

### North West Leicestershire District Council

### Treasury Management Strategy Statement 2026/27

#### 1 Introduction

- 1.1 Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.
- 1.2 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
- 1.3 Investments held locally for service purposes, local regeneration, local investment, and profit to be spent on local public services are considered in a different document, the Investment Strategy.

#### 2 External Context (Provided by Arlingclose, Treasury Management Advisors)

- 2.1 **Economic background:** The most significant impacts on the Council's treasury management strategy in 2026/27 are expected to include: the influence of the Government's 2025 Autumn Budget, lower short-term interest rates alongside higher medium- and longer-term rates, slower economic growth, together with ongoing uncertainties around the global economy, stock market sentiment, and geopolitical issues.
- 2.2 The Bank of England's Monetary Policy Committee (MPC) cut Bank Rate to 3.75% in December 2025, as expected. The vote to cut was five-four, with the minority instead favouring holding rates at 4.0%. Those members wanting a cut judged that disinflation was established while those preferring to hold Bank Rate argued that inflation risks remained sufficiently material to leave rates untouched at this stage.
- 2.3 Figures from the Office for National Statistics showed that the UK economy expanded by 0.1% in the third quarter of the calendar year, this was unrevised from the initial estimate. The most recent Monetary Policy Report (November) projected modest economic growth, with GDP expected to rise by 0.2% in the final calendar quarter of 2025. Annual growth is forecast to ease from 1.4% before improving again later, reflecting the delayed effects of lower interest rates, looser monetary conditions, stronger global activity, and higher consumer spending. The view of modest economic growth going forward was echoed by the Office for Budget Responsibility in its Economic and fiscal outlook published in line with the Autumn Statement which revised down its estimate of annual real GDP to around 1.5% on average between 2025 and 2030.

- 2.4 Consumer Prices Index (CPI) inflation was 3.2% in November 2025, down from 3.6% in the previous month and below the 3.5% expected. Core CPI eased to 3.2% from 3.4%, contrary to forecasts of remaining at 3.6%. Looking forward, the MPC continues to expect inflation to fall, to around 3% in calendar Q1 2026, before steadily returning to the 2% target by late 2026 or early 2027.
- 2.5 The labour market continues to ease with rising unemployment, falling vacancies and flat inactivity. In the three months to October 2025, the unemployment rate increased to 5.1%, higher than the level previously expected by the Bank of England (BoE), while the employment rate slipped to 74.9%. Pay growth for the same period eased modestly, with total earnings (including bonuses) growth at 4.7% and while regular pay was 4.6%
- 2.6 The US Federal Reserve also continued to cut rates, including reducing the target range for the Federal Funds Rate by 0.25% at its December meeting, to 3.50%-3.75%, in line with expectations. The minutes of the meeting noted that most Fed policymakers judged that further rate cuts would be likely in 2026 if inflation continues to ease, however they were still divided in their assessment of the risks between inflation and unemployment.
- 2.7 The European Central Bank (ECB) kept its key interest rates unchanged in December for a fourth consecutive month, maintaining the deposit rate at 2.0% and the main refinancing rate at 2.15%. The ECB maintained that future policy decisions will remain data-dependent, that inflation is close to its 2% target and that the euro area economy continues to expand despite a challenging global environment, including heightened geopolitical risks and trade tensions.
- 2.8 **Credit outlook:** Credit Default Swap (CDS) prices, which spiked in April 2025 following President Trump's 'Liberation Day' tariff announcements, have since trended lower, returning to levels broadly consistent with their 2024 averages. Although CDS prices rose modestly in October, the overall credit outlook remains stable, and credit conditions are expected to remain close to the range seen over the past two years.
- 2.9 While lower interest rates may weigh on banks' profitability, strong capital positions, easing inflation, steady economic growth, low unemployment, and reduced borrowing costs for households and businesses all support a favourable outlook for the creditworthiness of institutions on (the Council's treasury management advisor) Arlingclose's counterparty list. Arlingclose's advice on approved counterparties and recommended investment durations is kept under continuous review and will continue to reflect prevailing economic and credit conditions.
- 2.10 **Interest rate forecast (22 December 2025):** Arlingclose, the Council's treasury management adviser, currently forecasts that the Bank of England's Monetary Policy Committee will continue to reduce Bank Rate in 2026, reaching around 3.25%. This forecast reflects amendments made following the Autumn Budget and an assessment of the fiscal measures and their market implications, and following the BoE MPC meeting held on 18<sup>th</sup> December.
- 2.11 Long-term gilt yields, and therefore interest rates payable on long-term borrowing, are expected to remain broadly stable on average, though with continued volatility, and to end the forecast period marginally lower than current levels. Yields are likely to stay higher than in the pre-quantitative tightening era, reflecting ongoing balance sheet reduction and elevated bond issuance. Short-term fluctuations are expected to persist in response to economic data releases and geopolitical developments.

- 2.12 A more detailed economic and interest rate forecast provided by Arlingclose is in Appendix A.
- 2.13 For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate/yield of 3.05%, and that new long-term loans will be borrowed at an average rate of 5.30%.

### 3 **Local Context**

- 3.1 On 31 December 2025, the Council held £54.49 million of borrowing and £41.25 million of treasury investments. This is set out in further detail at Appendix B. Forecast changes in these sums are shown in the balance sheet analysis in Table 1 below. Please be aware that, because the 2024/25 accounts have only just been finalised, this forecast relies on financial data from the draft 2024/25 Statement of Accounts. Where available these figures have been updated with current positions, but the overall position is still subject to some change.

Table 1: Balance sheet summary and forecast.

	<b>31.3.26 Forecast £m</b>	<b>31.3.27 Forecast £m</b>	<b>31.3.28 Forecast £m</b>	<b>31.3.29 Forecast £m</b>
Capital financing requirement	<b>83.2</b>	<b>90.3</b>	<b>100.8</b>	<b>106.7</b>
Less: External borrowing *	53.8	52.5	51.9	51.3
<b>Internal borrowing</b>	<b>29.4</b>	<b>37.8</b>	<b>48.9</b>	<b>55.4</b>
Less: Balance sheet resources	-72.1	-78.0	-84.1	-90.3
<b>Treasury investments</b>	<b>42.6</b>	<b>40.1</b>	<b>35.2</b>	<b>34.9</b>

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

- 3.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. In other words, the CFR is the total historic outstanding capital expenditure which has not yet been paid for. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.
- 3.3 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2026/27 and beyond.
- 3.4 **Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 1 above, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk. This also allows the Council to maintain its professional investor status (known as MIFID) which allows for higher levels of advice from its treasury advisors and investment in a more diverse range of sources.
- 3.5 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

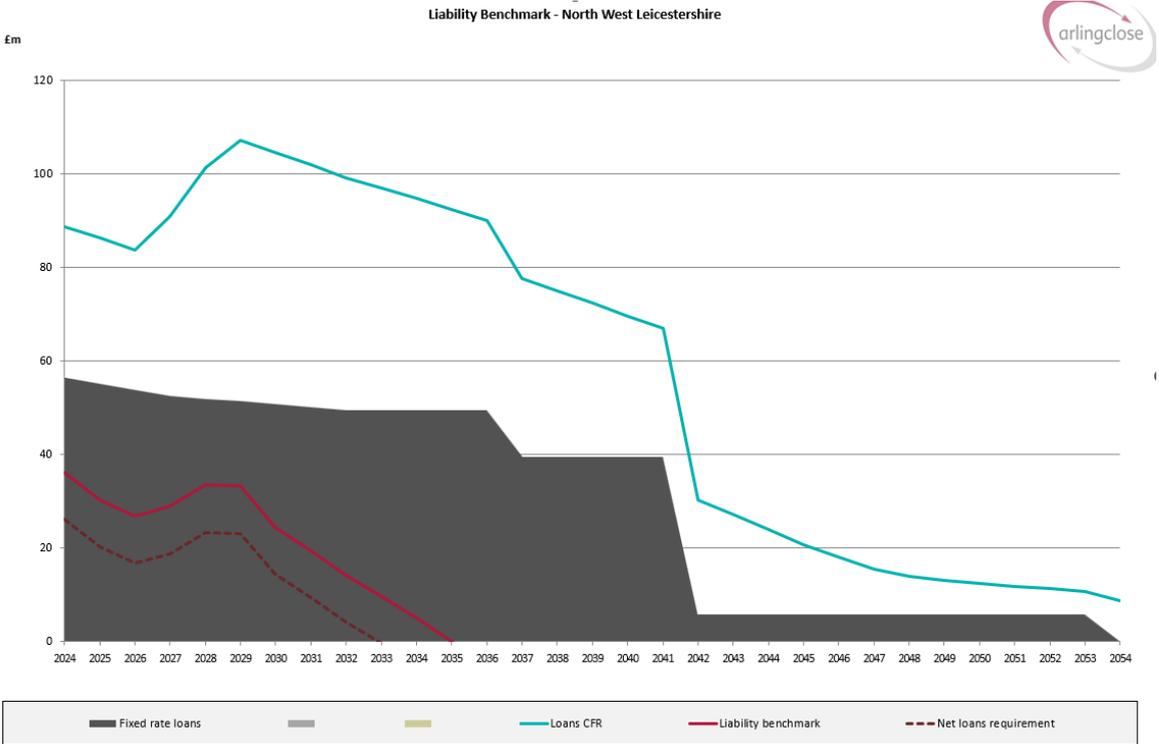
and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

3.6 Please note that the balance sheet resources figures are based on the 2024/25 draft accounts. Therefore, it is subject to change.

Table 2: Prudential Indicator: Liability benchmark

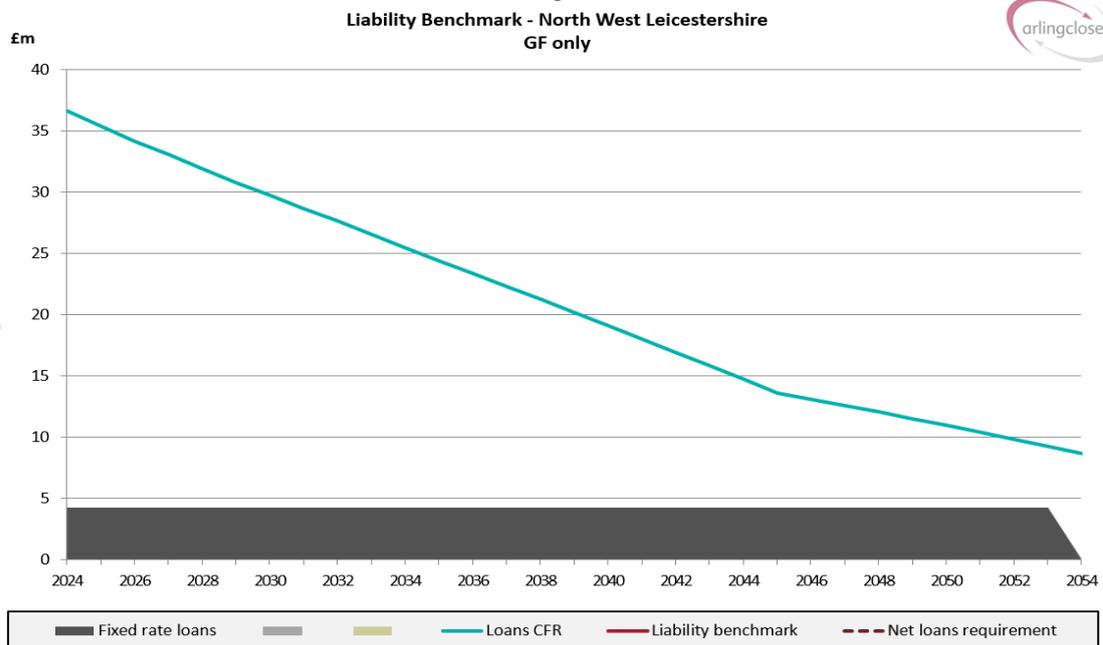
	31.3.26 Forecast £m	31.3.27 Forecast £m	31.3.28 Forecast £m	31.3.29 Forecast £m
Loans CFR	83.2	90.3	100.8	106.7
Less: Balance sheet resources	-72.1	-78.0	-84.1	-90.3
Net loans requirement	11.2	12.3	16.7	16.4
Plus: Liquidity allowance	10.0	10.0	10.0	10.0
Liability benchmark	21.2	22.3	26.7	26.4

3.7 Following on from the medium-term forecasts in Table 2 above, the long-term liability benchmark assumes capital expenditure funded by borrowing only for the HRA, minimum revenue provision on new capital expenditure based on local decisions on asset life and income, expenditure and reserves all increasing by inflation of 2.5% a year. This measure is shown in the charts below initially for the Council as a whole and then split into the General Fund and HRA together with the maturity profile of the Council’s existing borrowing. Please note that the graphs below are in part using the draft 2024/25 accounts and may be subject to change:

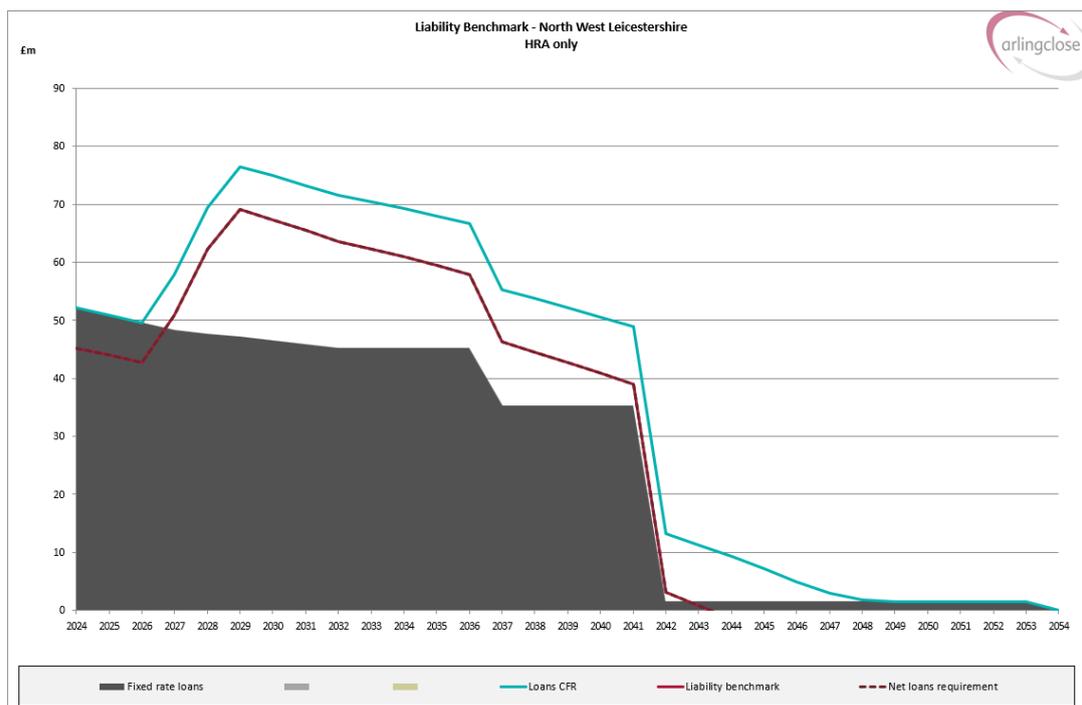


3.8 The above graph demonstrates the Council's overall forecasted borrowing requirement and anticipated underlying need to borrow. It shows that the Council is funding its CFR through a mixture of both internal and external borrowing.

3.9 The following graph shows the Liability Benchmark position for the general fund only. This is subject to change and reflects the forecasted position.



3.10 The following graph shows the Liability Benchmark position for the HRA. This shows that the HRA will likely require borrowing from 2026/27 to fund the capital programme. As discussed previously this is subject to change and reflects the forecasted position.



## 4 **Borrowing Strategy**

- 4.1 On 31 December 2025, the Council held £54.49 million of borrowing and £41.25 million of treasury investments an increase of £8.75 million compared to the start of the financial year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in Table 1 shows that the Council's CFR is due to increase by around £7.1 million in 2026/27, this will increase the need to be financed through internal or external borrowing. The Council may borrow additional sums to pre-fund future years' requirements, providing this does not exceed the forecast CFR plus any cashflow requirements. This is represented with the authorised limit for borrowing of £102.3 million as outlined below.
- 4.2 **Affordable borrowing limit:** The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.
- 4.3 Leases limits came into effect in the 2024/25 financial year with the implementation of IFRS16.

Table 3: Authorised limit and operational boundary for external debt in £m

	31.3.26 Limit	31.3.27 Limit	31.3.28 Limit	31.3.29 Limit
Operational boundary – borrowing	83.2	90.3	100.8	106.7
Operational boundary – PFI and leases	2.0	2.0	2.0	2.0
Operational boundary – total external debt	85.2	92.3	102.8	108.7
Authorised Limit – borrowing	93.2	100.3	110.8	116.7
Authorised Limit – PFI and leases	2.0	2.0	2.0	2.0
Authorised Limit – total external debt	95.2	102.3	112.8	118.7

- 4.4 **Objectives:** The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.
- 4.5 **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term interest rates have fallen over the past year and are expected to fall a little further and it is therefore likely to be more cost effective over the medium-term to either use internal resources, or to borrow short-term loans instead. The risks of this approach will be managed by keeping the Council's interest rate exposure within the limit set in the treasury management prudential indicators, see below.
- 4.6 By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in

2026/27 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

- 4.7 The Council has previously raised most of its long-term borrowing from the Public Works Loan Board (PWLB) but will consider long-term loans from other sources including banks, pensions, and local authorities, and will investigate the possibility of issuing bonds and similar instruments, to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council intends to avoid this activity to retain its access to PWLB loans.
- 4.8 Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.
- 4.9 In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages.
- 4.10 **Sources of borrowing:** The approved sources of long-term and short-term borrowing are:
- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
  - National Wealth Fund Ltd (formerly UK Infrastructure Bank Ltd)
  - Any institution approved for investments (see below)
  - Any other bank or building society or insurance company authorised to operate in the UK.
  - Any other UK public sector body
  - UK public and private sector pension funds (except Leicestershire County Council Pension Fund)
  - Capital market bond investors.
  - retail investors via a regulated peer-to-peer platform
  - Special purpose companies created to enable local Council bond issues.
- 4.11 **Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:
- Leasing
  - Hire purchase.
  - Private Finance Initiative
  - Sale and leaseback
  - Similar asset-based finance.
- 4.12 **Lender's Option Borrower's Option (LOBOs):** The Council holds no LOBO 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.
- 4.13 **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 below. Financial derivatives may be used to manage this interest rate risk (see section below).
- 4.14 **Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either

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

## **5 Treasury Investment Strategy**

- 5.1 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. Since 31 March 2025, the Council's treasury investment balance has ranged between £28.95 million and £60 million. These levels are expected to gradually reduce over the coming year due to planned capital expenditure, use of reserves and repayment of debt.
- 5.2 **Objectives:** The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, to maintain the spending power of the sum invested. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.
- 5.3 **Strategy:** As demonstrated by the liability benchmark above, the Council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.
- 5.4 The CIPFA Code does not permit local authorities to both borrow and invest long-term for cash flow management. But the Council may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by adding diversification to the strategic pooled fund portfolio.
- 5.5 **ESG policy:** Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.
- 5.6 Where practical when making investment decisions ESG will be considered and counterparties with integrated ESG policies and commitments to carbon net zero by 2050 will be favoured by the council.
- 5.7 **Business models:** Under the IFRS 9 standard, the accounting for certain investments

depends on the Council's "business model" for managing them. The Council aims to achieve value from its 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.

- 5.8 **Approved counterparties:** The Council may invest its surplus funds with any of the counterparty types in Table 4 below, subject to the limits shown.

Table 4: Treasury investment counterparties and limits

Sector	Time limit †	Counterparty limit	Sector limit
The UK Government	5 years	£60m	n/a
Local authorities & other government entities	5 years	£5m	£60m
Secured investments*	5 years	£5m	£60m
Banks (unsecured) *	13 months	£2.5m	£60m
Building societies (unsecured) *	13 months	£2.5m	£5m
Registered providers (unsecured) *	5 years	£2.5m	£12.5m
Money market funds *	n/a	£5m	£60m
Strategic pooled funds	n/a	£5m	£25m
Real estate investment trusts	n/a	£5m	£12.5m
Other investments *	5 years	£2.5m	£5m

This table must be read in conjunction with the notes below:

- 5.9 \* **Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be considered.
- 5.10 For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £5 million per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.
- 5.11 † **Time Limits:** These start on the earlier of date that the Authority is committed to make the investment and the date that cash is transferred to the counterparty.
- 5.12 **UK Government:** Sterling-denominated investments with or explicitly guaranteed by the UK Government, including the Debt Management Account Deposit Facility, treasury bills and gilts. These are deemed to be zero credit risk due to the government's ability to create additional currency and therefore may be made in unlimited amounts for up to five years.

- 5.13 **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 subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk.
- 5.14 The counterparty limit for loans to local authorities will be increased to an unlimited amount where (a) the government has announced that this authority will merge with the borrowing authority and (b) the loan is scheduled to be repaid after the expected date of the merger.
- 5.15 **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. A higher limit applies for investments fully secured on UK or other government collateral.
- 5.16 **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.
- 5.17 **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.
- 5.18 **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. A £60 million 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.
- 5.19 **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, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.
- 5.20 **Real estate investment trusts (REIT):** 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.

- 5.21 **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.
- 5.22 **Operational bank accounts:** The Council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £2.5 million per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.
- 5.23 **Risk assessment and credit ratings:** Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
- No new investments will be made,
  - Any existing investments that can be recalled or sold at no cost will be, and
  - Full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
- 5.24 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.
- 5.25 **Other information on the security of investments:** The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.
- 5.26 **Reputational aspects:** The Council is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will, therefore, be considered when making investment decisions.
- 5.27 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent

of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

- 5.28 **Investment limits:** The Council's revenue reserves available, if required, to cover investment losses are forecast to be £22.91 million on 31 March 2026 and £22.86 million on 31 March 2027. In order that no more than 50% of available reserves will be put at risk in the case of a single default, the maximum that will be lent unsecured to any one organisation (other than the UK Government) will remain at £5 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes.
- 5.29 Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £2.5 million in operational bank accounts count against the relevant investment limits.
- 5.30 Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as detailed in the table below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 5: Additional investment limits

	Cash limit
Any group of pooled funds under the same management	£12.5m per manager
Negotiable instruments held in a broker's nominee account	£12.5m per broker

- 5.31 **Liquidity management:** The Council forecasts its cashflow using an excel spreadsheet to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.
- 5.32 The Council will spread its liquid cash over at least three providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

## 6 Treasury Management Prudential Indicators

- 6.1 The Council measures and manages its exposures to treasury management risks using the following indicators.
- 6.2 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
Portfolio average credit rating	A-

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

Liquidity risk indicator	Target
Total cash available within 3 months	£2.5m

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

Interest rate risk indicator	External Borrowing Limit
Upper limit on one-year revenue impact per a 1% <u>rise</u> in interest rates	£550,000
Upper limit on one-year revenue impact per a 1% <u>fall</u> in interest rates	£550,000

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

6.6 **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	Lower limit	Upper Limit	Position as at 01/04/2026
Under 12 months	0%	70%	37%
12 months and within 24 months	0%	30%	1%
24 months and within 5 years	0%	30%	2%
5 years and within 10 years	0%	30%	1%
10 years and within 20 years	0%	90%	53%
20 years and above	0%	30%	7%
<b>TOTAL</b>			<b>100%</b>

*\*includes internal borrowing*

6.7 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.

6.8 The figures above include internal borrowing. The assumption is made that internal

borrowing matures in one working day so the full amount of £29.41 million is all represented in the 'under 12 months' row.

- 6.9 **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 prudential limits on the long-term treasury management investments will be:

Price risk indicator	2026/27	2027/28	2028/29	No fixed date
Limit on principal invested beyond year end	£60m	£10m	£10m	£10m

- 6.10 The section named 'no fixed date' refers to longer dated investments which have no set maturity point but are anticipated to be held for a period longer than a year e.g., strategic property funds.

## 7 **Related Matters**

- 7.1 The CIPFA Code requires the Council to include the following in its treasury management strategy.
- 7.2 **Financial derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. 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).
- 7.3 The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
- 7.4 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.
- 7.5 In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.
- 7.6 **Housing Revenue Account:** In 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income

arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the Council's average interest rate on investments, adjusted for credit risk.

- 7.7 **External Funds:** The Council manages S106 funds. These funds contribute towards the investment balances. Therefore, interest earned on S106 balances are repaid to the S106 fund. The value of the S106 funds as at 31 December 2025 equals £7.2 million. Reducing the Council's overall interest earned forecast by an estimated £155,125.
- 7.8 Additionally, the Council holds funds for the Chairman's Charity which is gathered throughout the year and apportioned out to selected charities. These amounts are negligible.
- 7.9 **Markets in Financial Instruments Directive:** The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Head of Finance believes this to be the most appropriate status.

## **8 Financial Implications**

- 8.1 The risk adjusted budget for investment income in 2026/27 is £710,867, based on an average investment portfolio of £29.09 million at an interest rate of 3.05%. Deductions largely consisting of S106 Balances will reduce this by £155,125 leaving a total forecasted interest income of £555,742.
- 8.2 The allocations of interest to the General Fund and HRA will be worked out based on the average notional investment balances of both funds throughout the financial year the percentage of which will be applied to the overall interest received after deductions. The forecasted notional balances of each fund throughout the year result in a split of 38% for the general fund totalling £210,867 and 62% for the HRA totalling £344,875.
- 8.3 This interest forecast is subject to a great deal of change as it is impacted by cashflow timings, delivery of capital programmes and their subsequent forecasts, grant payments, grant repayments and growth in council tax, business rates and social housing rents. It is also dependent on our base rate forecast being accurate (shown in appendix A and paragraph 2.14) which in turn is impacted by economic factors such as inflation which are notoriously difficult to predict. Therefore, this forecast is likely to evolve throughout the year and can change on a daily basis. As a result of the changeable nature of investment return the above interest income forecast is risk adjusted to be reduced by 20% of actual projections to reduce the risk to the Council's budget of the possible changes.
- 8.4 The budget for debt interest paid in 2026/27 is £1.9 million. Of this £0.2 million refers to the General Fund and £1.7 million to the HRA. This is based on an average debt portfolio of

£53.79 million at an average interest rate of 3.52%. £49.6 million of this forecast is HRA Borrowing and £4.2 million is General Fund.

- 8.5 If actual levels of investments and borrowing, or actual interest rates, differ from those forecasts, performance against budget will be correspondingly different.
- 8.6 Where investment income exceeds budget, e.g., from higher risk investments including pooled funds, or debt interest paid falls below budget, e.g., from cheap short-term borrowing, then 50% of the revenue savings will be transferred to a treasury management reserve to cover the risk of capital losses or higher interest rates payable in future years. This option will be at the discretion of the Chief Financial Officer and will not be taken in periods of outstanding financial pressures or uncertainties.

## 9 Other Options Considered

- 9.1 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Head of Finance, having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

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

### **Appendix A – Arlingclose Economic & Interest Rate Forecast – 22 December 2025**

#### **Underlying assumptions:**

- The Bank of England duly delivered on expectations for a December rate cut, but, despite softer economic data over the past two weeks, the minutes highlighted increased caution surrounding both the inflation outlook and the speed of future easing. With a close vote of 5-4 in favour of a rate reduction, this suggests that the bar for further monetary easing may be higher than previously thought despite the possibility of the CPI rate falling to target in 2026.
- Budget policies and base effects will mechanically reduce the CPI rate in 2026, on top of the downward pressure arising from soft economic growth and the looser labour market. However, many policymakers appear concerned that household and business inflation and pricing expectations are proving sticky following recent bouts of high price and wage growth, which may allow underlying inflationary pressure to remain elevated. While the Bank's measure of household expectations tickled lower in December, it remains above levels consistent with the 2% target at 3.5%.
- While policymakers hold valid concerns, these appear somewhat out of line with current conditions; CPI inflation fell to 3.2% in November, private sector wage growth continued to ease amid the highest unemployment rate since the pandemic, and the economy contracted in October after barely growing in Q3. Business surveys pointed to marginally stronger activity and pricing intentions in December but also suggested that the pre-Budget malaise was not temporary. These data are the latest in a trend suggesting challenging economic conditions are feeding into price and wage setting.
- Risks to the growth and inflation outlook lie to the downside, which may ultimately deliver lower Bank Rate than our central case. However, the minutes suggest that the bar to further rate cuts beyond 3.25% is higher and the near-term upside risks to our Bank Rate forecast have increased. Having said that, we believe inflation expectations will naturally decline alongside headline inflation rates.
- Investors appear to have given the UK government some breathing space following the Budget, with long-term yields continuing to trade at slightly lower levels than in late summer/early autumn. Even so, sustained heavy borrowing across advanced economies, the DMO's move towards issuing more short-dated gilts and lingering doubts about the government's fiscal plans will keep short to medium yields above the levels implied by interest rate expectations alone.

#### **Forecast:**

- In line with our long-held forecast, Bank Rate was cut to 3.75% in December.
- Continuing disinflation, rising unemployment, softening wage growth and low confidence suggests that monetary policy will continue to be loosened.
- Arlingclose expects Bank Rate to be cut to 3.25% by middle of 2026. However, near-term upside risks to the forecast have increased.
- Medium and long-term gilt yields continue to incorporate premia for UK government credibility, global uncertainty and significant issuance. These issues may not be resolved quickly and we expect yields to remain higher.

	Current	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28
<b>Official Bank Rate</b>													
Upside risk	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central Case	3.75	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Downside risk	0.00	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
<b>3-month money market rate</b>													
Upside risk	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central Case	3.82	3.55	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.35	3.35	3.35
Downside risk	0.00	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
<b>5yr gilt yield</b>													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	3.96	3.85	3.80	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.80	3.80	3.80
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
<b>10yr gilt yield</b>													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.52	4.40	4.35	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.35	4.35	4.35
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
<b>20yr gilt yield</b>													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	5.16	5.00	4.95	4.90	4.90	4.90	4.90	4.90	4.90	4.90	4.95	4.95	4.95
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
<b>50yr gilt yield</b>													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.74	4.65	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.65	4.65	4.65
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85

PWLB Standard Rate = Gilt yield + 1.00%

PWLB Certainty Rate = Gilt yield + 0.80%

PWLB HRA Rate = Gilt yield + 0.40%

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

## Appendix B

### Existing Investment & Debt Portfolio Position - 31 December 2025

	31/12/2025 Actual portfolio £m	31/12/2025 Average rate %
<b>External borrowing:</b>		
Public Works Loan Board	50.56	3.28%
LOBO loans from banks	0.0	0.00%
Other loans	3.94	4.74%
Hinckley & Bosworth	0.05	3.14%
<b>Total external borrowing</b>	<b>54.49</b>	<b>3.52%</b>
<b>Treasury investments:</b>		
The UK Government	12.75	3.77%
Local authorities	5.00	4.40%
Banks (unsecured)	0.00	3.90%
Money market funds	18.50	3.90%
<b>Total treasury investments</b>	<b>41.25</b>	<b>3.98%</b>
<b>Net debt</b>	<b>12.54</b>	