Treasury Management Strategy

2026/27 to 2035/36

Solihull
METROPOLITAN BOROUGH COUNCIL

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1 Introduction

1.1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. A key objective 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, which allow adequate liquidity initially before considering investment return.

1.1.2 The treasury management service is also involved in funding the Council's capital programme. The Corporate Capital Strategy provides a guide to the borrowing needs of the Council and the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. The management of longer term cash may involve arranging long or short-term loans, or utilising longer term cashflow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.1.3 The contribution the treasury management function makes to the Coucil 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.

1.1.4 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."

1.1.5 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.

1.2 **Reporting requirements**

1.2.1 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by a committee before being recommended to the Full Council. This role is undertaken by the Audit Committee.

1.2.2 A Treasury Management Strategy (this report) – This will provide members with an outline of how investments and borrowings are to be organised in coming years, including an Invesment Strategy and relevant indicators.

1.2.3 A Mid-Year Treasury Management Report – This will update members with the current capital position, amend indicators as necessary, and state whether the treasury operations are meeting the strategy or whether any policies require revision.

1.2.4 An Annual Treasury Report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.2.5 In addition to these reports Audit Committee receives quarterly monitoring reports to update on treasury activity.

1.2.6 The Treasury Management Strategy covers the following areas:

- the current treasury position and borrowing structure;
- debt and investment projections;
- limits to borrowing activity;
- prospects for interest rates;
- the borrowing and debt strategy;
- limits on treasury management activity;
- investment strategy;
- investment counterparty selection;
- treasury performance indicators;
- scheme of delegations;
- policy on use of external service providers;
- member and officer training;
- use of brokers.

1.2.7 The Council's capital expenditure plans, minimum revenue provision (MRP) policy, and associated prudential indicators which had previously been reported as part of the Treasury Management Strategy are reported as part of the Council's Corporate Capital Strategy.

1.2.8 The elements covered within the Treasury Management and Corporate Capital Strategy meet the requirements of the Local Government Act 2003, the CIFPA Prudential Code, The Ministry of Housing, Communities and Local Government (MHCLG) MRP Guidance, the CIPFA Treasury Management Code, and the MHCLG Investment Guidance.

1.3 Capital Programme 2025/26 – 2035/36

1.3.1 The Council's capital programme, which is approved through the Council's Corporate Capital Strategy, is a key driver of treasury management activity. Approved expenditure which is not financed through other means must be met via borrowing activity and must be considered within the Council's treasury and prudential indicators. The capital programme is summarised below.

	2025/26	2026/27	2027/28	2028/29	2029/30 to

	Forecast £m	Estimate £m	Estimate £m	Estimate £m	2035/36 Estimate £m
Non-HRA	72.808	95.055	48.616	29.400	165.247
HRA	23.442	33.447	18.690	22.531	175.595
Total	**96.250**	**128.502**	**67.306**	**51.931**	**340.842**
Financed by:					
Capital receipts	0.985	2.324	0.587	0.000	2.261
Capital grants	29.141	83.683	31.139	17.572	79.684
Contributions	1.696	3.367	0.202	0.300	2.100
Revenue	20.400	21.687	21.548	20.447	180.916
Net financing need for the year	**44.028**	**17.441**	**13.830**	**13.612**	**75.881**

2 Treasury Management Overview

2.1 The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the Annual Investment Strategy.

2.2 Current Treasury Position and Borrowing Structure

2.2.1 The Council's current treasury position is highlighted in the following table.

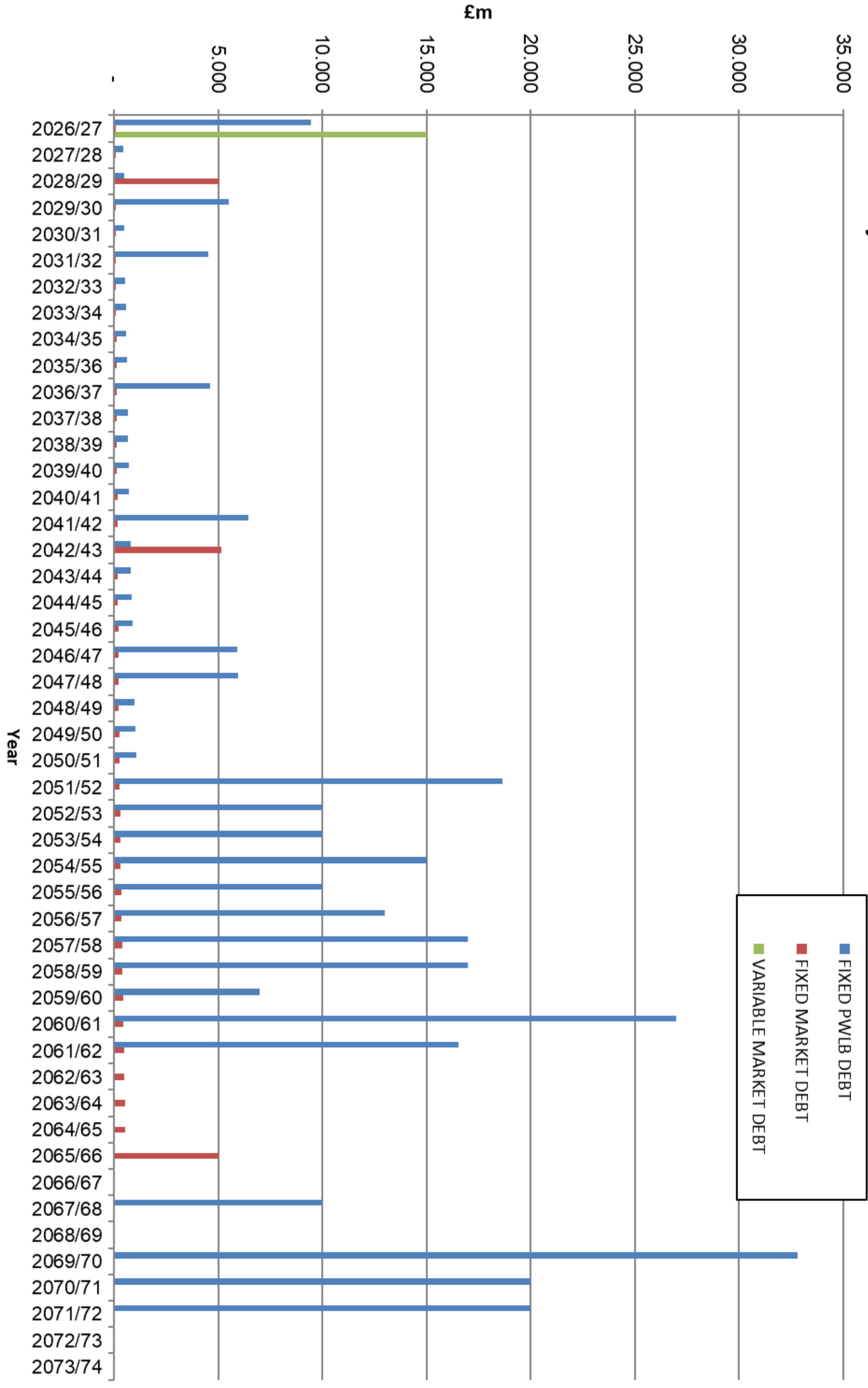
	31/3/2025 (2024/25) Actual £m	Actual Rate 2024/25 %	31/3/2026 (2025/26) Forecast £m	Forecast Rate 2025/26 %
External Borrowing				
Fixed Rate - PWLB[1]	304.760	3.625	319.341	3.666
Fixed Rate - Market	20.000	4.699	29.527	4.771
Variable Rate - Market	15.000	4.658	15.000	4.658
Total Borrowing	**339.760**	**3.734**	**363.868**	**3.850**
Investments				
Banks	(3.200)		(3.000)	
Money Market Funds	(2.000)		(5.000)	
Total Investments	**(5.200)**	**4.970**	**(8.000)**	**4.000**
Net Borrowing	**334.560**		**355.868**	

[1] PWLB: Public Works Loan Board, a branch of the Debt Management Office that lends funds to Local Government.

2.2.2 In addition, the Council has been responsible for its proportion of the former West Midlands County Council (WMCC) debt that is repayable by a 10% sinking fund over 40 years. 2025/26 is the final year of this agreement and therefore the full debt will have been repaid by 31 March 2026.

2.2.3 The maturity structure of the existing Public Works Loan Board (PWLB) and market debt is as shown in the table overleaf. This illustrates that the Council has spread the impact of the maturity over several financial years, to minimise refinancing problems at a later date.

2.2.4 Debt Maturity Profile Table



2.3 **Debt Projections 2025/26– 2035/36**

2.3.1 The Council's treasury portfolio position at 31st March 2025, with forward projections, is summarised below. The table shows the actual external debt against the underlying capital borrowing need, the Capital Financing Requirement (CFR), highlighting any 'under' or 'over-borrowing'.

	2024/25 Outturn £m	2025/26 Forecast £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m	2029/30 Estimate £m
External Debt						
Debt at 1 April	315.174	339.760	368.868	382.980	387.835	392.024
Expected change in debt requirement	24.586	29.108	14.112	4.855	4.189	18.783
Debt at 31 March	339.760	368.868	382.980	387.835	392.024	410.807
Other long-term liabilities (OLTL)	44.094	44.264	39.283	35.806	32.240	28.734
Expected change in OLTL	0.170	(4.981)	(3.477)	(3.566)	(3.506)	(3.238)
OLTL at 31 March	44.264	39.283	35.806	32.240	28.734	25.496
Gross Debt at 31 March	**384.024**	**408.151**	**418.786**	**420.075**	**420.758**	**436.303**
Capital Financing Requirement	**490.026**	**516.458**	**517.093**	**513.382**	**509.065**	**524.610**
Under / (over) borrowing	**106.002**	**108.307**	**98.307**	**93.307**	**88.307**	**88.307**

	2030/31 Estimate £m	2031/32 Estimate £m	2032/33 Estimate £m	2033/34 Estimate £m	2034/35 Estimate £m	2035/36 Estimate £m
External Debt						
Debt at 1 April	410.807	414.345	401.532	387.977	374.220	364.362
Expected change in debt requirement	3.538	(12.813)	(13.555)	(13.757)	(9.858)	(9.364)
Debt at 31 March	414.345	401.532	387.977	374.220	364.362	354.998
Other long-term liabilities (OLTL)	25.496	21.845	17.792	13.785	9.506	4.826
Expected change in OLTL	(3.651)	(4.053)	(4.007)	(4.280)	(4.680)	(1.753)
OLTL at 31 March	21.845	17.792	13.785	9.505	4.826	3.073
Gross Debt at 31 March	**436.190**	**419.324**	**401.762**	**383.725**	**369.188**	**358.071**
Capital Financing Requirement	**524.497**	**507.631**	**490.069**	**472.032**	**457.495**	**446.378**
Under / (over) borrowing	**88.307**	**88.307**	**88.307**	**88.307**	**88.307**	**88.307**

2.3.2 The above table assumes that for each new capital scheme, which requires borrowing, external borrowing is taken. However, each borrowing decision will be reviewed as it arises and should funds allow, and it is deemed to be the most efficient and cost-effective form of borrowing, then existing cash balances will replace the use of external borrowing. In these instances, the annual change in debt per year (in the table above) will be reduced by the levels of internal funding used, and the underborrowing position will increase. Alternatively, it may be that the Council's reserves and balances can no longer support the level of underborrowing held and in this case additional borrowing would be taken and the level of underborrowing would reduce.

2.3.3 The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

2.3.4 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life and so charges the economic consumption of capital assets as they are used.

2.3.5 The CFR in each year includes the public finance initiative (PFI/PPP) schemes, finance leases and transferred debt (including former WMCC debt administered by Dudley Council) which are not classified as borrowing but are included within 'other long-term liabilities.

2.3.6 The prudential indicators set within the Corporate Capital Strategy include a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2026/27 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes.

2.3.7 The section 151 (responsible) officer reports that the Council has complied with this prudential indicator in the current year and that he does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this report.

2.3.8 Debt projections have been calculated to 2035/36 in line with the ten-year capital programme. Based on estimated capital projects gross debt will peak in 2029/30 at £436.303 million before reducing to £358.071 by 2035/36. The CFR will peak at £524.610 million in 2029/30 and reducing to £446.378 million by 2035/36. The projections to 2035/36 are shown pictorially in the chart within paragraph 3.4 below.

2.4 **Liability Benchmark** – As part of the Treasury and prudential codes, each authority is required to produce a liability benchmark to show the authority's actual level of debt compared to the level required to support the CFR. There are four components to the Liability benchmark:

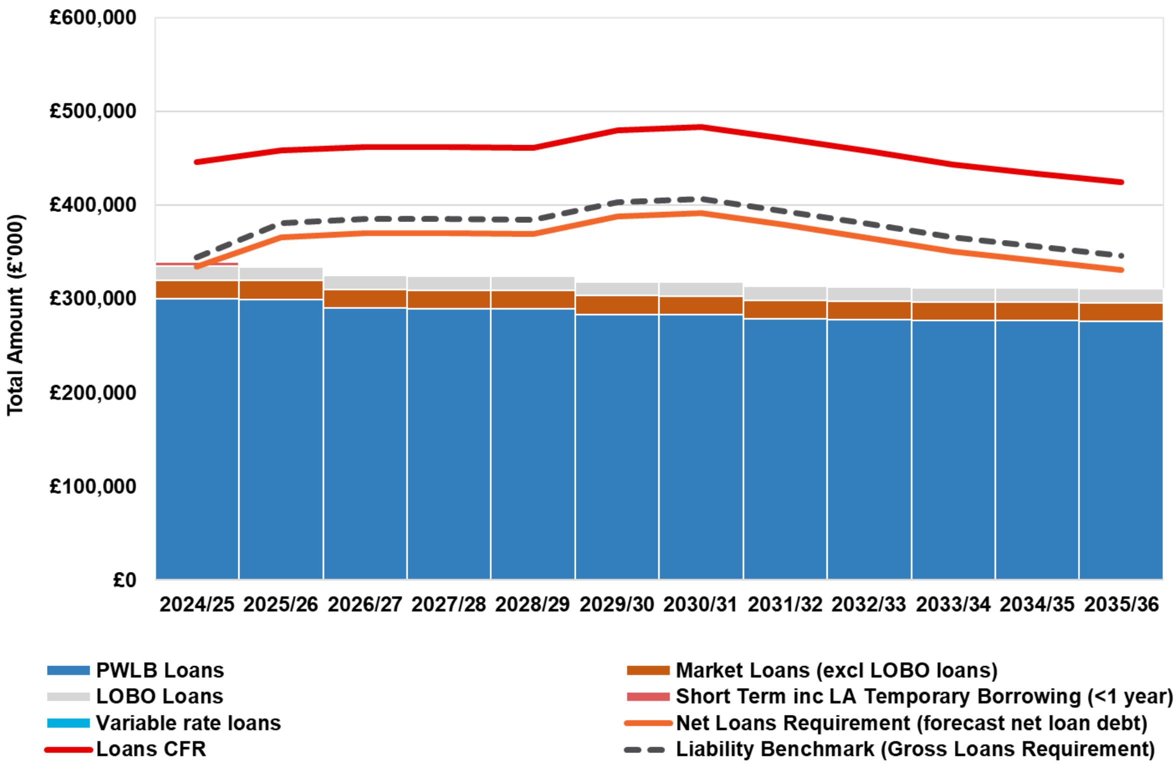
- **Existing loan debt outstanding**: the existing loans that are still outstanding in future years.

- **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 provision to repay debt (MRP)

- **Net loans requirement**: this shows the 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.

- **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

2.5 The liability benchmark for the Council is show below and shows that whilst, the Council's current borrowing levels remain below the projected CFR, there is a forecast in the need for additional borrowing in future years. This is taken into account within the financial assumptions throughout this report. This position continues to be monitored inline with forecast cashflows and any borrowing decisions will be made inline with the strategy requirements.



3 Treasury and Prudential Indicators: Limits to Borrowing Activity

3.1 **The Operational Boundary** - This is the level beyond which external borrowing is not normally expected to exceed. In most cases this would be a similar figure to the CFR but may be lower or higher depending on the levels of actual borrowing. The projections to 2035/36 are shown pictorially in paragraph 3.4 below.

	2024/25 Outturn £m	2025/26 Forecast £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m	2029/30 Estimate £m
Borrowing at 1st April	339.760	368.868	382.980	387.835	392.024	339.760
Other long-term liabilities (PFI/PPP etc.) at 1st April	44.264	39.283	35.806	32.240	28.734	44.264
Expected change in debt + other long-term liabilities	24.127	10.635	1.289	0.683	15.545	24.127
Total	408.151	418.786	420.075	420.758	436.303	408.151
Operational Boundary	**450.000**	**460.000**	**460.000**	**460.000**	**480.000**	**450.000**

	2030/31 Estimate £m	2031/32 Estimate £m	2032/33 Estimate £m	2033/34 Estimate £m	2034/35 Estimate £m	2035/36 Estimate £m
Borrowing at 1st April	410.807	414.345	401.532	387.977	374.220	364.362
Other long-term liabilities (PFI/PPP etc.) at 1st April	25.496	21.845	17.793	13.785	9.506	4.826
Expected change in debt + other long-term liabilities	(0.113)	(16.866)	(17.562)	(18.037)	(14.538)	(11.117)
Total	436.190	419.324	401.762	383.725	369.188	358.071
Operational Boundary	**480.000**	**460.000**	**440.000**	**420.000**	**410.000**	**400.000**

3.2 **The Authorised Limit for External Debt** – A further key prudential indicator represents a control on the overall level of borrowing. This is the limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. Given the current level of underborrowing within the Council, the proposed Authorised Limit is the same as the CFR plus any headroom within the HRA debt limit for each year of the Treasury Management Strategy.

3.2.1 This is the statutory limit determined under section 3(1) of the Local Government Act 2003. The Government retains an option to control either the total of all Councils' plans, or those of a specific Council, although no such control has yet been exercised. The projections to 2035/36 are shown pictorially in paragraph 3.4 below.

3.2.2 **The Council is asked to approve the following Authorised Limit:**

	2024/25 Outturn £m	2025/26 Forecast £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m	2029/30 Estimate £m
Maximum Allowable Borrowing 31 March (Including HRA Headroom)	465.185	495.772	500.566	500.264	499.681	518.278
Other long-term liabilities (PFI/PPP etc.)	44.264	39.283	35.806	32.240	28.734	25.496
Authorised Limit	**509.448**	**535.055**	**536.372**	**532.503**	**528.415**	**543.774**

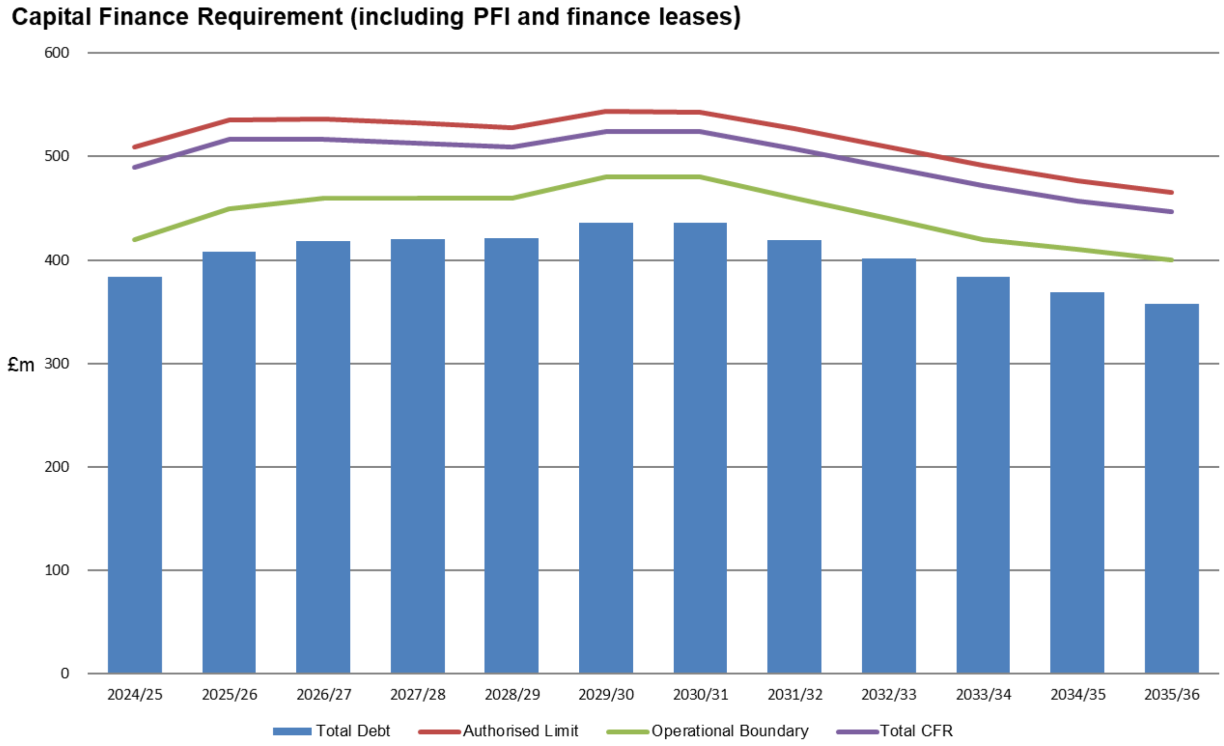
	2030/31 Estimate £m	2031/32 Estimate £m	2032/33 Estimate £m	2033/34 Estimate £m	2034/35 Estimate £m	2035/36 Estimate £m
Maximum Allowable Borrowing 31 March (Including HRA Headroom)	521.368	509.128	495.170	482.033	471.820	462.126
Other long-term liabilities (PFI/PPP etc.)	21.845	17.793	13.785	9.506	4.826	3.073
Authorised Limit	**543.213**	**526.921**	**508.955**	**491.538**	**476.645**	**465.199**

3.3 Separately, through the HRA self-financing regime, the Council is required to set a separate CFR and borrowing limit for its HRA. Historically this was based on a government imposed HRA debt cap (this was set at £179.761 million for the Council); however, this cap was removed by Government in October 2018. The revised limit is based on current HRA borrowing levels and capital expenditure plans; however, any new scheme must be approved separately by members before borrowing can be undertaken.

	2024/25 Outturn £m	**2025/26 Forecast £m**	**2026/27 Estimate £m**	**2027/28 Estimate £m**	**2028/29 Estimate £m**	**2029/30 Estimate £m**
HRA CFR	173.578	174.403	184.721	184.878	185.650	185.836
HRA Debt Limit	**193.000**	**192.000**	**204.000**	**204.000**	**205.000**	**205.000**

	2030/31 Estimate £m	**2031/32 Estimate £m**	**2032/33 Estimate £m**	**2033/34 Estimate £m**	**2034/35 Estimate £m**	**2035/36 Estimate £m**
HRA CFR	185.284	184.710	184.114	183.494	182.849	182.179
HRA Debt Limit	**204.000**	**204.000**	**203.000**	**203.000**	**202.000**	**201.000**

3.4 The longer-term forecast position, for the period 2024/25 – 2035/36, in respect to the total debt of the Council and the operational and authorised limit are shown in the chart below.



4 Prospects for Interest Rates
(Source – MUFG Corporate Markets December 2025)

4.1 The Council has appointed MUFG Corporate Markets as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the central view of MUFG Corporate Markets.

%	Bank Rate	Money Rates			PWLB Borrowing Rates		
		3 month	6 month	1 year	5 year	25 year	50 year
Current	3.75	3.80	3.80	3.90	4.70	5.85	5.65
Mar-26	3.75	3.80	3.80	3.90	4.60	5.80	5.60
Jun-26	3.50	3.50	3.50	3.60	4.50	5.70	5.50
Sep-26	3.50	3.50	3.50	3.60	4.30	5.60	5.40
Dec-26	3.25	3.30	3.40	3.50	4.20	5.50	5.30
Mar-27	3.25	3.30	3.30	3.40	4.10	5.50	5.30
Jun-27	3.25	3.30	3.30	3.50	4.10	5.40	5.20
Sep-27	3.25	3.30	3.30	3.50	4.10	5.30	5.10
Dec-27	3.25	3.30	3.40	3.50	4.10	5.30	5.10
Mar-28	3.25	3.30	3.40	3.50	4.10	5.30	5.10
Jun-28	3.25	3.30	3.40	3.50	4.10	5.20	5.00
Sep-28	3.25	3.30	3.40	3.60	4.10	5.20	5.10
Dec-28	3.25	3.30	3.40	3.60	4.10	5.20	5.00

4.2 The first half of 2025/26 saw:

- A 0.3% pick up in Gross Domestic Product (GDP) for the period April to June 2025. More recently, the economy flatlined in July, with higher taxes for businesses restraining growth, but picked up to 0.1% m/m in August before falling back by 0.1% m/m in September.

- The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% to 4.6% in September.

- CPI inflation has ebbed and flowed but finished September at 3.8%, whilst core inflation eased to 3.5%.

- The Bank of England cut interest rates from 4.50% to 4.25% in May, and then to 4% in August (and subsequently to 3.75% in December).

- The 10-year gilt yield fluctuated between 4.4% and 4.8%, ending the half year at 4.70% (before falling back to 4.43% in early November).

4.3 From a GDP perspective, the financial year got off to a bumpy start with the 0.3% m/m fall in real GDP in April as front-running of US tariffs in Q1 (when GDP grew 0.7% on the quarter) weighed on activity. Despite the underlying reasons for the drop, it was still the first fall since October 2024 and the largest fall since October 2023. However, the economy surprised to the upside in May and June so that quarterly growth ended up 0.3% q/q (subsequently revised down to 0.2% q/q). Nonetheless, the 0.0% m/m change in real GDP in July, followed by a 0.1% m/m increase in August and a 0.1% decrease in September will have caused some concern. GDP growth for 2025 - 2028 is currently forecast by the Office for Budget Responsibility (OBR) to be in the region of 1.5%.

4.4 The current MUFG Corporate Markets forecast has been revised to price in a rate cut in Q2 2026 to 3.5%, likely to take place in the wake of a significant fall in the CPI inflation reading from 3% in March to 2% in April (as forecast by Capital Economics), followed by a short lull through the summer whilst more data is garnered, and then a further rate cut to 3.25% in Q4 2026.

4.5 **Gilt yields and PWLB rates -** The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, but the risks to our forecasts are generally to the upsides. Accordingly, our updated central forecast is made with several hefty caveats. We are confident, as we have been for some time, that our forecast for Bank Rate and the 5-year PWLB Certainty Rate is robust, and we have marginally brought forward the timing of the next rate cut(s). But for the 10-, 25- and 50-years part of the curve, the level of gilt issuance, and the timing of its placement, will be integral to achieving a benign trading environment. That is not a "given", and additionally, the inflation outlook and political factors domestically and, crucially, in the US, are also likely to hold sway.

Investment and Borrowing Rates

4.6 Investment returns have reduced at a gradual rate through 2025/26 inline with actual and anticipated reductions in the official Bank Rate. Rates are expected reduce throughout 2026/27 and over the medium term, as the MPC continue to look at opportunities to reduce the official Bank Rate.

4.7 Borrowing interest rates have been volatile during 2024/25 as the reductions in inflation and official Bank Rate has been offset by strong wage growth and global uncertainties. It is forecast that rates will steadily reduce over the coming months, but the pace and size of these reductions will be based on a wider range of factors than those of the investment markets.

5 Borrowing and Debt Strategy 2026/27 – 2035/36

5.1 The Council is currently maintaining an underborrowed position. This means that the capital borrowing need (the CFR), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cashflow has been used as a temporary measure. This strategy is prudent as borrowing rates are currently elevated and investment counterparty risk is relatively high.

5.2 The Council's policy of avoiding new borrowing by running down spare cash balances in lieu of external borrowing, has been an effective strategy to date. However, with the current pressure seen in the Council's revenue budget and the increasing need to use reserves to support the overall MTFS, this position needs to be carefully monitored. Furthermore the current pressures within the Dedicated Schools Grant (DSG) and the associated defecit reserve being held by the Council is having a significant impact in reducing the overall net reserves held by the Council, which in turn reduces the reserves and balances available to support underborrowing.

5.3 As such it is likely that the Council’s underborrowing position will need to reduce over coming years, but this will be done in a cautious manner to avoid incurring unnecessary borrowing costs, especially when rates are elevated.

5.4 The section 151 (responsible) officer will monitor interest rates in the financial markets and adopt a pragmatic approach to changing circumstances. Any decisions will be reported at the next available opportunity.

5.5 **Borrowing in Advance of Need** - The section 151 (responsible) officer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above whilst considering future funding requirements. This may include borrowing in advance of future year’s requirements.

5.6 The Council’s policy on borrowing in advance of need is that it will not borrow more than, or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward-approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

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

5.8 The appropriate form of borrowing referred to in 5.5 considers both PWLB variable and fixed rate debt and the use of market instruments. At present non PWLB debt accounts for approximately 7.1% of the Capital Financing Requirement, excluding other long-term liabilities and the former WMCC debt administered by Dudley MBC.

5.9 Based on actual and anticipated borrowing, the forecast amount of borrowing outstanding at 1st April 2026 will be £363.868 million. The total Council borrowing includes £15 million of variable market debt (4.1% of total debt, 2.9% of the CFR), and £29.527 million of fixed rate market debt (8.1% of total debt, 5.7% of the CFR).

Debt Rescheduling

5.10 No debt rescheduling, to date, has been undertaken during 2025/26. The section 151 (responsible) officer and the Council's treasury advisors will monitor prevailing rates for rescheduling opportunities in the future.

5.11 Any rescheduling will be in accordance with the strategy position outlined above. The reasons any rescheduling might take place could include:

- to generate cash savings and/or discounted cash flow savings;
- to help fulfil the treasury strategy;
- to enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

5.12 There is currently £9 million of existing debt due to mature in 2026/27, the refinancing of this, in addition to new capital requirement, has been factored into current forecasts.

5.13 All rescheduling will be reported to the Audit Committee at the earliest meeting following its action.

Budgetary Impact of Borrowing Decisions

5.14 The current base budget and forecast for 2025/26 to 2028/29 identifies further additions to the Treasury Management budget which are incorporated in the Council's Medium Term Financial Strategy and shown on a year by year basis below. These figures exclude the savings identified for Treasury Management in the Medium Term Financial Strategy:

Treasury Management Base Budget Forecast Additions	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Prudential Borrowing to fund Corporate Capital Programme (including EFS application)	3.189	3.109	0.493	0.493
Prudential Borrowing for other projects	0.435	0.370	0.569	0.516
Total	**3.624**	**3.479**	**1.062**	**1.009**

5.15 The overall cost outlined in the above table will require a base revenue budget allocation of £3.479 million for 2026/27 to support borrowing decisions which has been reflected in the budgets proposed for the year.

5.16 The budget process includes bids for projects requiring prudential borrowing such as ICT and corporate property maintenance. To the extent that the revenue consequences of borrowing are approved by Full Cabinet, the Treasury Management budget will be increased to enable the borrowing to be undertaken.

6. Treasury Management Limits on Activity

5.1 There are three debt-related treasury activity limits. The purpose of these is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs and/or improve performance. The indicators are:

- Upper limits on variable rate exposure – this indicator identifies a maximum limit for variable interest rate borrowing based upon the expected net debt position.
- Upper limits on fixed rate exposure – this is similar to the previous indicator and covers a maximum limit on fixed interest rates.
- Maturity structure of borrowing – these gross limits are set to reduce the Council's exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits.

5.2 **The Council is asked to approve the following limits:**

	2026/27	**2027/28**	**2028/29**	**2029/30**	**2030/31**
	Upper £m	Upper £m	Upper £m	Upper £m	Upper £m
Limits on fixed interest rates (net debt)	495.772	500.566	500.264	499.681	518.278
Limits on variable interest rates (net debt)	148.732	150.170	150.079	149.904	155.483
	2031/32	**2032/33**	**2033/34**	**2034/35**	**2035/36**
	Upper £m	Upper £m	Upper £m	Upper £m	Upper £m
Limits on fixed interest rates (net debt)	509.128	495.170	482.033	471.820	462.126
Limits on variable interest rates (net debt)	152.738	148.551	144.610	141.546	138.638
Local Indicator – Variable debt not to exceed 30% of total debt					

Maturity Structure of fixed interest rate borrowing		
All years	**Lower**	**Upper**
Under 12 months	0%	30%
12 months to 2 years	0%	40%
2 years to 5 years	0%	50%
5 years to 10 years	0%	50%
10 years to 20 years	0%	60%
20 years to 30 years	0%	60%
30 years to 40 years	0%	80%
40 years to 50 years	0%	80%
50 years and above	0%	80%

6 Investment Strategy 2026/27 – 2035/36

6.1 The MHCLG and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Council’s Capital and Property Investment Strategies.

6.2 The Council’s investment policy has regard to MHCLG’s Guidance on Local Government Investments and the CIPFA Treasury Management in Public Services Code of Practice and Cross-Sectoral Guidance Notes 2021 (the CIPFA TM Code). The Council’s investment priorities will be security first, then liquidity, and then yield.

6.3 In accordance with the above guidance from MHCLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus the avoidance of concentration risk.

6.4 It is recognised that ratings will not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to monitor market pricing of credit default swaps[2] and overlay that information on top of the credit ratings.

6.5 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

6.6 The key objectives of the Council’s investment strategy are primarily to safeguard the repayment of the principal and interest on its investments on time and secondly to ensure adequate liquidity. Investment return is the tertiary objective.

6.7 Investment risk benchmarks are simple guides to the maximum risk and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change.

[2] Credit default swap: this is a form of ‘insurance’ taken out by investors to protect themselves if a borrower fails to make repayments when they fall due.

6.8 Ratings agencies provide details of historic defaults by financial institutions. The historic default tables are shown below and indicate the average risk of default for each type of institution. Highlighted figures indicate those institutions with a rating and investment period that would meet the Council's investment criteria. The subsequent table indicates the maximum expected risk that the Council would likely to be exposed to for each investment duration. The highlighted sections indicate the acceptable investment periods within this Strategy for each type of credit rating. It should be noted that these benchmarks are an indication of average default and would not constitute an expectation of loss against a particular investment.

	Length of Investment (Years)	
Rating Type	**1**	**2**
AAA	0.04%	0.09%
AA	0.02%	0.04%
A	0.05%	0.13%
BBB	0.14%	0.36%
BB	0.62%	1.77%
B	2.61%	6.45%
CCC	18.94%	26.83%

	1 year	2 years
Maximum	0.05%	0.09%

The yellow highlighted area in the table above represents the approved ratings type for each length of investment

6.9 Security: The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.09% historic risk of default when compared to the whole portfolio**.** Note this benchmark is an average risk default measure and would not constitute an expectation of loss against a particular investment.

6.10 Liquidity – In respect of this area the Council seeks to maintain:

- Adequate liquid short-term deposits available with a week's notice.
- Weighted Average Life (WAL, average life of all investments held by the Council) benchmark is expected to be 0.25 years, with a maximum WAL of 0.75 years.

6.11 Yield - Local measures of yield benchmarks are:

- Investments – Returns above the annual average SONIA rate (Sterling Overnight Interbank Average rate). SONIA is the weighted average deposit rate for overnight trades of counterparties with very high creditworthiness.

6.12 The initial budget for 2025/26 assumed a return for in-house investments of 4.00% in line with interest rate forecasts at the time. Current forecasts and performance to date suggest that the average rate of return across 2025/26 is likely to be in the region of 3.95%-4%, but this will depend on the number and timing of any Bank Rate reductions between now and 31 March 2026.

6.13 For 2026/27, the target rate for the investment return is 3.25% for the Council's investments. This rate takes account of the current forecast interest rates alongside the Council's current investment strategy. The risk that interest rates do not remain at the level predicted is acknowledged and will be monitored throughout the year and any significant variance to the estimate reported.

7 Investment Counterparty Selection Criteria

7.1 The main principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and the monitoring of these counterparties.

- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may be prudently committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

7.2 Credit rating information is supplied by the Council's treasury advisors (MUFG Corporate Markets) on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer-term change) are provided to officers almost immediately after they occur, and this information is considered before dealing.

7.3 The criteria for providing a pool of high-quality investment counterparties is:

- Banks **–** Good credit quality**.** The Council will only use banks which are:

i. UK banks; and/or

ii. Non-UK and domiciled in a country which has a minimum Sovereign long-term rating of AAA

and have, as a minimum, the following credit ratings:

	Rating Agency		
	Fitch	**Moody's**	**Standard & Poor's**
Long-Term	A-	A3	A-
Short-Term	F1	P1	A1

- The Council's own banker (currently Barclays) – for transactional purposes if the Council's bank falls below the criteria detailed above, balances will be restricted to no more than £4 million, and invested on an overnight basis only. Otherwise, the same criteria will apply as those to other banks.

- Bank subsidiary and treasury operations – the Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above. Where a bank has a group structure, limits set will relate to the group in its entirety rather than separately to the individual institutions within it.

- Building Societies – the Council will continue to consider all societies that meet the ratings for banks outlined above.

- Money Market Funds (CNAV and LVNAV funds) – AAA (rated AAA by at least two credit rating agencies). It is proposed to increase the limit on these institutions from £8 million previously, to £10 million, to reflect the high credit quality of these transactions and to better support the Council's cashflow position in a time of limited resources.

- Local authorities (including combined authorities, police and fire authorities) – Excluding those who have issued a Section 114 notice.

- UK Government (including gilts, Treasury Bills, and the Debt Management Office).

- Supranational institutions. These are multilateral banks (i.e. European Investment Bank).

7.4 **Housing Revenue Account (HRA) Self-Financing** – Following the introduction of the HRA Self-Financing regime in April 2012 local authorities are required to recharge the interest on balances between the HRA and General Fund. This is due to differences between the HRA borrowing and the HRA CFR (underlying need to borrow). Interest on the unfunded or overfunded element will be charged at the average rate of debt. Given the expected cashflow this will be broadly neutral to both the General Fund and HRA over time.

7.5 **Country and sector considerations** - Due care will be taken to consider the country, group and sector exposure of the Council's investments. In addition to an acceptable bank and sovereign rating:

- no more than £3m per non-UK country will be invested at any time;
- limits in place above will apply to group companies;
- limits will be monitored regularly for appropriateness.

7.6 Additional requirements under the Code of Practice require the Council to use supplementary information in addition to credit ratings. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed list. This additional market information (e.g. credit default swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

7.7 The time and monetary limits for institutions on the Council's counterparty list are as follows:

	Fitch	Moody's	Standard & Poor's	Money Limit	Time Limit
	Minimum acceptable criteria				
UK Banks	F1/AA-	P1/Aa3	A1/AA-	£8m	2 yrs
	F1/A-	P1/A3	A1/A-	£6m	1 yr
Foreign Banks (AAA sovereign rating)	F1/A-	P1/A3	A1/A-	£3m	1 yr
Building Societies	F1/A-	P1/A3	A1/A-	£4m	9 Months
Money Market Funds (CNAV & LVNAV)	AAAmmf	Aaa-mf	AAAm	£10m	Variable
Treasury Bills & Gilts, Debt Management Office	F1/AA-	P1 /Aa3	A1/AA	Unlimited	Variable
Local Authorities	-	-	-	£10m	2 yrs

7.8 All limits are per institution, except for foreign banks, where the limit is per AAA-rated sovereign nation.

7.9 On occasions the Council may consider investment opportunities, which are in line with the Council's plans and objectives, but which do not meet the criteria outlined above. Where this is the case prior consideration must be given to the criteria outlined above, and approval sought from the section 151 (responsible) officer and Full Council.

7.10 **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 repayment of an investment and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit:

Maximum principal sums invested > 365 days	
	2025/26 to 2035/36 £m
Principal sums invested > 365 days	15

7.11 **Economic Investment Considerations** – The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve these base criteria above, under exceptional current market conditions the section 151 (responsible) officer may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly, the time periods for investments will be restricted.

7.12 **Environmental, Social and Governance (ESG)-** The Council acknowledges that ESG factors are becoming more of a consideration within treasury markets, and it will, where appropriate, take into account these indicators when making investment and borrowing decisions. However, it should be noted that, at this time there is limited market information available about some ESG factors, including a universal grading system for such considerations. The Council will continue to prioritise the security, liquidity and yield criteria when making investment decision and will use the Council investment counterparty selection criteria to support these decisions.

7.13 **Property Investment Strategy –** The Council has a separately approved Property Investment Strategy. The Strategy seeks to ensure that the Council's property related investment is carried out in accordance with an approved process and complies with published guidance on local government capital, treasury management and investments. The strategy along with the decision-making criteria are revised and approved on a regular basis.

8 Treasury Management Scheme of Delegations

8.1 The following outlines the key responsibilities relating to treasury management:

<u>Full Council</u>

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual and mid-year strategy;
- full powers in relation to all borrowing and investment matters.

<u>Audit Committee</u>

- receiving and reviewing reports on treasury management policies, practices and activities and making recommendations to Full Council;
- considers amendments to the Council's adopted clauses, treasury management strategy statement and treasury management practices;
- receiving periodic monitoring reports and an annual outturn report;
- budget consideration and approval;
- considers the division of responsibilities;

<u>The S151 (responsible) officer</u>

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;

- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- considers the selection of external service providers and agreeing terms of appointment;
- ensuring the adequacy of internal audit, and liaising with external audit;
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments, and treasury management;
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments in accordance with the risk appetite of the Council;
- ensure that the Council has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the Council does not undertake a level of investing which exposes the Council to an excessive level of risk compared to its financial resources;
- ensuring that an adequate governance process is in place for the approval, monitoring and on-going risk management of all non-financial investments and long-term liabilities;
- provision of information to members on all non-treasury investments including material investments in subsidiaries, joint ventures, loans, and financial guarantees;
- ensuring that members are adequately informed and understand the risk exposures taken on by the Council;
- ensuring that the Council has adequate expertise, either in house or externally provided, to carry out the above;
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed.

<u>The Treasury Accountant</u>
- execution of transactions;
- adherence to agreed policies and practices on a day-to-day basis;
- maintaining relationships with counterparties and external service providers;
- supervising treasury management staff;
- monitoring performance on a day-to-day basis;
- submitting management information reports to the responsible officer;
- identifying and recommending opportunities for improved practices.

9 Policy on the use of External Service Providers

9.1 The Council uses MUFG Corporate Markets as its external treasury management advisors. The company provides a range of services which include:

- Technical support on treasury matters and capital finance issues;
- Economic and interest rate analysis;
- Debt services which include advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing, and investment instruments;
- Credit ratings/market information service from the three main credit rating agencies.

9.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

9.3 It also recognises that there is value in employing external providers of treasury management services in order 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.

10 Member and Officer Training

10.1 The CIPFA Code states that it is required that "all organisations 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."

10.2 The Council regularly reviews the skills and knowledge required for members and officers who have a role in treasury management. A log is maintained of all officer training in relation to treasury and training materials and good practice advice is regularly shared. For Members with responsibility for Treasury (members of Audit Committee) the Council arrange for annual training to be delivered in addition to ad hoc member seminars as required.

10.3 In support of the Code's training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management', which is available from the CIPFA website to download.

11 Use of Brokers

11.1 The Council uses a number of brokers on a regular basis, as well as dealing directly with leading institutions. Wherever possible, the Council tends to spread its business amongst them, but it must be emphasised that this will not always be possible.

11.2 Brokers currently being used are: -

- BGC Sterling
- ICAP
- Imperial Treasury Services
- King & Shaxson
- RP Martin
- Tradition
- Tullet Prebon

11.3 The limited function performed by brokers is acknowledged, however, the Council would expect to be informed if a broker had any doubts about an organisation we were dealing with.

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