury position over the next three years. This council currently has no external debt and in general, the council will borrow for one of two purposes;
- to support cash flow in the short-term;
  - to fund capital investment over the medium to long term.
- 31 Any borrowing undertaken will be within the scope of the boundaries given in the prudential indicators shown in Table 3, which allow for the council to borrow up to the limits shown, if such a need arose. This also allows short-term borrowing for the cash flow management activities of the authority.
- 32 The council's current 2026/27 capital programme will primarily be financed from internal resources and external funding. However, internal borrowing will now be required and therefore the council has set aside funds in the annual revenue budget to amortise the principal element of any borrowing – this is the Minimum Revenue Provision (MRP). There will also be a requirement to set aside revenue budget for

the interest payments on any external borrowing raised. Loans will generally be taken over the life of the assets being financed and amortised accordingly.

- 33 Currently the PWLB Certainty rate is set at gilts + 80 basis points. However, consideration may still need to be given to sourcing funding from other sources for the following reasons:
- Local authorities (primarily shorter dated maturities out to 3 years or so – are generally still cheaper than the Certainty Rate)
  - Financial institutions (primarily insurance companies and pension funds but also some banks), out of forward dates where the objective is to avoid a “cost of carry”.
- 34 MUFG Corporate Markets Treasury Limited will advise the council on the relative merits of alternative funding sources. These may include but are not limited to, PWLB, UK Municipal Bond Agency, Local Authorities, Banks, Pension Funds, Insurance Companies, UK Infrastructure Bank, Market loans, Overdrafts, Internal Borrowing, Finance Leases.
- 35 Any borrowing for capital financing purposes will be assessed by the Head of Finance to be prudent, sustainable and affordable.
- 36 This strategy allows the Head of Finance to determine the most suitable source and repayment terms of any borrowing to demonstrate affordability and sustainability in the medium-term financial plan if required. As a general rule, the term of any borrowing will not be longer than the expected life of the capital asset being created.

### **Policy on borrowing in advance of need**

- 37 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.
- 38 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

### **Annual investment strategy 2026/27**

- 39 The Ministry of Housing, Communities and Local Government (MHCLG) and CIPFA have extended their definition of ‘investments’ to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).
- 40 The Council’s investment policy has regard to the following: -
- MHCLG’s Guidance on Local Government Investments (“the Guidance”)

- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 (“the Code”)
  - CIPFA Treasury Management Guidance Notes 2021
- 41 The Council’s investment priorities will be security first, portfolio liquidity second and then yield, (return). The council will aim to achieve, the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to the council’s risk appetite.
- 42 In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider “laddering” investments for periods up to twelve months with high credit rated financial institutions, whilst investment rates remain elevated.
- 43 The above guidance from MHCLG and CIPFA places a high priority on the management of risk. This council has adopted a prudent approach to managing risk and defines its risk appetite by the following means:-
- i. Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.
  - ii. Other Information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the council will engage with its advisors, where relevant, to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.
  - iii. Other information sources used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
  - iv. Deposits will only be placed with counterparties from countries that meet the minimum sovereign rating criteria.
  - v. The council will set a limit for its investments which are invested for more than 365 days.
- 44 The council’s Head of Finance will ensure a counterparty list (a list of named institutions) is maintained in compliance with the recommended credit rating criteria (table 6) and will revise the criteria and submit any changes to the credit rating criteria to council for approval as necessary.

## **Investment types**

45 The types of investment that the council can use are summarised below. These are split under the headings of 'specified' and 'non-specified' in accordance with the statutory guidance.

### **Specified investment instruments**

46 These are high credit quality, sterling investments of not more than one-year maturity, or those where the council has the right to be repaid within 12 months if it wishes. These would include sterling investments with:

- UK government Debt Management Agency Deposit Facility (DMADF)
- UK government – treasury bills and Gilts with less than one year to maturity
- Deposits with UK local authorities
- Pooled investment vehicles (AAA rated) such as Money Market Funds
- Deposits with banks and building societies (minimum F1/A- rated)

### **Non-specified investment instruments**

47 These are any other type of investment (i.e. investments not defined as specified, above). Examples of non-specified investments include any sterling investments with:

- Supranational bonds of 1 to 10 years to maturity
- UK treasury stock (Gilts) with a maturity of 1 to 25 years
- Unrated building societies (minimum asset value £2 billion)
- Bank and building society cash deposits up to 4 years (minimum F1/A- rated)
- Deposits with UK local authorities up to 5 years to maturity
- Corporate bonds, Sovereign bonds, and covered bonds
- Pooled property, pooled bond funds and UK pooled equity funds
- Diversified Income Funds
- Unit Trusts
- Multi-Asset Funds
- Ultra-Dated/Short dated bond Funds

### **Approach to investing**

48 The council holds core cash balances which are available to invest for more than one year. This is expected to reduce over the medium term as the approved capital expenditure is incurred and to fund the revenue budget shortfall.

49 In addition, the council has funds that are available to deposit on a temporary basis. These sums are held pending payment over to another body, for example precept payments and council tax. As the balances fluctuate on a daily basis, instant access and notice accounts, money market funds and short-dated deposits are normally utilised for these funds, to ensure funds are available to meet cash flow commitments.

- 50 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates. Greater returns are usually obtainable by investing for longer periods. While most cash balances are required to manage cash flow, where funds can be invested for longer periods, options will be carefully assessed.
- 51 If it is anticipated that Bank Rate is likely to rise significantly consideration will be given to keeping new deposits short term or variable. Conversely, if it is thought that Bank Rate is likely to fall within an investment time horizon, consideration will be given to locking in higher rates currently obtainable, for longer periods.
- 52 Officers will continue to provide tight controls on the investments placed. Where possible, opportunities to spread the investment risk over different types of instruments will be considered.
- 53 Should market conditions deteriorate suddenly to the extent that the council is unable to place money with institutions with the necessary credit rating, it may make use of the UK Government deposit account (DMADF).
- 54 The council has the authority to lend to other local authorities at market rates. Whilst investments with other local authorities are considered to be supported by central government, officers will consider the financial viability and sustainability of the individual local authority by way of carrying due diligence checks such as looking at their accounts, audit and news before undertaking any investments.

### **Counterparty selection**

- 55 Treasury management risk is the risk of loss of capital to the council. To minimise this risk, the council uses credit rating information when considering who to lend to. MUFG Corporate Markets Treasury Limited provide the council with credit rating updates from all three ratings agencies – Standard & Poors, Fitch and Moodys.
- 56 Where counterparties fail to meet the minimum required criteria (Table 6 below) they will be omitted from the counterparty list. Any rating changes and rating watches (notification of a rating change under consideration) are provided to officers almost immediately after they occur, and this information is considered before any deal is entered into. Market movements may result in a downgrade of an institution or removal from the council's lending list.
- 57 Additional requirements under the CIPFA Treasury Management Code require the council to supplement the credit rating data with operational market information such as credit default swaps (CDS), negative watches and outlooks, which are considered when assessing the security of counterparties. This additional information is used so that the council does not rely solely on current credit ratings of counterparties.
- 58 Where it is felt the council would benefit from utilising government guarantees provided by countries with an AAA rating, the council may lend to institutions covered by such guarantees. Any decision to lend in this way will be subject to consultation with the agreement of the cabinet member responsible for finance.

## **Country and sector considerations**

- 59 The council has determined that it will only use approved counterparties outside the UK from countries with a minimum sovereign credit rating of AA- from Fitch Ratings. This is in line with the current Fitch Sovereign rating for the UK. This is to enable deposits to be placed with foreign financial institutions with higher, or equivalent credit ratings to UK banks on the approved counterparty list.
- 60 The three major credit rating agencies have placed the UK Sovereign rating on Stable Outlook, it is possible that the UK Sovereign rating could be downgraded during the period covered by this strategy. When setting minimum Sovereign debt ratings, the council will not set a minimum rating for the UK.

## **Counterparty limits**

- 61 In the normal course of the council's cash flow operations, it is expected that both specified and non-specified investments will be used for the control of liquidity. Guidance states that specified investments are those requiring "minimal procedural formalities". The placing of cash on deposit with banks and building societies 'awarded high credit ratings by a credit rating agency', the use of Money Market Funds (MMFs) and investments with the UK Government and local authorities qualify as falling under this category and form a normal part of day-to-day treasury management activity.
- 62 All specified investments will be sterling denominated, with maturities up to a maximum of 1 year, meeting the 'high' credit rating criteria where applicable.
- 63 Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under 12 months.
- 64 Non-specified investment products are those which take on greater risk. They are subject to greater scrutiny and include all longer-term instruments (greater than one year from inception to repayment). The council will lend to institutions that meet the criteria outlined in table 6 below.
- 65 If the council's banking services contract is held with a bank that fails to meet the minimum credit criteria for banks in the specified or non-specified investment categories, the house bank limit will apply. In this instance balances will be minimised as far as possible. Standard bank limits will apply where the house bank meets the minimum credit rating criteria.
- 66 The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The council may use such building societies but will restrict their use to within the non-specified investments category limit for non-rated building societies. Where a building society has a credit rating, the minimum credit rating criteria for rated financial institutions will apply.

- 67 The counterparty limits apply at the time investments are arranged. Where the council has deposits on instant access, this limit may temporarily be exceeded by the accrual and application of interest or dividends into accounts such as call accounts, money market funds, or notice accounts. Where the application of interest causes the balance with a counterparty to exceed the agreed limits, the balance will be reduced when appropriate, dependent upon the terms and conditions of the account and the cashflow position.
- 68 The counterparty limits apply to the net cash value of units purchased and sold at the time of investment, or disinvestment, in pooled and managed funds. The limits will not apply to the value of accumulated or reinvested investment returns.
- 69 The above table has been brought up to date and re-assessed to appropriately manage risk and the size of the portfolio. The key changes are:-
- a. Clarification of the criteria for term deposits and building societies
  - b. Removal of part nationalised banks as no longer valid
  - c. Removal of Non UCITS Retail Scheme
  - d. Re-alignment of tradeable instruments - eg UK Gilts from £15m to no limit and from 15 to 25 years duration.

**Table 6: Counterparty Limits**

	Minimum Fitch Short term Rating ( or equivalent)	Minimum Fitch Long term Rating ( or equivalent)	Individual Counterparty Limit	Maximum maturity period
<b>Specified Instruments</b>				
Term Deposits - UK Government				1 year
UK Debt Management Agency Deposit Facility		N/A		
UK Government Treasury Bills				
UK Government Gilts				
Term Deposits - Other UK Local Authorities	N/A	N/A	£20m	
Term Deposits - Banks and Building Societies	F1	A-	£15m	
Covered Bonds	N/A	A+	£5m	
Money Market Funds (CNAV, LVNAV)	Fund Rating AAA		£30m	Liquid
Ultra Short Dated Bond Funds			£20m	Liquid
<b>Non-Specified Instruments</b>				
Term Deposits 1yr + - UK Government	N/A	N/A	N/A	5 years
Term Deposits 1yr + - Other UK Local Authorities	N/A	N/A	£20m	5 years
Institutions with a minimum rating:	F1+	AA-	£15m	4 years
Institutions with a minimum rating:	F1+	A+	£15m	3 years
Institutions with a minimum rating:	F1	A	£15m	2 years
Institutions with a minimum rating:	F1	A-	£15m	1 year
Building Societies	F2	BBB+	£15m	1 year
Building societies assets >£2bn	N/A	N/A	£10m	1 year
Banks - house bank	N/A	N/A	£5m	3 months
<b>Managed Funds</b>				
Unit Trusts			£20m	Variable
Pooled Bond Funds	Use of these instruments can be deemed capital expenditure. The council will seek guidance on the status of any fund it may consider using.		£20m	Variable
Pooled property funds			£10m	Variable
Diversified Income Funds	Appropriate due diligence will also be undertaken before investment of this type is undertaken.		£10m	Variable
Multi - Asset Funds			£10m	Variable
Equity Funds			£10m	Variable
<b>Tradable Instruments</b>				
UK Government Gilts with maturities over 1yr		UK sovereign	No limit	25 years
Supranationals		AAA	£10m	10 years
Corporate Bonds		AA-	£5m	5 years
Covered Bonds maturities over 1yr		AA-	£5m	5 years
Bonds issued by Multilateral Development banks		AA-	£5m	5 years
Sovereign Bond Issues		AA-	£5m	5 years

- 70 The criteria for choosing counterparties provides a sound approach to investment. Whilst councillors are asked to approve the criteria in table 6, the Head of Finance may temporarily amend the operational criteria to further restrict investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval/or reduce maximum maturity limits.
- 71 Delegation 2.7 of the council constitutions allows the Head of Finance, in consultation with the cabinet member for finance, to raise counterparty limits by £3,000,000 within a financial year.

### **Fund managers**

- 72 The council does not currently employ any discretionary external fund managers. However, in the event of such an appointment, appointees will comply with this and subsequent treasury strategies. This strategy empowers the Section 151 officer to appoint such an external manager to manage a proportion of the council's investment portfolio if this is advantageous.

### **Risk and Performance Benchmarks**

- 73 A requirement of the Code is that security and liquidity benchmarks are considered and approved. This is in addition to yield benchmarks which are used to assess performance. The benchmarks are guidelines (not limits) so may be breached depending on the movement in interest rates and counterparty criteria. Their purpose is to allow officers to monitor the current trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported, with an explanation in the mid-year or annual report to audit and governance committee. Detailed information for the assessment of risk is shown in appendix C.
- 74 Performance indicators are set to assess the adequacy of the treasury function over the year. These are distinct historic performance indicators, as opposed to the predominantly forward-looking prudential indicators. The indicators used to assess the performance of the treasury function are:
- Cash investments – 3-month compounded SONIA rate.
  - Property related investments – IPD Balance Property Unit Trust Index.
  - L&G UK Index Trust – FTSE All Shares Index
- 75 The results of these indicators will be reported in both the annual mid-year and year-end treasury reports.

### **Policy on the use of treasury management advisors**

- 76 The council has a contract for treasury management advice, which is currently supplied by MUFG Corporate Markets Treasury Limited. A range of services are provided and include:
- technical support on treasury matters, capital finance issues, statutory reports;
  - economic forecasts and interest rate analysis;

- credit ratings / market information service involving the three-main credit rating agencies;
- strategic advice including a review of the investment and borrowing strategies and policy documents;
- treasury management training.

77 The council recognises that responsibility for treasury management decisions always remains with the organisation and will ensure that undue reliance is not placed upon external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills, resources and up to date market information.

### **Treasury management scheme of delegation and the role of the Section 151 officer**

#### **78 Council**

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

#### **79 Joint Audit and Governance Committee/ Cabinet**

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- Ensuring effective scrutiny of the treasury management function

#### **80 Section 151 Officer/Head of Finance**

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- preparing and submitting regular treasury management policy reports, including an annual strategy for approval by Council;
- submitting budgets and budget variations;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- Approving the selection of external service providers and agreeing terms of appointment.

81 The above list of specific responsibilities of the S151 officer in the 2021 Treasury Management Code has not changed. However, implicit in the changes in both codes, is a major extension of the functions of this role, especially in respect of non-financial investments, (which CIPFA has defined as being part of treasury management), (See Appendix F).

## **Summary**

- 82 Prior to the beginning of each financial year the council must approve the treasury management strategy. The strategy sets the parameters within which officers can manage the council's cash flows and invest any surplus fund.
- 83 This strategy provides a commentary on the current financial climate and sets out the council's lending strategy in response to this.

## Appendix B

### ECONOMIC BACKGROUND as per MUFG (to 23 December 2025)

- A 0.3% pick up in GDP for the period April to June 2025. More recently, the economy flatlined in July, with higher taxes for businesses restraining growth, but picked up to 0.1% m/m in August before falling back by 0.1% m/m in September.
- The 3m rate of average earnings growth excluding bonuses has fallen from 5.5% to 4.6% in September.
- CPI inflation has ebbed and flowed but finished September at 3.8%, whilst core inflation eased to 3.5%.
- The Bank of England cut interest rates from 4.50% to 4.25% in May, and then to 4% in August (and subsequently to 3.75% in December).
- The 10-year gilt yield fluctuated between 4.4% and 4.8%, ending the half year at 4.70% (before falling back to 4.43% in early November).
- From a GDP perspective, the financial year got off to a bumpy start with the 0.3% m/m fall in real GDP in April as front-running of US tariffs in Q1 (when GDP grew 0.7% on the quarter) weighed on activity. Despite the underlying reasons for the drop, it was still the first fall since October 2024 and the largest fall since October 2023. However, the economy surprised to the upside in May and June so that quarterly growth ended up 0.3% q/q (subsequently revised down to 0.2% q/q). Nonetheless, the 0.0% m/m change in real GDP in July, followed by a 0.1% m/m increase in August and a 0.1% decrease in September will have caused some concern. GDP growth for 2025 - 2028 is currently forecast by the Office for Budget Responsibility to be in the region of 1.5%.
- Sticking with future economic sentiment, the composite Purchasing Manager Index (PMI) for the UK increased to 52.2 in October. The manufacturing PMI output balance improved to just below 50 but it is the services sector (52.2) that continues to drive the economy forward. Nonetheless, the PMIs suggest tepid growth is the best that can be expected in the second half of 2025 and the start of 2026. Indeed, on 13 November we heard that GDP for July to September was only 0.1% q/q.
- Turning to retail sales volumes, and the 1.5% year-on-year rise in September, accelerating from a 0.7% increase in August, marked the highest gain since April. On a monthly basis, retail sales volumes rose 0.5%, defying forecasts of a 0.2% fall, following an upwardly revised 0.6% gain in August. Household spending remains surprisingly resilient, but headwinds are gathering.
- Prior to the November Budget, the public finances position looked weak. The £20.2 billion borrowed in September was slightly above the £20.1 billion forecast by the OBR. For the year to date, the £99.8 billion borrowed is the second highest for the April to September period since records began in 1993, surpassed only by borrowing during the COVID-19 pandemic. The main drivers of the increased borrowing were higher debt interest costs, rising government running costs, and increased inflation-linked benefit payments, which outweighed the rise in tax and National Insurance contributions.

- Following the 26 November Budget, the Office for Budget Responsibility (OBR) calculated the net tightening in fiscal policy as £11.7bn (0.3% of GDP) in 2029/30, smaller than the consensus forecast of £25bn. It did downgrade productivity growth by 0.3%, from 1.3% to 1.0%, but a lot of that influence was offset by upgrades to its near-term wage and inflation forecasts. Accordingly, the OBR judged the Chancellor was going to achieve her objectives with £4.2bn to spare. The Chancellor then chose to expand that headroom to £21.7bn, up from £9.9bn previously.
- Moreover, the Chancellor also chose to raise spending by a net £11.3bn in 2029/30. To pay for that and the increase in her headroom, she raised taxes by £26.1bn in 2029/30. The biggest revenue-raisers were the freeze in income tax thresholds from 2028/29 (+£7.8bn) and the rise in NICs on salary-sacrifice pension contributions (+£4.8bn). The increase in council tax for properties worth more than £2.0m will generate £0.4bn.
- The weakening in the jobs market looked clear in the spring. May's 109,000 m/m fall in the PAYE measure of employment was the largest decline (barring the pandemic) since the data began and the seventh in as many months. The monthly change was revised lower in five of the previous seven months too, with April's 33,000 fall revised down to a 55,000 drop. More recently, however, the monthly change was revised higher in seven of the previous nine months by a total of 22,000. So instead of falling by 165,000 in total since October, payroll employment is now thought to have declined by a smaller 153,000. Even so, payroll employment has still fallen in nearly all the months since the Chancellor announced the rises in National Insurance Contributions (NICs) for employers and the minimum wage in the October 2024 Budget. The number of job vacancies in the three months to November 2025 stood at 729,000 (the peak was 1.3 million in spring 2022). All this suggests the labour market continues to loosen, albeit at a slow pace.
- A looser labour market is driving softer wage pressures. The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% in April to 4.6% in September (still at that level in November). The rate for the private sector has slipped just below 4% as the year end approaches.
- CPI inflation remained at 3.8% in September but dropped to 3.2% by November. Core inflation also fell to 3.2% by November while services inflation fell to 4.4%. Nonetheless, a further loosening in the labour market and weaker wage growth may be a requisite to UK inflation coming in below 2.0% by 2027.
- An ever-present issue throughout recent months has been the pressure being exerted on medium and longer dated gilt yields. The yield on the 10-year gilt moved sideways in the second quarter of 2025, rising from 4.4% in early April to 4.8% in mid-April following wider global bond market volatility stemming from the "Liberation Day" tariff announcement, and then easing back as trade tensions began to de-escalate. By the end of April, the 10-year gilt yield had returned to 4.4%. In May, concerns about stickier inflation and shifting expectations about the path for interest rates led to another rise, with the 10-year gilt yield fluctuating

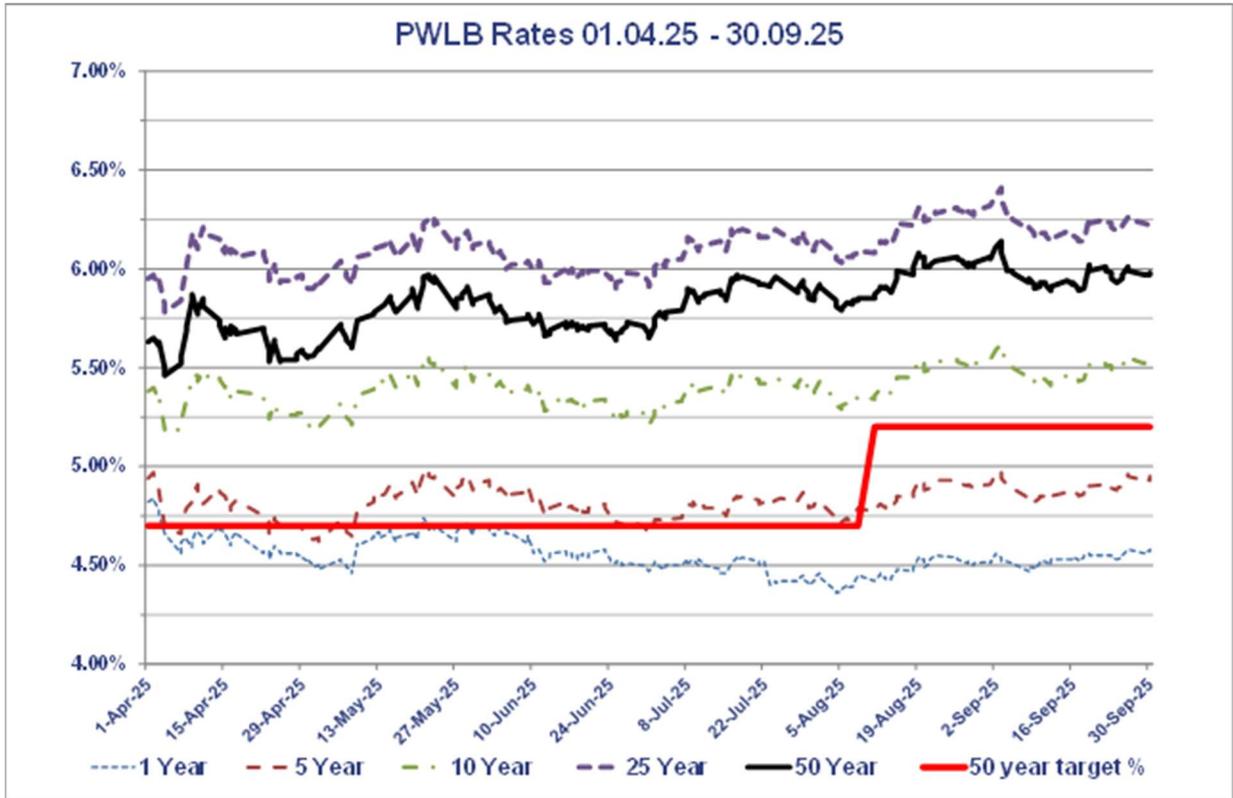
between 4.6% and 4.75% for most of May. Thereafter, as trade tensions continued to ease and markets increasingly began to price in looser monetary policy, the 10-year yield edged lower, and ended June at 4.50%.

- More recently, the yield on the 10-year gilt rose from 4.46% to 4.60% in early July as rolled-back spending cuts and uncertainty over Chancellor Reeves' future raised fiscal concerns. Although the spike proved short lived, it highlighted the UK's fragile fiscal position. In an era of high debt, high interest rates and low GDP growth, the markets are now more sensitive to fiscal risks than before the pandemic. During August, long-dated gilts underwent a particularly pronounced sell-off, climbing 22 basis points and reaching a 27-year high of 5.6% by the end of the month. While yields have since eased back, the market sell-off was driven by investor concerns over growing supply-demand imbalances, stemming from unease over the lack of fiscal consolidation and reduced demand from traditional long-dated bond purchasers like pension funds. For 10-year gilts, by late September, sticky inflation, resilient activity data and a hawkish Bank of England kept yields elevated over 4.70% although by late December had fallen back again to a little over 4.50%.
- The FTSE 100 fell sharply following the "Liberation Day" tariff announcement, dropping by more than 10% in the first week of April - from 8,634 on 1 April to 7,702 on 7 April. However, the de-escalation of the trade war coupled with strong corporate earnings led to a rapid rebound starting in late April. As a result, the FTSE 100 ended June at 8,761, around 2% higher than its value at the end of March and more than 7% above its level at the start of 2025. Since then, the FTSE 100 has enjoyed a further 4% rise in July, its strongest monthly gain since January and outperforming the S&P 500. Strong corporate earnings and progress in trade talks (US-EU, UK-India) lifted share prices and the index hit a record 9,321 in mid-August, driven by hopes of peace in Ukraine and dovish signals from Fed Chair Powell. September proved more volatile and the FTSE 100 closed September at 9,350, 7% higher than at the end of Q1 and 14% higher since the start of 2025. Future performance will likely be impacted by the extent to which investors' global risk appetite remains intact, Fed rate cuts, resilience in the US economy, and AI optimism. A weaker pound will also boost the index as it inflates overseas earnings. In early November, the FTSE100 climbed to a record high just above 9,900. By late December, the index had clung on to most of those gains standing at 9,870 on 23 December.

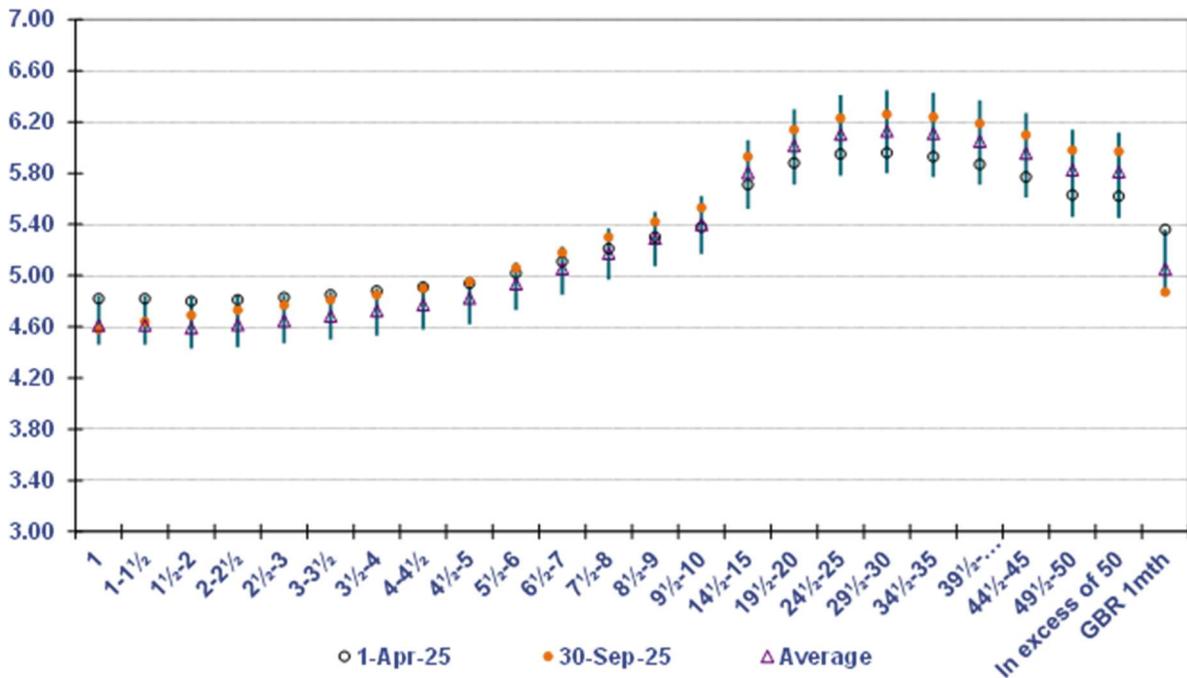
## **MPC meetings: 8 May, 19 June, 7 August, 18 September, 6 November, 22 December 2025**

- There were six Monetary Policy Committee (MPC) meetings held between April and December. In May, the Committee cut Bank Rate from 4.50% to 4.25%, while in June policy was left unchanged. In June's vote, three MPC members (Dhingra, Ramsden and Taylor) voted for an immediate cut to 4.00%, citing loosening labour market conditions. The other six members were more cautious, as they highlighted the need to monitor for "signs of weak demand", "supply-side constraints" and higher "inflation expectations", mainly from rising food prices. By repeating the well-used phrase "gradual and careful", the MPC continued to suggest that rates would be reduced further.
- In August, a further rate cut was implemented. However, a 5-4 split vote for a rate cut to 4% laid bare the different views within the Monetary Policy Committee, with the accompanying commentary noting the decision was "finely balanced" and reiterating that future rate cuts would be undertaken "gradually and carefully". Ultimately, Governor Bailey was the casting vote for a rate cut but with the CPI measure of inflation expected to reach at least 4% later this year, the MPC was wary of making any further rate cuts until inflation begins its slow downwards trajectory back towards 2%.
- With wages still rising by just below 5%, it was no surprise that the September meeting saw the MPC vote 7-2 for keeping rates at 4% (Dhingra and Taylor voted for a further 25bps reduction). Moreover, the Bank also took the opportunity to announce that they would only shrink its balance sheet by £70bn over the next 12 months, rather than £100bn. The repetition of the phrase that "a gradual and careful" approach to rate cuts is appropriate suggested the Bank still thought interest rates will fall further.
- At the 6 November meeting, Governor Bailey was once again the deciding vote, keeping Bank Rate at 4% but hinting strongly that a further rate cut was imminent if data supported such a move. By 22 December, with November CPI inflation having fallen to 3.2%, and with Q2 GDP revised down from 0.3% q/q to only 0.2% q/q, and Q3 GDP stalling at 0.1%, the MPC voted by 5-4 to cut rates further to 3.75%. However, Governor Bailey made it clear that any further reductions would require strong supporting data, and the pace of any further decreases would be slow compared to recent months. The markets expect Bank Rate to next be cut in April.

**PWLB RATES 01.04.25 - 30.09.25**



**PWLB Certainty Rate Variations 01.04.25 to 30.09.25**



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

	<b>1 Year</b>	<b>5 Year</b>	<b>10 Year</b>	<b>25 Year</b>	<b>50 Year</b>
<b>02/04/2024</b>	5.39%	4.72%	4.80%	5.28%	5.07%
<b>30/09/2024</b>	4.95%	4.55%	4.79%	5.33%	5.13%
<b>Low</b>	4.78%	4.31%	4.52%	5.08%	4.88%
<b>Low date</b>	17/09/2024	17/09/2024	17/09/2024	17/09/2024	17/09/2024
<b>High</b>	5.61%	5.14%	5.18%	5.61%	5.40%
<b>High date</b>	29/05/2024	01/05/2024	01/05/2024	01/05/2024	01/05/2024
<b>Average</b>	5.21%	4.76%	4.88%	5.35%	5.14%
<b>Spread</b>	0.83%	0.83%	0.66%	0.53%	0.52%

## **Appendix C**

### **Benchmarking and Monitoring Security, Liquidity and Yield in the Investment Service.**

These benchmarks are targets and so may be exceeded from time to time. Any variation will be reported, along with supporting reasons, in the Annual Treasury Report.

#### **1. Security of the investments.**

In the context of benchmarking, assessing security is very much more a subjective area to assess. Security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody's and Standard and Poor's). Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic.

#### **2. Liquidity.**

Liquidity is defined as the council "having adequate, though not excessive, cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives" (CIPFA Treasury Management Code of Practice).

In respect of this area, the council shall seek to:

- maintain a minimal balance held in the council's main bank account at the close of each working day. Transfers to the councils call accounts, MMF and investments will be arranged in order to achieve this, while maintaining access to adequate working capital at short notice.
- use the authorised bank overdraft facility or short-term borrowing where there is clear business case for doing so, to cover working capital requirements at short notice

#### **3. Yield.**

This council will use an investment benchmark to assess the performance of cash investments of three-month SONIA. Property related investments are benchmarked against the IPD Balanced Property Unit Trust Index.

## Appendix D

### **Explanation of Prudential and Treasury Indicators**

Prudential borrowing permits local government organisations to borrow to fund capital spending plans provided they could demonstrate their affordability. Prudential indicators are the means to demonstrate affordability.

**Authorised limit for external debt** – this is the maximum limit for external borrowing. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. This limit is set to allow sufficient headroom for day-to-day operational management of cash flows.

**Operational boundary for external debt** – this is set as the more likely amount that may be required for day-to-day cash flow.

**Upper limit for fixed and variable interest rate exposure** – these limits allow the council flexibility in its investment and borrowing options.

**Upper limit for total principal sums invested for over 365 days** – the amount it is considered can be prudently invested for periods in excess of a year

## Appendix E

### Treasury Management Practice (TMP) 1 – credit and counterparty risk management

The MHCLG issued Investment Guidance in 2018, and this forms the structure of the council's policy below. The key aim of the guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective, the guidance requires this council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. In accordance with the code, the Head of Finance has produced its treasury management practices (TMPs). This part, TMP1(1), covering investment counterparty policy requires approval each year

The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- the strategy guidelines for decision making on investments, particularly non-specified investments.
- the principles to be used to determine the maximum periods for which funds can be committed.
- specified investments that the council will use. These are high security (i.e. high credit rating, although this is defined by the council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the council is:

**Strategy guidelines** – The main strategy guidelines are contained in the body of the treasury strategy statement.

**Specified investments** – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

- UK government Debt Management Agency Deposit Facility (DMADF)
- UK government – treasury stock (Gilts) with less than one year to maturity
- Supranational bonds of less than one year's duration
- Deposits with UK local authorities
- Pooled investment vehicles such as Money Market Funds (MMF) (AAA rated)
- Deposits with banks and building societies (minimum F1/A-)
- Certificates of deposits issued by banks and building societies (minimum rating as above)

Within these bodies, and in accordance with the Code, the council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are as stated in table 6 to this report.

### **The monitoring of investment counterparties**

The credit rating of counterparties will be monitored regularly. The Authority receives credit rating information (changes, rating watches and rating outlooks) from MUFG Corporate Markets Treasury Limited as and when ratings change, and counterparties are checked against this. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list by the Head of Finance, and if required new counterparties which meet the criteria will be added to the list.

### **Accounting treatment of investments**

The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Authority. To ensure that the Authority is protected from any adverse impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

### **Environmental, Social and Governance (ESG) Policy**

The council recognises that Environmental, Social and Governance (ESG) issues, including climate change, can have significant future investment implications. The council therefore seeks to be a responsible investor and consider ESG risks as an important overlay to the investment process, thereby improving future sustainability of investments.

For Treasury Management deposits the 'G' governance element of ESG is the primary consideration. The council complies with regulations and guidance that prioritise Security, Liquidity and then Yield (SLY) before other investment considerations.

The three main credit rating agencies the council uses to assess the credit quality of its approved counterparties incorporate ESG factors into their credit ratings. The council may use ESG policies and other information from financial institutions with which it looks to place investments to inform Treasury decisions when options considered to be equal in terms of SLY considerations exist. Just because concerns have been registered about a company's performance on ESG issues, does not mean that investments will not be made. This is due to the primary Treasury Management duties of complying with SLY and also in order to achieve a balanced portfolio of investments in line with the counterparty limits and with the specified and non-specified investment limits set out in the Treasury Management Strategy.

The council does not directly invest in companies but, if it were to do so and there were concerns about an organisation's ESG activities, the council will seek to make changes through active ownership and influencing. Where engagement through active ownership is not seen to be resulting in sufficient progress, the council will consider divesting.

The council is a passive investor in pooled funds. These investments will necessarily include funds with companies of varying ESG quality due to the requirement to hold all securities in the target index or to meet other investment criteria such as the credit quality of the investment type. Short-term liquidity funds of this nature must be included in the council's portfolio due to the need to fulfil other treasury management criteria such as ensuring sufficient cash balances in line with cashflow forecasts. It is important to note that ownership of a security in a company, directly or indirectly, does not signify that the council approves of all of the company's practices or its products.

The council's externally managed longer-term investments are placed with fund managers that are signatories to the United Nations Principles of Responsible Investing (UNPRI).

The council is open to investing in Social Investments - investments where social impact is delivered alongside financial return - however this must still be in line with the fundamental Treasury Management principles. The council believes that the goal of social impact is inherently compatible with generating sustainable financial returns by meeting societal needs. Any investments in this area must offer an appropriate risk/return profile.

## Appendix F

### Extension to the specific responsibilities of the S151 officer as per the Treasury Management code

The below list of specific responsibilities of the S151 officer in the 2021 Treasury Management Code has not changed. However, implicit in the changes in both codes, is a major extension of the functions of this role, especially in respect of non-financial investments, (which CIPFA has defined as being part of treasury management);

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe.
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following
  - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
  - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
  - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to

ensure that appropriate professional due diligence is carried out to support decision making;

- Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;
- Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

## Appendix G

A full review of the Treasury Management Practices (TMPs) has been undertaken during 2025/26 and are detailed below. Behind each Treasury Management Practice sits practical procedure notes and schedules that detail more fully the entire scope of the treasury management function. These are held and maintained by the Treasury Management Team.

### **The Treasury Management Practices (TMPs) comprise:**

- TMP 1: Risk management
- TMP 2: Performance measurement
- TMP 3: Decision-making and analysis
- TMP 4: Approved instruments, methods and techniques
- TMP 5: Organisation, clarity & segregation of responsibilities & dealing arrangements
- TMP 6: Reporting requirements and management information arrangements
- TMP 7: Budgeting, accounting and audit arrangements
- TMP 8: Cash and cash flow management
- TMP 9: Money laundering
- TMP 10: Training and qualifications
- TMP 11: Use of external service providers
- TMP 12: Corporate governance

Appendix 1: Environmental, Social and Governance Risk Management

Appendix 2: Investment management practices for non-treasury investments

This document sets out the main principles for the council's TMPs, as recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes ("the TM Code").

The council's Head of Finance is authorised to commission, approve and amend detailed schedules for each TMP ("the TMP Schedules"), adding to the financial procedures to be followed by council officers when administering the day-to-day treasury affairs of the council.

Other schedules supporting these practices and other documents held at an operational level specify the systems and routines to be employed and the records to be maintained in fulfilling treasury functions (Treasury Management Operational Procedures).

### **TMP1 RISK MANAGEMENT**

The council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investment.

The Head of Finance will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the council's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements.

In respect of each of the following risks, the arrangements that seek to ensure compliance with these objectives are set out in the TMP Schedules.

#### **1) Credit and counterparty risk management**

Credit and counterparty risk is the risk of failure by a counterparty to meet its contractual obligations to the council under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the council's capital or revenue resources.

The council regards a key objective of its treasury management activities to be the security of the principal sums it invests. It will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited or investments made, and it will limit its treasury management investment activities to the instruments, methods and techniques referred to in TMP4 Approved instruments, methods and techniques and listed in the TMP Schedules.

It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter other financial instruments.

The council's credit and counterparty policies should set out its policy and practices relating to environmental, social and governance (ESG) investment considerations.

## **2) Liquidity risk management**

This is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs and that the council's business/service objectives will be compromised.

The council will ensure it has adequate though not excessive cash resources, borrowing arrangements and overdraft or standby facilities to always enable it to have the level of funds available to it that are necessary for the achievement of its business/service objectives.

The council will not borrow earlier than required to meet cash flow needs unless there is a clear business case for doing so and will only do so for the current capital programme, to fund future debt maturities, or to ensure an adequate level of short-term investments to provide liquidity for the council.

## **3) Interest rate risk management**

The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the council's finances, against which the council has failed to protect itself adequately.

The council will manage its exposure to fluctuations in interest rates with a view to containing its net interest costs or revenues in accordance with its treasury management policy and strategy and in accordance with TMP6 Reporting requirements and management information arrangements.

It will achieve this by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be subject to the consideration and, if required, approval of any policy or budgetary implications. It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs, and that the policy for the use of derivatives is clearly detailed in the annual strategy.

## **4) Exchange rate risk management**

It will manage its exposure to fluctuations in exchange rates to minimise any detrimental impact on its budgeted income/expenditure levels.

## **5) Inflation risk management**

The council will keep under review the sensitivity of its treasury assets and liabilities to inflation and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

## **6) Refinancing risk management**

The council will ensure that its borrowing and other long-term liabilities are negotiated, structured and documented, and the maturity profile of the monies so raised is managed, with a view to obtaining offer terms for renewal or refinancing, if required, that are competitive and as favourable to the council as can reasonably be achieved considering market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

#### **7) Legal and regulatory risk management**

The council will ensure that all its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1, 1) Credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may affect with the council, particularly with regard to duty of care and fees charged.

The council recognises that future legislative or regulatory changes may affect its treasury management activities and, so far as it is reasonably able to do so, will seek to manage the risk of adverse impact on the council.

#### **8) Operational risk, including fraud, error and corruption**

The council will ensure that it has identified the circumstances that may expose it to the risk of loss through inadequate or failed internal processes, people and systems or from external events. Accordingly, it will employ suitable systems and procedures and will maintain effective contingency management arrangements to these ends.

#### **9) Price risk management**

The council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the sums it invests and will accordingly seek to protect itself from the effects of such fluctuations.

### **TMP2 PERFORMANCE MEASUREMENT**

The council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the TMP Schedules. The criteria will include measures of effective treasury risk management and not only measures of financial performance (income or savings).

Reviews: -

- Treasury management annual outturn
- Half Yearly Outturn
- Quarterly outturn
- Reviews with Treasury management consultants
- Strategic, scrutiny and efficiency value for money reviews – compared to budgets etc
- Compare performance on investment and debt portfolios to local authority peers

- CIPFA Treasury Management Statistics

### **TMP3 DECISION MAKING AND ANALYSIS**

The council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past and for accountability, e.g. demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were considered at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the TMP Schedules.

### **TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES**

The council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the TMP Schedules, and within the limits and parameters defined in TMP1 Risk management.

Should the council consider the potential use of derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The council will seek legal and financial advice and will ensure that it fully understands those products and has the ability to enter into such arrangements.

The council has reviewed its classification with financial institutions under MiFID II and has set out in the TMP Schedules those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client.

### **TMP5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES AND DEALING ARRANGEMENTS**

The council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is always a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Head of Finance will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements and the implications properly considered and evaluated.

The Head of Finance will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management and the arrangements for absence cover. The Head of Finance will also always ensure that those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the TMP Schedules.

The Head of Finance will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the TMP Schedules.

The delegations to the Head of Finance in respect of treasury management are set out in the TMP Schedules. The Head of Finance will fulfil all such responsibilities in accordance with the council's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

## **TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS**

The council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; the effects of decisions taken, and transactions executed in pursuit of those policies; the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and the performance of the treasury management function.

As a minimum:

The council (full board/council) will receive:

- an annual report on the strategy and plan to be pursued in the coming year
- a mid-year review
- an annual report on the performance of the treasury management function, the effects of the decisions taken, and the transactions executed in the past year, and any circumstances of non-compliance with the organisation's treasury management policy statement and TMP's.

Other reporting requirements that are not reported to Council:-

- quarterly outturn reports are included as part of the quarterly budget monitoring reports to Cabinet.
- The council, or the committee to which some treasury management responsibilities are delegated, will receive regular monitoring reports on treasury management activities and risks.
- The body responsible for scrutiny, such as an audit or scrutiny committee, will have responsibility for the scrutiny of treasury management policies and practices.
- The council should report its treasury management indicators and any other investment indicators required by regulation.

The form of these reports are detailed in the TMP Schedules.

## **TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

The Head of Finance will prepare, if necessary, from time to time will amend – an appropriate annual budget for treasury management, which will bring together all the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk management, TMP2 Performance measurement, and TMP4 Approved instruments, methods and techniques. The Head of Finance will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with TMP6 Reporting requirements and management information arrangements.

The council will account for its treasury management activities, decisions made, and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

## **TMP8 CASH AND CASH FLOW MANAGEMENT**

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the council will be under the control of the Head of Finance and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Head of

Finance will ensure that these are adequate for the purposes of monitoring compliance with TMP1[2] Liquidity risk management, and for the purpose of identifying future borrowing needs (using a liability benchmark where appropriate). The present arrangements for preparing cash flow projections and their form are set out in the TMP Schedules.

### **TMP9 MONEY LAUNDERING**

The council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule to this document along with the money laundering policy.

### **TMP10 TRAINING AND QUALIFICATIONS**

The council recognises the importance of ensuring that all staff involved in the treasury function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Head of Finance will recommend and implement the necessary arrangements, including the specification of the expertise, knowledge and skills required by each role or member of staff.

The Head of Finance will ensure that officers and elected members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements, including a knowledge and skills schedule, are detailed in the TMP Schedules.

### **TMP11 USE OF EXTERNAL SERVICE PROVIDERS**

The council recognises that responsibility for treasury management decisions always remains with the organisation. It recognises that there may be potential value in employing external providers of treasury management services to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons that have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

The monitoring of such arrangements rests with the Head of Finance, and details of the current arrangements are set out in the TMP Schedules.

The council currently uses MUFG Corporate Markets, as its external treasury management advisor. Other professional advisors may be appointed to assist with particular projects.

Whilst recognising the specialist skills and resources advisors can provide, the council acknowledges that responsibility for treasury management decisions remains with the organisation and will ensure that undue reliance is not placed upon external service providers.

### **TMP12 CORPORATE GOVERNANCE**

The council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its treasury management activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The council has adopted and has implemented the key principles of the TM Code. This, together with the other arrangements detailed in the TMP Schedules, is considered vital to the achievement of proper corporate governance in treasury management, and the Head of Finance will monitor and, when necessary, report upon the effectiveness of these arrangements.

## **ENVIRONMENTAL, SOCIAL AND GOVERNANCE RISK MANAGEMENT**

**Environmental:** Emissions and air quality, energy and waste management, waste and hazardous material, exposure to environmental impact.

**Social:** Human rights, community relations, customer welfare, labour relations, employee wellbeing, exposure to social impacts.

**Governance:** Management structure, governance structure, group structure, financial transparency.

This Council is supportive of the Principles for Responsible Investment ([www.unpri.org](http://www.unpri.org)) and will seek to bring ESG (environmental, social and governance) factors into the decision-making process for investments. Within this, the Council is also appreciative of the Statement on ESG in Credit Risk and Ratings which commits signatories to incorporating ESG into credit ratings and analysis in a systemic and transparent way. The Council uses ratings from Fitch, Moody's and Standard & Poor's to support its assessment of suitable counterparties.

For short term investments with counterparties, this Council utilises the ratings provided by Fitch, Moody's and Standard & Poor's to assess creditworthiness, which include analysis of ESG factors when assigning ratings. The Council will continue to evaluate additional ESG-related metrics and assessment processes that it could incorporate into its investment process and will update accordingly.

In order to comply with treasury management professional guidance, the council's investments must prioritise security, liquidity and yield in that order. Environmental, Social and Governance (ESG) factors represent a fourth consideration in the decision-making process and whilst this is something that councils are exploring, it is in the context of the need to comply with the priorities outlined in the guidance.

The councils had no direct investments during the financial year with companies engaged in environmentally harmful activities. The councils externally managed pooled investment fund managers are founding members of the Net Zero Asset Managers Initiative.

## **INVESTMENT MANAGEMENT PRACTICES FOR NON-TREASURY INVESTMENTS**

The below list of specific responsibilities of the S151 officer in the 2021 Treasury Management Code has not changed. However, implicit in the changes in both codes, is a major extension of the functions of this role, especially in respect of non-financial investments, (which CIPFA has defined as being part of treasury management);

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe.
  - ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
  - ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
  - ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
  - ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
  - ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities
  - provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
  - ensuring that members are adequately informed and understand the risk exposures taken on by an authority
  - ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
  - creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following :-
- Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
  - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
  - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
  - Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;
  - Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

## Appendix H

### GLOSSARY OF TERMS

<b>Authorised Limit</b>	The maximum amount of external debt at any one time in the financial year.
<b>Basis Point (BP)</b>	1/100th of 1%, i.e. 0.01%
<b>Base Rate</b>	Minimum lending rate of a bank or financial institution in the UK.
<b>Benchmark</b>	A measure against which the investment policy or performance of a fund manager can be compared.
<b>Bill of Exchange</b>	A financial instrument financing trade.
<b>Callable Deposit</b>	A deposit placed with a bank or building society at a set rate for a set amount of time. However, the borrower has the right to repay the funds on pre-agreed dates, before maturity. This decision is based on how market rates have moved since the deal was agreed. If rates have fallen the likelihood of the deposit being repaid rises, as cheaper money can be found by the borrower.
<b>Cash Fund Management</b>	Fund management is the management of an investment portfolio of cash on behalf of a private client or an institution, the receipts and distribution of dividends and interest, and all other administrative work in connection with the portfolio.
<b>Certificate of Deposit (CD)</b>	Evidence of a deposit with a specified bank or building society repayable on a fixed date. They are negotiable instruments and have a secondary market; therefore, the holder of a CD is able to sell it to a third party before the maturity of the CD.
<b>Commercial Paper</b>	Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations and other borrowers. Such instruments are unsecured and usually discounted, although some may be interest bearing.
<b>Corporate Bond</b>	Strictly speaking, corporate bonds are those issued by companies. However, the term is used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
<b>Counterparty</b>	Another (or the other) party to an agreement or other market contract (e.g. lender/borrower/writer of a swap/etc.)
<b>CDS</b>	Credit Default Swap – a swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap.
<b>CFR</b>	Capital Financing Requirement.
<b>CIPFA</b>	Chartered Institute of Public Finance and Accountancy.
<b>Derivative</b>	A contract whose value is based on the performance of an underlying financial asset, index or other investment, e.g. an option is a derivative because its value changes in relation to the performance of an underlying stock.
<b>DMADF</b>	Deposit Account offered by the Debt Management Office, guaranteed by the UK government.

<b>ECB</b>	European Central Bank – sets the central interest rates in the EMU area. The ECB determines the targets itself for its interest rate setting policy; this is to keep inflation within a band of 0 to 2 per cent. It does not accept that monetary policy is to be used to manage fluctuations in unemployment and growth caused by the business cycle.
<b>Enhanced Cash Funds</b>	A pooled investment fund. Longer dated investment than an MMF and, unlike an MMF, enhanced cash funds have variable asset value. Assets are marked to market on a daily basis and the unit prices vary accordingly. Investments can be withdrawn on a notice basis (the length of which depends on the fund) although such funds would typically be used for investments of 3 to 6 month duration.
<b>Equity</b>	A share in a company with limited liability. It generally enables the holder to share in the profitability of the company through dividend payments and capital gain.
<b>Forward Deal</b>	The act of agreeing today to deposit funds with an institution for an agreed time limit, on an agreed future date, at an agreed rate.
<b>Forward Deposits</b>	Same as forward dealing (above).
<b>Fiscal Policy</b>	The government policy on taxation and welfare payments.
<b>GDP</b>	Gross Domestic Product.
<b>Gilt</b>	Registered British government securities giving the investor an absolute commitment from the government to honour the debt that those securities represent.
<b>Mark to Market Accounting</b>	Accounting on the basis of the “fair value” of an asset or liability, based on the current market price. As a result, values will change with market conditions.
<b>Minimum Revenue Provision</b>	This is a prudent sum set aside each year to offset the principal repayment of any loan to smooth the impact on the local taxpayer.
<b>Money Market Fund</b>	A well rated, highly diversified pooled investment vehicle whose assets mainly comprise of short-term instruments. It is very similar to a unit trust, however a MMF relies on loans to companies rather than share holdings.
<b>Monetary Policy Committee (MPC)</b>	Government body that sets the bank rate (commonly referred to as being base rate). Their primary target is to keep inflation within plus or minus 1 per cent of a central target of 2.5 per cent in two years’ time from the date of the monthly meeting of the committee. Their secondary target is to support the government in maintaining high and stable levels of growth and employment.
<b>Operational Boundary</b>	The most likely, prudent but not worst-case scenario of external debt at any one time.
<b>Other Bonds</b>	Pooled funds investing in a wide range of bonds.
<b>PWLB</b>	Public Works Loan Board.
<b>QE</b>	Quantitative Easing.
<b>Retail Price Index</b>	Measurement of the monthly change in the average level of prices at the retail level weighted by the average expenditure pattern of the average person.
<b>Sovereign Issues (Ex UK Gilts)</b>	Bonds issued or guaranteed by nation states, but excluding UK government bonds.

<b>Supranational Bonds</b>	Bonds issued by supranational bodies, e.g. European Investment Bank. The bonds – also known as Multilateral Development Bank bonds – are generally AAA rated and behave similarly to gilts, but pay a higher yield (“spread”) given their relative illiquidity when compared with gilts.
<b>Treasury Bill</b>	Treasury bills are short-term debt instruments issued by the UK or other governments. They provide a return to the investor by virtue of being issued at a discount to their final redemption value.