



Treasury Management Strategy Statement 2025/2026



Cherwell

DISTRICT COUNCIL
NORTH OXFORDSHIRE

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1. Introduction

The council is required to operate a balanced revenue budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the council's low risk appetite, providing adequate liquidity initially before considering investment return.

The other main function of the treasury management service is the funding of the council's capital plans. These capital plans provide a guide to the borrowing need of the council, essentially the longer-term cash flow planning, to ensure that it can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet risk or cost objectives.

The contribution the treasury management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

“The management of the local authority's borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

1.1 Treasury Management Reporting

The aim of the strategy is to ensure that all the council's elected members fully understand the overall long-term policy objectives and resulting Treasury Strategy requirements, governance procedures and risk appetite.

The council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

All of these reports will first be reviewed Accounts, Audit and Risk Committee before being recommended to council.

- a. **Treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers how the investments and borrowings are to be organised and setting treasury indicators
- b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the Treasury position, prudential indicators, and whether any policies require revision.
- c. **An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Full Council. This role is undertaken by the Accounts, Audit and Risk Committee.

Quarterly reports – In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June/end of December) has also been required. However, these additional reports do not have to be reported to Full Council but do require to be adequately scrutinised. This role is undertaken by the Accounts, Audit and Risk Committee.

1.2 Treasury Management Strategy for 2025/26

The strategy for 2025/26 covers the following Treasury management issues:

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

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

1.3 Training

The CIPFA Treasury Management Code requires the Section 151 Officer, as the responsible officer, to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

Furthermore, pages 47 and 48 of the Code state that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making. The scale and nature of this will depend on the size and complexity of the organisation’s treasury management needs.

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

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/council members.
- Require treasury management officers and board/council members to undertake self-assessment against the required competencies. CIPFA’s Better Governance Forum and Treasury Management Network self-assessment by members responsible for the scrutiny of treasury management will be used.
- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis.

The training needs of treasury management officers are periodically reviewed.

1.4 Treasury Management Consultants

The council uses MUFG Corporate Markets (previously known as Link Treasury Services) as its external treasury management advisors.

The council recognises that responsibility for treasury management decisions always remains with the organisation and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The council will

ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

1.5 Treasury Management Portfolio

1.5.1 The overall treasury management portfolio as at 31.3.24 and for the forecast position as at 31.03.25 are shown below for both borrowing and investments.

Table 1: Overall treasury management portfolio

TREASURY PORTFOLIO				
	actual	actual	forecast	forecast
	31.3.24	31.3.24	31.3.25	31.3.25
Treasury investments	£000	%	£000	%
Banks		0%		0%
Building societies - unrated		0%		0%
Building societies - rated		0%		0%
Local authorities	13,000	59%	5,000	39%
DMADF (H.M.Treasury)		0%		0%
Money Market Funds	8,920	41%	7,821	61%
Certificates of Deposit		0%		0%
Total managed in house	21,920	100%	12,821	100%
Bond Funds		0%		0%
Property Funds		0%		0%
Total managed externally	0	0%	0	0%
Total treasury investments	21,920	100%	12,821	100%
Treasury external borrowing				
Local Authorities	15,000	8%	35,000	19%
PWLB	166,000	92%	145,000	81%
LOBOs		0%		0%
Total external borrowing	181,000	100%	180,000	100%
Net treasury investments / (borrowing)	(159,080)	-	(167,179)	-

1.6 Balance sheet summary and forecast

1.6.1 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the

underlying resources available for investment. The council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

1.6.2 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 next three years. The table above shows that the council expects to comply with this recommendation.

Table 2: Balance sheet summary and forecast

	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
General Fund CFR	234.4	243.5	241.7	239.6	235.7
Less: External borrowing	(181.0)	(180.0)	(179.0)	(178.0)	(173.0)
Less: Service Loans and lease liability	0.0	0.0	0.0	0.0	0.0
Internal/(over) borrowing	53.4	63.5	62.7	61.6	62.7
Usable reserves	(50.7)	(43.6)	(44.9)	(45.5)	(46.6)
Working capital	(24.6)	(23.6)	(22.6)	(21.6)	(20.6)
Usable reserves and working capital less internal borrowing equals Investments / (borrowing)	21.9	3.7	4.8	5.5	4.5

1.7 Liability Benchmark

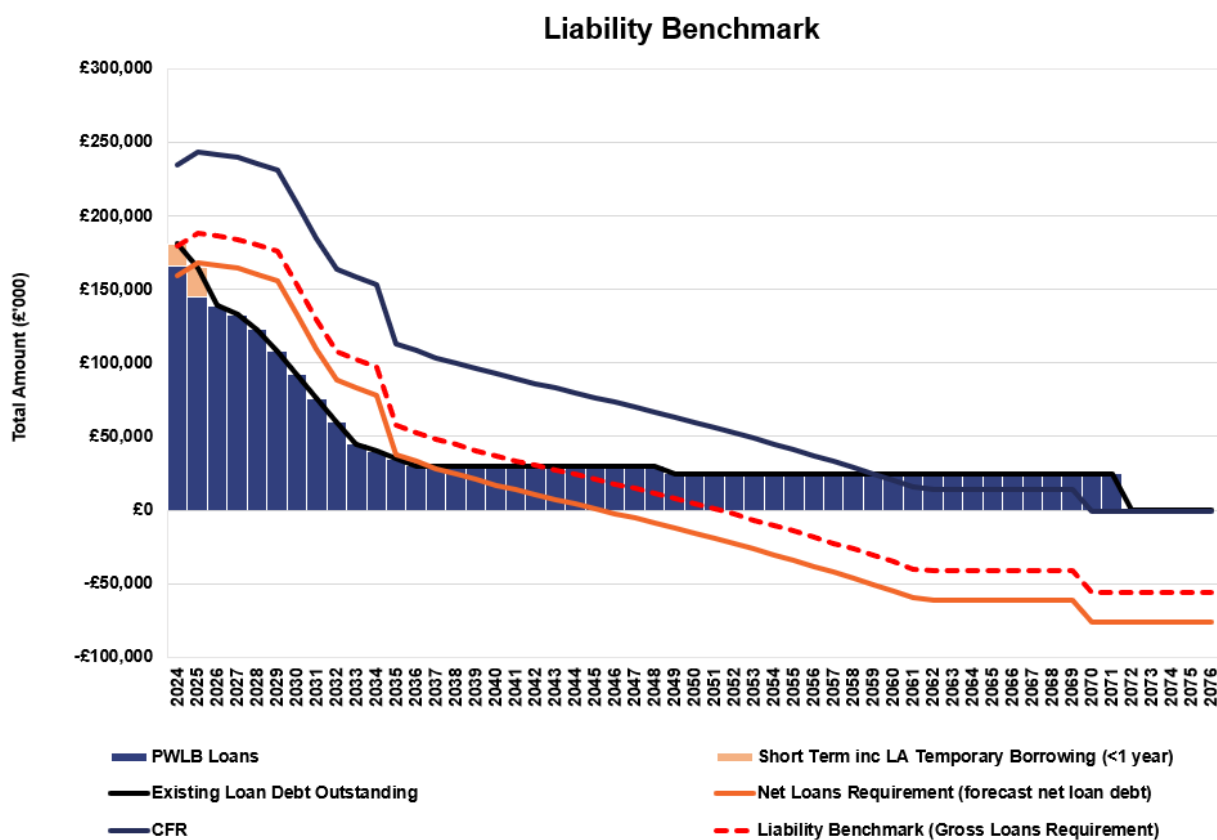
1.7.1 The council is pleased to include the Liability Benchmark (LB) as a prudential indicator for 2025/26 in this report. The council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

1.7.2 There are four components to the LB:

- a.) **Existing loan debt outstanding:** the council's existing loans that are still outstanding in future years.

- b.) **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned Minimum Revenue Provision (MRP.)
- c.) **Net loans requirement:** this will show the council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
- d.) **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

Table 3: Liability Benchmark



1.7.3 This graph is based only on approved activities in the current and proposed capital programme and it therefore assumes there are no future capital investments beyond what is included in the capital programme. This graph is not a forecast but a snapshot of the council's current commitments and loans. The difference between net loan requirement and CFR is made up of internal borrowing.

1.7.4 The LB graph above demonstrates that the council is in an under borrowed position until 2044. Using the current data available the CFR may be nil by 2068 and the estimated internal borrowing currently used to finance the CFR can be invested as the CFR reduces.

1.8 General Balances & Reserves and Expected Investment Balances

1.8.1 Internal borrowing is possible because of the council's General Balances and reserves as laid out in the table below. These funds can be used to finance capital expenditure or other budget decisions to support the revenue budget, but it is important that there is enough liquidity to ensure that should the funds be called upon that the council would not be forced to borrow in an unfavourable position.

1.8.2 The other component within this table is working Capital which is made up of a combination of debtors, creditors, long term liabilities and non-capital deferred credits / receipts.

Table 4: General Balances & Reserves and Expected Investment Balances

Year End Resources	2023/24	2024/25	2025/26	2026/27	2027/28
£m	Actual	Estimate	Estimate	Estimate	Estimate
Collection Fund Adjustment Account	1.5	(0.1)	0.0	0.0	0.0
General Balances	6.1	6.2	6.2	6.2	6.1
Earmarked Reserves	30.9	28.6	29.8	30.4	31.5
Revenue Grants	5.9	5.9	5.9	5.9	6.0
Capital Reserves	6.3	3.0	3.0	3.0	3.0
Usable reserves	50.7	43.6	44.9	45.5	46.6
Working capital*	24.6	23.6	22.6	21.6	20.6
Internal/(over) borrowing	53.4	63.5	62.7	61.6	62.7
Usable reserves and working capital less internal borrowing equals Investments / (borrowing)	21.9	3.7	4.8	5.5	4.5

*Working capital balances shown are estimated year-end; these may vary midyear

1.9 Treasury Management Indicators

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

- 1.9.1 **Interest rate exposures for both borrowing and investing:** This indicator is set to control the council's exposure to interest rate risk. The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates. The upper limits on the one-year revenue impact of a 1% rise or a 0.75% fall in interest rates will be:

Table 5: Interest rate exposures for both borrowing and investing in 25/26

Interest rate risk indicator	Impact	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	Borrowing: The revenue impact would only affect the cost of refinancing maturing loans	£290,000
	Investments: As the council maintains short investment terms (average 32 days in 24/25) this would increase in revenue for investments	£262,500
Upper limit on one-year revenue impact of a 0.75% fall in interest rates	Borrowing: Falling interest rates would result in a savings in the cost of refinancing maturing loans	£217,500
	Investments: As the council maintains short investment terms (average 32 days in 24/25) this would decrease investments returns	£196,875

*calculations based on the 25/26 budget

- 1.9.2 **Maturity structure of borrowing:** The council monitors its exposure to refinancing risk with the maturity structure of borrowing indicator. The practice of setting a 'maturity structure of borrowing' aims to profile the maturity dates of borrowing so that loans don't all mature at once as this exposes the council to refinancing risk. As an example, if all of the council's loans had matured in the last 6 months, the council would have been forced to refinance at the higher interest rates than budgeted for. Instead, the council's loan maturity dates are spread out. Even if rates are still high when the council needs to refinance some of the first loans in the portfolio to mature, at least the council is only exposed to the higher interest rates on those loans, and not all loans. The upper and lower limits on the maturity structure of borrowing will be as per Table 6 below:

Table 6: Maturity structure of borrowing limits in 25/26

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	50%	0%

12 months and within 24 months	50%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	70%	0%
10 years and above	80%	0%

- 1.9.3 The upper limit should always be reviewed in line with the Liability benchmark to ensure that refinancing risk is mitigated. While it is important to have flexibility to navigate changing market conditions it is critical that loan repayments are spread appropriately. The lower limit has been considered but kept at zero to ensure that the council is not forced into taking borrowings in a particular category that would lock us into an unfavourable borrowing situation. The council feels that having no set lower limit gives officers the best flexibility to react to the economic climate. For example, if a lower limit for 10-year borrowing was set it may force the council to take out loans of that term when rates are high, rather than the council's preferred strategy of borrowing for shorter periods (still spread out) until rates begin to settle at the level the council's advisors believe will be the new "normal".
- 1.9.4 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. The upper and lower limits as shown above provide the scope to accommodate new loan(s) in the most appropriate maturity band at the time of borrowing.
- 1.9.5 **Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end. The council is asked to approve the following treasury indicator and limit:

Table 7: Long term investment limits

	2024/25	2025/26	2026/27
Upper limit for principal sums invested for longer than 365 days	£5m	£5m	£5m
Current investments as at 31.12.2024 in excess of 1 year maturing in each year	Nil	Nil	Nil

1.10 Financial implication of the 25/26 Treasury budget

- 1.7.1 The budget for treasury investment income in 2025/26 is £0.886m, based on an average investment portfolio of £26m at an average interest rate of 3.38%. This is

a decrease from the £1.150m budgeted for in 2024/25, based on an average investment portfolio of £28m at an average interest rate of 5.08%.

- 1.7.2 The budget for committed debt interest payable in 2025/26 is £4.851m, based on an average debt portfolio of £179m at an average interest rate of 2.71%. This is an increase from the 2024/25 budget of £4.711m, based on an average debt portfolio of £187m an average interest rate of 2.52%.
- 1.7.3 If actual levels of investments and borrowing, or interest rates, differ from those forecasts, performance against budget will be correspondingly different.

2 Borrowing

2.1 Borrowing Strategy

- 2.1.1 The council is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the council's reserves, balances and cash flow has been used as a temporary measure (as detailed in table 4.) This strategy is prudent as medium and longer dated borrowing rates are expected to slowly start reducing until they settle at around 3% in 2027/28.
- 2.1.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The S151 Officer, using information supplied by the council's Treasury Advisors, will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances for example:
- *if it was felt that there was a significant chance of a sharp FALL in borrowing rates, then long term borrowing will be postponed.*
 - *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

It is important to note that decisions can only be taken based on the best information available at the time and cannot be taken with the benefit of hindsight.

- 2.1.3 Any significant decisions made by the S151 officer will be reported to the Accounts, Audit and Risk Committee (AARC) at the next available opportunity. In addition, the council may borrow further short-term loans to cover unplanned cash flow shortages.

2.1.4 Forecast of borrowing rates: It is expected that the Bank of England base rate will slowly reduce from its current forecast rate of 4.50% in March 2025 to 3.75% by March 2026.

2.2 Approved Sources of Long and Short-term Borrowing

	Fixed	Variable
Public Works Loan Board (PWLB) and any successor body	●	●
Any other UK public sector body e.g., other councils	●	●
Any other bank or building society authorised to operate in the UK	●	●
Any institution approved for investments (see below)	●	●
UK private and public sector pension funds (except Oxfordshire County Council Pension Fund)	●	●
Insurance Companies	●	●
UK Infrastructure Bank	●	●
Overdraft	●	
Internal borrowing (capital receipts & revenue balances)		●

2.2.1 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:

	Fixed	Variable
Finance Leases	●	●
Hire purchase	●	●
Private Finance Initiative	●	●
Crowd Funding	●	●

2.3 Policy on Borrowing in Advance of Need

2.3.1 The council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be taken in consideration of the forecast Capital Financing Requirement, forecast interest rate changes, and will be considered carefully to ensure that value for money can be demonstrated and that the council can ensure the security of investing such funds.

2.3.2 Risks associated with any borrowing in advance of activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

2.4 Debt Rescheduling

- 2.4.1 As the council's PWLB loan portfolio has an average interest rate of 2.23% the PWLB would currently reward early repayment due to the discount rates on offer. For example, if the council repaid the £25m loan maturing in 2071 the PWLB would offer a 4.43% discount rate which would equate to £13.5m discount. However, a statutory override would require any discount to be amortised to revenue over 10 years, which reduces the initial revenue benefit. In addition, the council is currently in an under borrowed position and premature repayment would be problematic as loans at higher rates would need to be taken and this would create additional revenue cost. The option to reschedule existing loans will be reviewed on a regular basis and any decision making would be supported by a net present value appraisal, which would provide expected whole life net General Fund benefit.
- 2.4.2 If any loan rescheduling is to be undertaken, it will be reported to the Accounts, Audit and Risk Committee, at the earliest meeting following its action.

3 Investing

3.1 Investment strategy

- 3.1.1 The council's investment priorities will be **security first, portfolio liquidity second and then yield (return)**. The council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to the council's risk appetite.
- 3.1.2 The council's strategy is to have regard to the **Environmental, Social and Governance** ("ESG") risks presented by its Counterparties. The Treasury function will favour any counterparty that offers "ESG" or 'green' investments as long as all investment criteria as laid out in this strategy are met.

It is important to note that excluding any one counterparty, on social norms or standards, will likely mean others will similarly have to be avoided and thus impact the council's capacity to mitigate risk through diversification.

- 3.1.3 In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider "laddering" investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.
- 3.1.4 This council has adopted a prudent approach to managing risk and defines its risk appetite by the following means:
- a.) Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance

of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.

- b.) **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- c.) **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 3.1 (Table 8.)
- d.) **Transaction limits** are set for each type of investment in 3.2 (Table 9.)
- e.) This council will set a limit for its investments which are invested for **longer than 365 days**, (see point 1.9 Treasury Management indicators).
- f.) All investments will be denominated in **sterling**.
- g.) As a result of the change in accounting standards from 2022/23 under IFRS 9, this council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.
- h.) However, this council will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Monthly monitoring of investment performance will be carried out during the year.

The above criteria are *unchanged* from last year.

3.2 Creditworthiness policy and approved counterparties limits

- 3.2.1 The council will only invest with counterparties with a long-term rating of A and above. The council's treasury advisors publish a bespoke approved counterparty list which is updated weekly. There is a limit of £3m per counterparty.
- 3.2.2 All other councils (Local Authorities) are approved counterparties subject to there not being a Section 114 notice in place. There is a limit of £5m per counterparty.
- 3.2.3 The council may invest unlimited amounts with the UK Government via the Debt Management Office (referred to as the DMADF.)
- 3.2.3 The council may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown.

Table 8: Approved investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£3m 5 years	£3m 20 years	£5m 50 years	£3m 20 years	£3m 20 years
AA+	£3m 5 years	£3m 10 years	£5m 25 years	£3m 10 years	£3m 10 years
AA	£3 m 4 years	£3m 5 years	£5m 15 years	£3m 5 years	£3m 10 years
AA-	£3m 3 years	£3m 4 years	£5m 10 years	£3m 4 years	£3m 10 years
A+	£3m 2 years	£3m 3 years	£5m 5 years	£3m 3 years	£3m 5 years
A	£3m 13 months	£3m 2 years	£5m 5 years	£3m 2 years	£3m 5 years
A-	£3m 6 months	£3m 13 months	£5m 5 years	£3m 13 months	£3m 5 years
None*	None	None	£5m 2 years	None	None
Pooled funds		£5m per fund or trust			

* Any other UK public sector body e.g. other councils

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

Credit rating: Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks 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.

Banks secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they 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 to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and councils 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. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made following an external credit assessment.

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly 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.

Pooled funds: Shares or units in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds 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 are available for withdrawal after a notice period, their performance and continued suitability in meeting the council's investment objectives will be monitored regularly.

Financial Derivatives: 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. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

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 £50,000 per bank wherever possible e.g. except for overnight balances where funds are received during the day and it is too late to transfer to another counterparty. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the council maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made until it improves sufficiently to meet our minimum criteria,
- consideration of risk of default of existing investments and whether they can be recalled or sold at no cost will be made, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: 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.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings but can be seen in other market measures. In these circumstances, the council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these

restrictions mean that insufficient commercial organisations of high credit quality are available to invest the council's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other councils. This will cause a reduction in the level of investment income earned but will protect the principal sum invested.

Investment limits: In order that the council's revenue reserves available to cover investment losses are not put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

3.3 Investment limits

3.3.1 Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Assistant Director of Finance (S151 Officer) and staff, who must act in line with the treasury management strategy approved by council. Reports on treasury management activity are presented to the Accounts, Audit & Risk Committee. The Accounts, Audit & Risk Committee is responsible for scrutinising treasury management decisions.

3.3.2 To reduce risk, investment limits have been set, as laid out in Table 9 below:

Table 9: Monetary limit for investment types

	Investment limit
UK Central Government	Unlimited
Any single organisation, including UK public sector body e.g. other councils	£5m each
Any group of organisations under the same ownership	£5m per group
Any group of pooled funds under the same management	£5m per manager
Negotiable instruments held in a broker's nominee account	£3m per broker
Registered providers and registered social landlords	£10m in total
Unsecured investments with building societies	£10m in total
Loans to unrated corporates	£5m in total
Money market funds	£20m in total
Real estate investment trusts	£5m in total

3.3.3 The investment limit on money market funds has been increased from £15m in total to £20m. The council currently uses 5 money market funds that offer liquidity at very competitive market rates. The increase in the total investment limit would allow flexibility in determining whether to invest funds overnight in the DMADF (UK Debt Management Office) or in Money Market Funds which have built in diversification, allocating funds invested across at least 10 high credit quality counterparties.

3.4 Related Matters

3.4.1 **Markets in Financial Instruments Directive (MiFID II):** 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 Assistant Director of Finance (S151 Officer) believes this to be the most appropriate status.

3.4.2 This requires the council to have a minimum investment balance £10 million and the person making investment decisions on behalf of the council to have at least one year's relevant professional experience. Investments as well as cash deposits are count towards meeting the £10 million threshold.

3.4.3 **General Data Protection Regulation 2018:** Relationships with external providers covered by the Treasury management Practices are governed by and operated in accordance with the act.

4 Appendices

4.1 Interest Rates forecasts 2024-2027

Interest Rate Forecasts								
Bank Rate	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Link	4.50%	4.25%	4.00%	4.00%	3.75%	3.75%	3.75%	3.50%
Cap Econ	4.50%	4.25%	4.00%	3.75%	3.50%	3.50%	3.50%	3.50%
5Y PWLB RATE								
Link	4.90%	4.80%	4.60%	4.50%	4.50%	4.40%	4.30%	4.20%
Cap Econ	5.10%	4.90%	4.80%	4.60%	4.60%	4.50%	4.50%	4.40%
10Y PWLB RATE								
Link	5.10%	5.00%	4.80%	4.80%	4.70%	4.50%	4.50%	4.40%
Cap Econ	5.30%	5.10%	5.00%	4.80%	4.80%	4.70%	4.60%	4.60%
25Y PWLB RATE								
Link	5.50%	5.40%	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%
Cap Econ	5.70%	5.50%	5.30%	5.00%	4.90%	4.90%	4.80%	4.70%
50Y PWLB RATE								
Link	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%	4.70%	4.60%
Cap Econ	5.30%	5.20%	5.20%	5.10%	5.00%	4.90%	4.80%	4.80%

4.2 Economic backdrop - 31st December 2024

The Bank of England (BoE) kept Bank Rate unchanged at 4.75% at its December meeting. While the result was in line with market expectations, the vote was not, with two more members voting for a cut. The 6-3 vote provided a dovish tilt to the result, with those in favour of a reduction citing concerns over the economic outlook, which could pull inflation below target over the medium term. The meeting also saw the Bank lower its Q4 growth forecast from 0.3% to 0%.

Regarding higher than expected private sector wage increases in the latest print, the Bank merely noted that this "tends to be volatile". Further, those members who voted for no change also reiterated that they still expected to deliver cuts in 2025, with Governor Bailey saying that "we think a gradual approach to future interest rate cuts remains right, but with heightened uncertainty in the economy, we cannot commit to when or by how much we will cut rates in the coming year." This pushed back on a hawkish shift in market sentiment seen in the run-up to the decision. Market sentiment regards the future policy path did see some fresh extension of rate cut expectations, but the first move has drifted back to the meeting in May. Thereafter, markets expect a second cut by September but remain shy of pricing in a further move before the close of the year.

4.3 Glossary of terms

Counterparties - an opposite party in a contract or financial transaction. This may include the central Government, councils, Banks and Building societies to name a few.

Cost of Carry - The difference between the interest payable on borrowing on debt and the interest receivable from investing surplus cash.

Debt Rescheduling - A change in the terms of outstanding loans. The rescheduling can take the form of an entirely new loan, or it could mean repaying the debt early for a discount if the current market rates are higher than the fixed interest on the loan.

General Balances and Reserves – The General balance has been created by keeping aside surplus funds during an accounting period to meet contingencies or offset future losses. Reserves however are created for a specific purpose. This may be funds that have been received and earmarked for a specific purpose in the future.

Internal Borrowing – Instead of taking external loans to fund activities such as Capital expenditure, the council may use income and grants received in advance, to fund these activities. Usually, surplus funds are invested to earn interest, however it is prudent to use these funds instead of loaning money as loans generally cost more than could be earned by investing the funds.

Laddering – is an investment technique that requires investors to purchase multiple financial products with different maturity dates. The aim is to produce steady cash flow by deliberately planning investments.

Liability Benchmark – demonstrates how a council's existing debt maturity profile and other cash flows affect their future debt requirement. Its aim is to show whether the council is in an over-borrowed position (existing debt maturity profile is greater than their forecast debt requirement) or an under-borrowed position (existing debt maturity profile is less than their forecast debt requirement.) In monitoring this position the council can aim to secure interest rates at the acceptable rates and manage interest payable costs.