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DRAFT ANNUAL TREASURY INVESTEMENT STRATEGY 2025/26

1. INTRODUCTION

1.1 This report sets out the Treasury Management Strategy and policy for 2025/26. It includes: the interest rate outlook, the Council's treasury management arrangements for the year and the overall framework and risk management controls which are used in carrying out the Council's borrowing, lending and other treasury activities.

1.2 The Council's treasury management objectives and activities are defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) as:

"The management of the Council'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."

1.3 Effective treasury management will provide support towards the achievement of the Council's business and service objectives. The Council is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

1.4 This Treasury Strategy forms part of the overall Corporate Planning Framework which complies with the statutory requirement to have regard to the following Codes and Guidance:

- CIPFA's Code of Practice for Treasury Management in the Public Services (revised December 2017 and 2021 code)
- CIPFA's Prudential Code for Local Council Capital Finance (revised December 2017 and 2021 code)
- The Government Guidance on Local Council Investments

1.5 It provides a mechanism by which treasury management decisions can be aligned with the overarching corporate priorities and objectives over the medium term.

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1.6 The impact on the UK from the government's Autumn budget, slower expected interest rate cuts, a short-term boost to but modestly weaker economic growth over the medium term, together with the impact from President-elect Trump's second term in office and uncertainties around US domestic and foreign policy, will be major influences on the Council's treasury management strategy for 2025/26.

1.7 A detailed assessment of the current economic background and the forecast impact on credit and interest rates has been provided by the Council's Treasury Management advisors, Arlingclose. This is included as Appendices 1-A to this Strategy.

2. PURPOSE OF TREASURY MANAGEMENT

2.1 The 2025/26 Treasury Management Strategy has been developed with the following key aims:

- To outline how the Council will manage and invest its money to ensure it will have the financial resources to support the key priorities outlined in its Corporate Strategy.
- To set out key principles on which borrowing and investment decisions are made, including how security and risk are assessed.
- To present the arrangements for managing and monitoring treasury management decisions, including assessment of outcomes and the alignment to the Corporate Strategy.

3. TREASURY MANAGEMENT STRATEGY

3.1 The Council's objectives in relation to debt and investment can be stated as follows:

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

3.2 The successful identification, monitoring and control of risk are the prime criteria by which the effectiveness of the Council's treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

3.3 The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management and to employing suitable, comprehensive performance measurement techniques within the context of effective risk management.

3.4 Therefore, for the Council, the achievement of high returns from treasury activities is of secondary importance compared with the need to limit the exposure of public funds to the risk of loss.

3.5 It is not possible to avoid all treasury risks, and a balance has to be struck. The main treasury risks which the Council is exposed to include:

- Interest rate risk - the risk that future borrowing costs rise
- Credit risk - the risk of default in a Council investment
- Liquidity and refinancing risks - the risk that the Council cannot obtain funds when needed.

3.6 The Council's first Community Municipal Investment (CMI), named 'Cotswold Climate Investment' (CCI) which targeted a £0.500m fundraise closed on the 16 August 2022, fully funded by over 450 investors. As of 1 January 2025 the Council therefore holds a £0.313m loan administered through Abundance Investments Limited for the purpose of Community Municipal Investments at a rate of 2.2% (including management fees). The Cotswold Climate Investment will support a range of projects, including installing publicly available off-street electric vehicle charging points (EVCPs) around the district to encourage electric vehicle take-up, and improving the energy and carbon performance of the Council's Cirencester offices.

3.7 If the Council undertakes further borrowing it will be important for the Council to manage its interest rate exposure due to the risk that changes in the level of interest rates leads to an unexpected burden on the Council's finances. The stability of the Council's interest costs will be affected by the level of borrowing exposed to short term or variable interest rates. Short term interest rates are typically lower, so there can be a trade-off between achieving the lowest rates in the short term and in the long term, and between short term savings and long-term budget stability.

3.8 As a result, the approach to risk must be implemented flexibly in the light of changing market circumstances.

4. WHY AND HOW WE INVEST OUR MONEY

4.1 The revised CIPFA Prudential and Treasury Codes recommend that councils' capital strategies should include a policy and risk management framework for all investments. The Codes identify three types of local Council investment:

- Treasury management investments, which are taken to manage cash flows and as part of the Council's debt and financing activity.
- Commercial investments (including investment properties), which are taken mainly to earn a positive net financial return.
- Service investments, which are taken mainly to support service outcomes.

4.2 The Council's Investment Strategy outlines the principles and arrangements in place for the second two categories of investment. The Treasury Management Strategy focuses on the first category. The following paragraphs set out the Council's policy for these 'treasury management' investments.

4.3 The Council holds significant 'treasury management' funds representing income received in advance of expenditure and reserves held. In the past 12 months, the Council's investment balance has ranged from £22m to £42m due to timing differences between income and expenditure. The average forecast investment balance for 2025/26 is estimated to be around £27.5m.

4.4 On the 30th September 2024, the Council held £28.9m of treasury investments which are outlined in Table 1.

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Table 1 – Treasury investments as of 30 September 2024

Treasury Investments	30th September Actual Portfolio £m	30th September Average Rate £%
Money Market Funds/Call Accounts and other pooled funds	5.8	5.14
Banks	1.5	4.91
Short Term Investments – Bank of England DMADF	9.9	5.10
CCLA Property Investment Management	2.1	4.50
CCLA Diversified Income	1.0	3.09
Schroders Unit Trusts Ltd	0.9	5.35
M&G Securities Ltd	1.8	4.96
Ninety One (formerly Investec)	1.9	4.37
Columbia Threadneedle Fund	1.9	3.00
Federated Cash Plus Fund	1.2	N/A
Fundamentum Housing REIT	1.0	3.01
Total treasury investments	**29.1**	**4.92**

4.5 Forecast investments over the next three financial years are shown in Table 2.

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	31.3.24 Actual £m	31.3.25 Estimate £m	31.3.26 Forecast £m	31.3.27 Forecast £m	31.3.28 Forecast £m
Short term holdings					
Call Accounts	3.098	0.000	0.000	0.000	0.000
MMFs	12.138	9.000	5.995	1.000	1.200
Short Term Deposits	1.141	1.500	3.000	0.000	0.000
Current Account	0.544	0.500	0.100	0.100	0.100
Total Short term	**16.921**	**11.000**	**9.095**	**1.100**	**1.300**
Longer term holdings					
Pooled Funds	10.500	10.500	10.500	10.500	8.500
REIT	1.000	1.000	1.000	1.000	1.000
Cash + Fund	1.000	1.000	1.000	1.000	1.000
Total Longer term	**12.500**	**12.500**	**12.500**	**12.500**	**10.500**
TOTAL INVESTMENTS	**29.421**	**23.500**	**21.595**	**13.600**	**11.800**

4.6 The Council's policy on treasury investments, in line with the CIPFA code, is to prioritise security and liquidity over yield. This focuses on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely to minimise risk of loss. Money held for the longer term is invested more widely, including bonds, shares and property to balance the risk of loss against the risk of receiving returns below inflation. Both short term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which investments to buy. The Council is also able to request the return of its funding at short notice with these pooled funds. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing inflation rate, in order to maintain the spending power of the sum invested.

4.7 Following a sustained period of high interest rates, central banks began to reverse course toward the second half of the 2024/25 financial year. The Bank of England (BoE) lowered the base rate to 4.75% in November 2024, following a previous reduction to

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5% in August 2024. The Bank is signalling that future cuts will likely to be gradual and cautious to manage inflation concerns.

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

4.9 The Council will continue to make deposits only with institutions having high credit quality as set out in the Approved Investment Counterparties and Limits, Table 3 below. These limits have been set by the Council in consultation with Arlingclose, the Council's Treasury advisors. Further explanation of each of the categories in Table 3 are included as Appendix I-B.

Table 3 – Approved Investment Counterparties and Limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other governmen	25 years	£3m	Unlimited
Secured investments *	25 years	£3m	Unlimited
Banks (unsecured) *	13 months	£3m	Unlimited
Building societies (unsecured) *	13 months	£2m	£10m
Registered providers (unsecured) *	5 years	£5m	£10m
Money market funds *	n/a	£3m	Unlimited
Strategic pooled funds	n/a	£4m	£20m
Real estate investment trusts	n/a	£3m	£20m
Other investments *	5 years	£1m-£3m	£10m

**Investments in these sectors will only be made with entities whole lowest published long-term credit rating is no lower than A-*

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

4.11 Money may be lent to the Council's own banker (Lloyds Banking Group), in accordance with the above lending limits. However, if Lloyds Bank does not meet the above criteria, money may only be lent overnight (or over the weekend), and these balances will be minimised.

4.12 Credit rating methodologies and credit limit requirements may change as the circumstances demand: in this event the Deputy Chief Executive Officer may determine revised and practicable criteria seeking similarly high credit quality, pending the next annual review of this treasury management policy.

4.13 Temporarily surplus cash will be invested having regard to the period of time for which the cash is expected to be surplus. The CIPFA Prudential Code envisages that authorities will not borrow more than three years in advance, so it is unlikely that the Council will plan to have surplus cash for longer than three years. However, where surplus cash for over 12 months is envisaged, it may be appropriate to include some longer term (non-specified) investments within a balanced risk portfolio.

4.14 In making investments in accordance with the criteria set out in this section, the Deputy Chief Executive Officer will seek to spread risk (for example, across different types of investment and to avoid concentration on lower credit quality). This may result in lower interest earnings, as safer investments will usually earn less than riskier ones.

4.15 The Council does not currently use investment managers (other than through the use of pooled investment vehicles such as Money Market Funds). However, if investment managers are appointed, their lending of Council funds would not be subject to the above restrictions, provided that their arrangements for assessing credit quality and exposure limits have been agreed by the Deputy Chief Executive Officer.

4.16 The Council seeks to be a responsible investor. Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore this policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

5. HOW WE BORROW MONEY

5.1 As outlined in paragraph 3.6 at 1st January 2024, the Council holds a £0.313m loan administered through Abundance Investments Limited for the purpose of Community Municipal Investments. There are plans to borrow in the future to fund the Capital Programme. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The net borrowing can be reduced from this total through the use of reserves and working capital.

5.2 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the following three years. Table 4 shows that the Council expects to comply with this recommendation during 2025/26

5.3 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing, see Table 4a. This assumes that cash and investment balances are kept to a minimum level of £13m at year end to maintain sufficient liquidity but minimise credit risk.

5.4 The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

5.5 The total forecast net borrowing against the CFR and liability benchmark is set out in the Table 4 and Table 4a below for the period of the Medium-Term Financial Strategy.

Table 4 – Forecast Borrowing Requirement £m

	Actual 31/03/2024 (£m)	Forecast 31/03/2025 (£m)	Forecast 31/03/2026 (£m)	Forecast 31/03/2027 (£m)	Forecast 31/03/2028 (£m)
CFR	0.07	0.48	0.47	2.97	2.57
Less Outstanding Borrowing	-0.36	-0.26	-0.16	-0.05	0.00
Internal Borrowing	**-0.29**	**0.22**	**0.31**	**2.91**	**2.57**
Usable reserves	-22.18	-21.35	-19.43	-13.92	-11.93
Working capital	-2.08	-2.50	-2.50	-2.50	-2.50
Investments	**-24.56**	**-23.63**	**-21.62**	**-13.50**	**-11.86**

Table 4a – Prudential Indicator: Liability Benchmark £m.

	31.3.24 Actual	31.3.25 Estimate	31.3.26 Forecast	31.3.27 Forecast	31.3.28 Forecast
CFR	0.07	0.48	0.47	2.97	2.57
Less Balance Sheet Resources	-24.27	-23.85	-21.93	-16.42	-14.43
Net Loans Requirement	**-24.20**	**-23.37**	**-21.46**	**-13.45**	**-11.86**
Plus Liquidity Allowance	13.00	13.00	13.00	13.00	13.00
Liability Benchmark	**-11.20**	**-10.37**	**-8.46**	**-0.45**	**1.14**

5.6 This benchmark is currently £-11 million, reflecting the fact that there is no requirement to undertake external borrowing and its cash balances are invested through application of the Treasury Management Strategy. Over the next two years, the liability benchmark moves to £1.14 million reflecting a use of capital receipts to partially fund the Capital Programme and need to externally borrow as represented in table 4.

Borrowing Strategy

5.7 This strategy sets out how the Council plans to obtain the required new borrowing shown above, by a combination of short term and long-term borrowing.

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5.8 The borrowing will be required to fund significant investments into the Council's key priorities as outlined in the Corporate Strategy, the key priorities are outlined below:

- Delivering Good Services
- Responding to the Climate Emergency.
- Delivering Housing
- Supporting Communities
- Supporting the Economy

5.9 The Council's main objective when borrowing money is to strike a balance between securing low interest rates and certainty of costs over the period for which funds are required.

5.10 Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term interest rates are currently higher than in the recent past but are expected to fall in the coming year and it is therefore likely to be more cost effective over the medium-term to either use internal resources or to borrow short term loans instead. The risks of this approach will be managed by keeping the Authority's interest rate exposure within the time limits set in the treasury management prudential indicators, see below.

5.11 By doing so, the Council can reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of doing this will be monitored regularly against the potential for incurring additional costs by deferring borrowing into the future when long-term borrowing rates are forecast to rise modestly, even if this causes additional cost in the short term.

5.12 The Council may also borrow short term loans to cover unplanned cash flow shortages.

<u>Sources of Borrowing</u>

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5.13 The main source of long term borrowing for local authorities historically has been the **Public Works Loans Board (PWLB).** PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield. The Council has not undertaken any PWLB borrowing to fund commercial investments for yield and does not plan to do this in the future in order to retain access to PWLB loans. All capital investments are linked to service developments. The PWLB rate offers a cheaper and quicker route to borrowing than alternative sources of borrowing. The Council would thus aim to use the PWLB for its long-term borrowing needs. In addition, it is uncertain how private sector lenders would view the risk profile for councils that were no longer eligible for PWLB loans.

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

5.15 **LOBOs:** The Council currently does not hold any LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost.

5.16 **Short-term and variable rate loans**: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators.

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

5.18 **Local Climate Bonds /Community Municipal Investments** are a form of debt/loan-based crowdfunding. Community Bonds are issued by a council corporate body, with residents and general public investors providing capital on the basis of receiving a financial return. The majority of community bonds are typically linked in some form to environmental or social criteria and provide tangible benefit to the local community beyond just financial. Details of the Council's Community Municipal Investment are outlined in paragraph 3.6.

5.19 The Council will continue to monitor market developments and will seek to use and develop other funding solutions if better value may be delivered. This may include other sources of long-term borrowing if the terms are suitable, including listed and private placements, bilateral loans from banks, local authorities or others and sale and leaseback arrangements.

5.20 The Treasury Management Prudential Limits and Indicators consistent with the above strategy are set out in Section 7.

5.21 The Treasury Management Strategy must be flexible to adapt to changing risks and circumstances. The strategy will be kept under review by the Deputy Chief Executive Officer in accordance with treasury management delegations.

6. MONITORING TREASURY MANAGEMENT INVESTMENTS

6.1 The CIPFA guidance for Treasury Management in the Public Services (2021 edition), requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA code.

6.2 The guidance also requires the Council to produce reports on its treasury and investment management policies, practices, and activities, as a minimum with quarterly and mid-term review and an annual report after year end closure.

6.3 The Council delegates responsibility for the implementation and regular monitoring of its treasury management practices to Cabinet and for the execution and administration of treasury management decisions to the Deputy Chief Executive Officer, who will act in accordance with this strategy. The Audit and Governance Committee will be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

6.4 Credit ratings are monitored on a real-time basis as provided via Arlingclose, and the Council's lending list is updated accordingly, when a rating changes. Other information is taken into account when deciding whether to lend. This may include the ratings of other rating agencies; commentary in the financial press; analysis of country, sector and group exposures; and the portfolio make up of Money Market Funds. The use of particular permitted counterparties may be restricted if this is considered appropriate.

6.5 Where deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt management Office or invested in government treasury bills or other local authorities, as decided by the Deputy Chief Executive Officer.

6.6 In order to monitor this, the Council has set cash limits on the credit quality of the investments and their limits as can be seen in Table 3, section 4.10 above.

6.7 The Council's revenue reserves available to cover investment losses are forecast to be £4.4m on 31 March 2025. In order to ensure that no more than a maximum of available reserves of 25% are therefore put at risk in the case of single default (other than the UK Government), the total lending limit will be £3m. A group of banks under the same ownership will be treated as a single organisation. Limits are also placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as in Table 5 below. Investments in pooled funds and multilateral development banks do not count against the limit for a single foreign currency, as the risk is spread over many countries.

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Table 5 – Cash Limit by Organisation

Table 5 – Cash Limits	Cash limit
Any single organisation, except the UK Central Government	£3m each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£3m per group
Any group of pooled funds under the same management	£4m per fund manager
Foreign countries	£3m per country
Registered providers	£3m in total
Real estate investment trusts	£3m per REIT
Unsecured investments with building societies	£2m in total per BS
Money Market Funds	£20m in total

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

6.9 The Treasury Management team has suitably qualified and trained staff to actively manage treasury risks within this Policy framework. Officers regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. However, staff resources are limited, and this may constrain the Council's ability to respond to market opportunities or take advantage of more highly structured financing arrangements. External advice and support may also be required. The following activities may for example require external advice and support based on an assessment at the time, to the extent that skills and resources are available:

- the refinancing of existing debt
- forward-starting loans
- leasing and hire purchase
- use of innovative or more complex sources of funding such as green bond issues, private placements and sale and leaseback structures
- investing surplus cash in institutions or funds with a high level of creditworthiness, rather than placing all deposits with the Government

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6.10 The Council appointed Arlingclose Limited to provide treasury management advice to the Council, including the provision of credit rating and other investment information. Advisors are a useful support in view of the size of the Council's transactions and the pressures on staff time. The contract with Arlingclose was renewed at 1st March 2023 and is due to end in February 2026.

6.11 Government investment guidance expects local authorities to have a policy for borrowing in advance of need, in part because of the credit risk of investing the surplus cash. The Council's policy is to borrow to meet its forecast Net Loan Debt, including an allowance (currently of £13m) for liquidity risks. The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the forecast capital programme or to meet other expected cash flows.

7. TREASURY MANAGEMENT PRUDENTIAL INDICATORS

7.1 The Council is required under the Local Government Act 2003 and the CIPFA Treasury Management Code to set Prudential Indicators for treasury management to measure and manage its exposure to treasury management risk using the following indicators:

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

Credit risk indicator	Target
Portfolio average credit	A-

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

Interest rate risk indicator	Target
Upper limit on one year revenue impact of a 1% rise in interest rates	-£0.15m
Upper limit on one year revenue impact of a 1% fall in interest rates	£0.15m

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7.4 Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

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

Refinancing rate risk indicator	Upper limit	Lower Limit
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and within 30 years	100%	0%
30 years and above	100%	0%

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

7.7 Long term treasury management investments – The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long term principal sum invested to final maturities for longer than a year will be:

Price Risk Indicator	2025/26	2026/27	2027/28
Limit on principal invested for longer than	£13m	£13m	£13m
Amounts invested in longer term investments with no fixed maturity date	£13m	£13m	£13m

8. TREASURY MANAGEMENT REVENUE BUDGET

8.1 The budget for investment income in 2025/26 is £1.138m, based on an average investment portfolio of £27.5m at an interest rate of 4.52%.

8.2 The Council aims to maintain its portfolio of long term investments in strategic funds at £12.5m. This is forecast to return £0.5m.

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8.3 Investments in liquid assets such as bank deposits and money market funds are expected to return 4.45% and generate a yield of £0.618m.

8.4 This estimate reflects a prudent view of investment income. Actual interest income will be affected not only by future interest rates, but also by the Council's cash flows and the level of its revenue reserves and provisions.

9. OTHER

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

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

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

9.4 MiFFID 2 is a legislative framework instituted by the European Union to regulate the financial markets and improve protections for investors. This Council has elected for Professional Client Status which means that to be able to invest in certain investments, it must hold a minimum of £10m in investments. If this falls below the minimum level,

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then access to certain financial market instruments could be made unavailable to this Council.

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Appendix 2-A

Arlingclose Economic and Interest Rate Forecast (December 2024)

Underlying assumptions:

• As expected, the Monetary Policy Committee (MPC) held Bank Rate at 4.75% in December, although, with a 6-3 voting split and obvious concerns about economic growth, presented a much more dovish stance than had been expected given recent inflationary data.

• The Budget measures remain a concern for policymakers, for both growth and inflation. Additional government spending will boost demand in a constrained supply environment, while pushing up direct costs for employers. The short to medium-term inflationary effects will promote caution amongst policymakers.

• UK GDP recovered well in H1 2024 from technical recession, but underlying growth has petered out as the year has progressed. While government spending should boost GDP growth in 2025, private sector activity appears to be waning, partly due to Budget measures.

• Private sector wage growth and services inflation remain elevated; wage growth picked up sharply in October. The increase in employers' NICs, minimum and public sector wage levels could have wide ranging impacts on private sector employment demand and costs, but the near-term impact will likely be inflationary as these additional costs get passed to consumers.

• CPI inflation rates have risen due to higher energy prices and less favourable base effects. The current CPI rate of 2.6% could rise further in Q1 2025. The Bank of England (BoE) estimates the CPI rate at 2.7% by year end 2025 and to remain over target in 2026.

• The MPC re-emphasised that monetary policy will be eased gradually. Despite recent inflation-related data moving upwards or surprising to the upside, the minutes suggested a significant minority of policymakers are at least as worried about the flatlining UK economy.

• US government bond yields have risen following strong US data and uncertainty about the effects of Donald Trump's policies on the US economy, particularly in terms of inflation and monetary policy. The Federal Reserve pared back its expectations for rate cuts in light of these issues. Higher US yields are also pushing up UK gilt yields, a relationship that will be maintained unless monetary policy in the UK and US diverges.

<u>Forecast:</u>

• In line with our forecast, Bank Rate was held at 4.75% in December.

• The MPC will reduce Bank Rate in a gradual manner. We see a rate cut in February 2025, followed by a cut alongside every Monetary Policy Report publication, to a low of 3.75%.

• Long-term gilt yields have risen to reflect both UK and US economic, monetary and fiscal policy expectations, and increases in bond supply. Volatility will remain elevated as the market digests incoming data for clues around the impact of policy changes.

• This uncertainty may also necessitate more frequent changes to our forecast than has been the case recently.

• The risks around the forecasts lie to the upside over the next 12 months but are broadly balanced in the medium term.

	Current	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.75	4.50	4.25	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.90	4.60	4.35	4.10	3.90	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
5yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.34	4.30	4.20	4.10	4.00	3.90	3.90	3.95	4.00	4.05	4.05	4.05	4.05
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
10yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.56	4.55	4.45	4.30	4.20	4.20	4.20	4.20	4.25	4.25	4.25	4.25	4.25
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
20yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	5.05	5.00	4.90	4.80	4.70	4.65	4.65	4.65	4.65	4.65	4.65	4.65	4.65
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
50yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.52	4.70	4.60	4.50	4.40	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80

PWLB Standard Rate = Gilt yield + 1.00%

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PWLB Certainty Rate = Gilt yield + 0.80%
PWLB HRA Rate = Gilt yield + 0.40%
National Wealth Fund (NWF) Rate = Gilt yield + 0.40%

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Appendix 2-B

Criteria Definitions

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

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

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

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

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

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

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

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

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

Operational bank accounts: The Council banks with Lloyds (Lloyds Banking Group). On adoption of this strategy, it will meet the minimum credit criteria of A- (or equivalent) long term. It is the Council's intention that even is the credit rating of Lloyds Bank falls below the minimum criteria A- the bank will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

Policy Investments: The Council will provide cash flow for third party organisations linked to the Council. The following limit is set for 2025/26

- Publica Group - £0.5m up to one year duration

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- Ubico - £0.5m up to one year duration