APPENDIX N

TREASURY MANAGEMENT STRATEGY STATEMENT 2026-27

MINIMUM REVENUE PROVISION STATEMENT AND ANNUAL INVESTMENT STRATEGY

Introduction

1. This strategy statement has been prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services Code of Practice. Accordingly, the Council's Treasury Management Strategy will be approved annually by the full Council and there will be quarterly reports to the Corporate Governance Committee.

2. The Corporate Governance Committee consider the contents of the Treasury Management Strategy Statement, including the Minimum Revenue Provision Policy Statement and Annual Investment Strategy, annually at its meetings in January of each year. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

3. In December 2021 CIPFA published revised Treasury Management and Prudential Codes of Practice with formal adoption required from the 2023/24 financial year. The Codes require an Authority to ensure that:

   - it defines its risk appetite and its governance processes for managing risk.
   - it sets out, at a high level, its investment policy in relation to environmental, social and governance aspects.
   - it adopts a new liability benchmark treasury indicator to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained.
   - it does not borrow to finance capital expenditure to invest primarily for return.
   - increases in the Capital Financing Requirement (CFR) and borrowing are undertaken solely for purposes directly and primarily related to the functions of the Council. Where any financial returns are related to the financial viability of the project in question, they should be incidental to its primary purpose.
   - an annual review is conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt.
   - its capital plans and investment plans are affordable and proportionate.
   - all borrowing/other long-term liabilities are within prudent and sustainable levels.
   - risks associated with commercial investments are proportionate to overall financial capacity to sustain losses.
   - treasury management decisions are in accordance with good professional practice.
   - reporting to members is undertaken quarterly, including updates of prudential indicators.

4. The Prudential Code also requires the Council to produce an annual Capital Strategy. This is reported annually to the Council in February as part of the MTFS. The Capital Strategy is a high-level corporate document covering the following areas:

- strategic context
- corporate priorities
- available resources
- affordability
- capacity to deliver
- risk management

5. The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

6. The Act requires the Council to set its treasury strategy for borrowing and to prepare an Annual Investment Strategy (for Treasury Management investments) - this is included in later paragraphs of this strategy. It sets out the Council's policies for managing its treasury management investments and for giving priority to the security and liquidity of those investments.

7. This Strategy should be read in conjunction with the Investing in Leicestershire Programme (IiLP) strategy, which sets out the Council's approach when considering the acquisition of investments for the purposes of inclusion within the IiLP (which includes investments held primarily for financial return), and the Capital Strategy, which sets out the Council's approach to determining its medium term capital requirements (investments for service delivery). These documents form part of the Medium Term Financial Strategy (MTFS) and together take into account the statutory guidance issued by the Secretary of State under the Local Government Act 2003.

8. Treasury management arises from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use, i.e., balances in the Council's bank accounts resulting from the Council's day to day activities, that are not yet required. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments. covered in this strategy.

9. Service delivery - investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose". This is covered in the Capital Strategy.

10. Commercial return - investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments

should be proportionate to an Authority's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An Authority must not borrow to invest primarily for financial return. This is covered in the IiLP strategy.

Economic Background

11. The following economic update is based on the Council's external Treasury Management advisors' (MUFG Pension & Market Services) update provided in December 2025.

12. The third quarter of 2025/26 (October to December) saw:

- A -0.1% m/m change in real GDP in October, leaving the economy no bigger than at the start of April.
- The 3myy rate of average earnings growth excluding bonuses fall to 4.6% in October, having been as high as 5.5% earlier in the financial year.
- CPI inflation fall sharply from 3.6% to 3.2% in November, with core CPI inflation easing to 3.2%.
- The Bank of England cut interest rates from 4.00% to 3.75% in December, after holding in November.
- The 10-year gilt yield fluctuate between 4.4% and 4.7%, ending the quarter at 4.5%.

13. 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 (0.1% q/q). October's disappointing -0.1% m/m change in real GDP suggests that growth slowed to around 1.4% in 2025 as a whole.

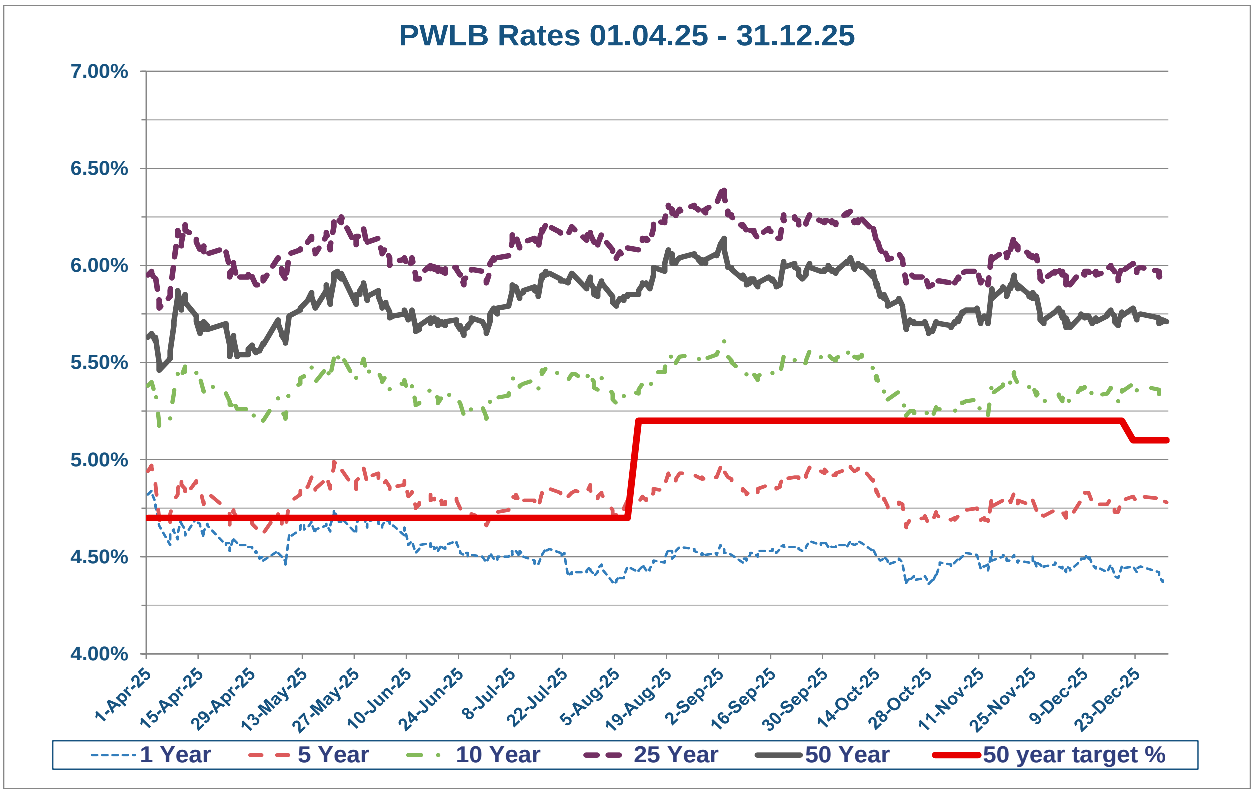
14. Following the 26 November Budget, the Office for Budget Responsibility (OBR) calculated the net tightening in fiscal policy as £11.7bn (0.3% of GDP) in 2029/30, smaller than the consensus forecast of £25bn. It did downgrade productivity growth by 0.3%, from 1.3% to 1.0%, but a lot of that influence was offset by upgrades to its near-term wage and inflation forecasts. Accordingly, the OBR judged the Chancellor was going to achieve her objectives with £4.2bn to spare. The Chancellor then chose to expand that headroom to £21.7bn, up from £9.9bn previously.

15. Moreover, the Chancellor also chose to raise spending by a net £11.3bn in 2029/30. To pay for that and the increase in her headroom, she raised taxes by £26.1bn in 2029/30. The biggest revenue-raisers were the freeze in income tax thresholds from 2028/29 (+£7.8bn) and the rise in NICs on salary-sacrifice pension contributions (+£4.8bn). The increase in council tax for properties worth more than £2m will generate £0.4bn.

16. CPI inflation fell sharply in November, easing from 3.6% in October to 3.2%. This was the third consecutive softer-than-expected inflation outturn and suggests that

disinflation is well underway. There was a widespread easing in price pressures with inflation slowing in 10 of the 12 main categories. Core inflation fell from 3.4% to 3.2% and services inflation dipped from 4.5% to 4.4%. However, a great deal will depend on the adjustments to regulated and indexed prices scheduled for next April. Capital Economics forecast CPI inflation to drop from 3.2% in March to 2.0% in April, thereby leaving inflation on track to settle at the 2.0% target, or below, by the end of 2026.

17. The chart below shows the PWLB rates from 01/04/25 to 31.12.25.



High/Low/Average PWLB rates for 01/04/25 to 31/12/25.

	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2025	4.82%	4.94%	5.38%	5.95%	5.63%
31/12/2025	4.37%	4.78%	5.34%	5.95%	5.71%
Low	4.36%	4.62%	5.17%	5.78%	5.46%
Low date	04/08/2025	02/05/2025	02/05/2025	04/04/2025	04/04/2025
High	4.84%	4.99%	5.62%	6.41%	6.14%
High date	02/04/2025	21/05/2025	03/09/2025	03/09/2025	03/09/2025
Average	4.52%	4.81%	5.38%	6.08%	5.82%
Spread	0.48%	0.37%	0.45%	0.63%	0.68%

TREASURY MANAGEMENT STRATEGY 2026/27

Key Considerations

18. This proposed strategy for 2026/27 in respect of the treasury management function is based upon officers' views on interest rates, supplemented with market

forecasts provided by the Council's treasury adviser, MUFG Pension & Market Services.

Background

19. The Council is required to operate a balanced 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 counterparties or instruments commensurate with the Council's risk appetite prioritising security, adequate liquidity and investment return in that order of importance.

20. The second main function of treasury management is the funding of the Council's capital programme. The capital programme sets out the borrowing need of the Council, 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 existing long term debt may be restructured to reduce risk or costs.

21. The contribution the treasury management function makes to the Council is critical as the balance of debt and investment operations ensure the Council can meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. As cash balances result mainly 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. To reduce the impact of high levels of inflation eroding the value of cash balances, and to increase diversification, the Council will consider other forms for investments, such as pooled investment funds.

Reporting

22. The Council has adopted the following reporting arrangements in accordance with the requirements of the Treasury Management Code:-

Area of Responsibility	**Council/Committee/Officer**	**Frequency**
Treasury Management Policy Statement	Full Council	Annually before start of financial year
Treasury Management Strategy/Annual Investment Strategy	Full Council	Annually before start of financial year
Quarterly Treasury Management and Prudential Indicator updates	Corporate Governance Committee	Quarterly
Updates or revisions to Treasury Management Strategy/Annual Investment Strategy during year	Cabinet (following consideration by Corporate Governance Committee, wherever practical)	Ad hoc
Annual Treasury Outturn Report	Cabinet	Annually by end of September following year end

Treasury Management Practices	Director of Corporate Resources	
Review of Treasury Management Strategy/Annual Investment Strategy	Corporate Governance Committee	Annually before start of financial year and before consideration by full Council, wherever practical
Review of Treasury Management Performance	Corporate Governance Committee	Annually by end of September following year end

Training

23. The CIPFA Treasury Management Code requires the chief financial officer to ensure that members with responsibility for treasury management receive adequate training in treasury management.

24. As a minimum, authorities 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
- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis.

25. Training is provided for all new members and further training is arranged as required. During 2025/26 MUFG Pension & Market Services also provided a focused training session on treasury management for all members of the Corporate Governance Committee.

26. The training needs of treasury management officers are also periodically reviewed. A formal record of the training received by officers central to the Treasury function will be maintained by the Head of Finance. Similarly, a formal record of the treasury management training received by members will also be maintained by the Head of Finance.

Treasury Management Consultants

27. External investment managers will not be used, except to the extent that a Money Market Fund or the managers of pooled property or private debt funds can be considered as an external manager.

28. The Council uses MUFG Pension & Market Services as its external treasury management adviser, but recognises that responsibility for treasury management decisions remains with the Council at all times. Undue reliance on the Council's external advisers will be avoided, although the value of employing an external adviser and accessing specialist skills and resources is recognised.

29. The Council also uses Hymans Robertson LLP, for strategic advice for the Investing in Leicestershire programme (IiLP).

30. The Council 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.

Capital Prudential Indicators

Capital Financing Requirement

31. The Capital Financing Requirement (CFR) measures the Council's need to borrow for capital purposes. It is 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 unfunded capital expenditure plans, i.e. not funded through a revenue or capital resource, will increase the CFR.

32. The proposed MTFS capital programme for 2026-30 includes a requirement to increase the Capital Financing Requirement (CFR) by £75m by 2029/30. This will fund essential investment in service improvement, investment for growth and invest to save projects. Due to the levels of internal cash balances, which would otherwise be available to lend to banks, no new external loans are forecast to be required in the short to medium term and instead will be funded from internal borrowing.

33. The table below shows how the CFR is expected to change over the period of the MTFS, and how this compares to the expected level of external debt. A number of debt rescheduling opportunities have been taken during 2025/26. Further rescheduling opportunities will be considered if they are in the best long-term financial interests of the Council.

	2026/27 £000	2027/28 £000	2028/29 £000	2029/30 £000
Opening Capital Financing Requirement	**193,478**	**189,264**	**194,211**	**220,398**
New Borrowing	0	9,245	30,724	35,031
Statutory Minimum Revenue Provision (MRP)	-4,214	-4,298	-4,537	-5,137
Voluntary MRP	0	0	0	0
Closing Capital Financing Requirement	**189,264**	**194,211**	**220,398**	**250,292**
Opening external debt	**145,754**	**145,254**	**144,754**	**144,254**
Loans maturing	-500	-500	-500	-500
Closing external debt	**145,254**	**144,754**	**144,254**	**143,754**
Overborrowed/(borrowing requirement)	**(44,010)**	**(49,457)**	**(76,143)**	**(106,538)**

Minimum Revenue Provision (MRP)

34. The Local Authorities (Capital Finance and Accounting) Regulations 2003 require local authorities to charge to their revenue account in each financial year a minimum amount to finance capital expenditure. This is referred to as Minimum Revenue Provision (MRP). The Council is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

35. In 2019/20 the Council reassessed the expenditure that is required under statute relating to a prudent Minimum Revenue Provision. Based on the average economic remaining life of assets held it amended the MRP calculation for supported and unsupported borrowing to a period of 40 years, which reduced the MRP charge to around £6m per annum.

36. During 2024/25 the Council reviewed the MRP policy to assess its continued appropriateness. The review has identified that changes to the existing policy can be made to remain prudent and to more accurately reflect the time value of money through the use of an annuity calculation. This results in a consistent charge to the general fund for assets over their useful lives. Setting the annuity rate at the Bank of England's Monetary Policy Committee's inflation target rate of 2% is considered appropriate and prudent. MRP will increase by this percentage each year. This reflects the time value of money and can be considered to be fairer on council tax-payers as it produces a consistent charge as measured in real terms. The revised approach was approved by the Council in February 2025 and is being applied from 2025/26.

37. CIPFA's Practitioners' Guide to Capital Finance in Local Government supports the use of the Annuity method on the basis that the MRP charge to the General Fund takes account of the time value of money.

38. It should be noted that the revised approach does not change the overall amount of MRP payable; the same amount is simply repaid over a different time period, but is more aligned with the period over which the underlying assets provide benefit. The MRP strategy can be found in Annex 1 to this strategy.

39. Overall capital financing costs (MRP and external debt interest) are forecast to be £12m in 2026/27 and then rise to £14m in 2029/30 as a result of the requirement for new borrowing. This estimate assumes the required new borrowing is from internal cash balances. The capital financing costs do not include the cost of interest returns foregone by using internal cash balances, this will be reflected in a reduction to the bank and other interest budget.

Prudential and Treasury Indicators for 2026-30

40. Prudential and treasury indicators (as set out in the tables in Annex 2 to this strategy) are relevant for the purpose of setting an integrated treasury management strategy. The Council has adopted the CIPFA treasury management code.

41. The prudential and treasury management indicators include:

- Capital Expenditure
- Capital Financing Requirement
- Ratio of total financing costs to net revenue stream

- Ratio of net income from commercial investments to net revenue stream
- Liability benchmark
- Upper and lower limits to the maturity structure of borrowing
- Upper limits for long term treasury management investments

42. The liability benchmark provides a long-term projection of external debt and the capital financing requirement, including treasury management loans. There are four components to the benchmark:

    - Existing loan debt outstanding: the Council's existing loans that are still outstanding in future years.
    - Loans CFR per the approved MTFS
    - Net loans requirement: gross loan debt less treasury management investments
    - Liability benchmark (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

43. The benchmark will be referred to before any borrowing decisions are made.

Borrowing

44. The treasury management function ensures that the Council's cash is organised so that sufficient cash is available to meet the day-to-day requirements of the Council and the funding required for the capital programme. This will involve both the organisation of the cash flow and the requirement for borrowing facilities.

Current Portfolio Position

45. The overall treasury portfolio position at 31st December 2025 was:

		Principal £m	Average Rate %
Fixed Rate Funding (borrowing)	PWLB	52.3	8.03
	Market	93.5	4.41
	Total Borrowing	145.8	5.71
Total Investments		402.8	4.61
Net Investment		257.0	

46. The market debt relates to structures referred to as LOBOs (Lenders Option, Borrowers Option), where the lender has certain dates when they can increase the interest rate payable and, if they do, the borrower has the option of accepting the new rate or repaying the loan. All of these LOBOs have passed the first opportunity for the lender to change the rate and as a result they are all classed as fixed rate funding, even though, in theory, the rates could change in the future.

47. The Council's average rate of return on its treasury investments is 4.61% (as at 31 Dec 25).

Treasury Limits for 2026/27 to 2029/30

48. It is a statutory duty for the Council to determine and keep under review how much it can afford to borrow. The amount determined is termed the “Affordable Borrowing Limit”. In England and Wales the Authorised Borrowing Limit represents the legislative limit specified in the Act.

49. The Council must have regard to the Prudential Code when setting the Authorised Borrowing Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax level is ‘acceptable’.

50. Whilst termed an “Affordable Borrowing Limit” the capital plans to be considered for inclusion incorporate financing by both borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and three successive financial years. Details of the Authorised Limit can be found in Annex 2 to this Strategy.

Prospects for Interest Rates

51. The Council’s treasury advisor, MUFG Corporate Markets, have provided the following revised forecasts as at 22 December 2025 (latest update at the time of writing) to assist the Council to formulate a view on interest rates.

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

Additional notes by MUFG Corporate Markets on this forecast table: -

- *Our last interest rate forecast update was undertaken on 11 August. Since then, a combination of tepid growth (0.2% q/q GDP for Q2 and 0.1% q/q GDP for Q3), falling inflation (currently CPI is 3.2%), and a November Budget that will place more pressure on the majority of households’ income, has provided an opportunity for the Bank of England’s Monetary Policy Committee to further reduce Bank Rate from 4% to 3.75% on 18 December.*

- *Surprisingly, to most market commentators, the recent steep fall in CPI inflation in one month from 3.6% to 3.2% did not persuade most “dissenters” from the November vote (Lombardelli, Greene, Mann and Pill) to switch to the rate-cutting side of the Committee. Instead, it was left to Bank Governor, Andrew Bailey, to use his deciding vote to force a rate cut through by the slimmest of margins, 5-4.*

- *Given the wafer-thin majority for a rate cut it was not unexpected to hear that although rates would continue on a “gradual downward path”, suggesting a further rate cut or cuts in the offing, MPC members want to assess incoming evidence on labour market activity and wage growth. Indeed, with annual wage growth still over 4.5%, the MPC reiterated that the case for further rate cuts would be “a closer call”, and Governor Bailey observed there is “limited space as Bank Rate approaches a neutral level”.*

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

- *As in August, nonetheless, threats to that central scenario abound. What if wage increases remain stubbornly high? There are, after all, several sectors of the domestic economy, including social care provision and the building/construction industries, where staff shortages remain severe. Moreover, by May 2026, following the local elections, we will have a better handle on whether or not the Starmer/Reeves team is going to see out the current Parliament or whether they face a Leadership challenge from within their own party If so, how will gilt markets react to these variables…and will there be additional geo-political factors to also bake in, particularly the Fed's monetary policy decisions in 2026 and the ongoing battle to lower rates whilst inflation remains close to 3%.*

- *Accordingly, our updated central forecast is made with several hefty caveats. We are confident, as we have been for some time, that our forecast for Bank Rate and the 5-year PWLB Certainty Rate is robust, and we have marginally brought forward the timing of the next rate cut(s). But for the 10-, 25- and 50-years part of the curve, the level of gilt issuance, and the timing of its placement, will be integral to achieving a benign trading environment. That is not a "given", and additionally, the inflation outlook and political factors domestically and, crucially, in the US, are also likely to hold sway. Matters should be clearer by June in the UK, but the US mid-term elections are scheduled for November.*

- *Our revised PWLB rate forecasts are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012. Please note, the lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 for those authorities with an HRA (standard rate minus 60 bps) and is set to prevail until at least the end of March 2026. Hopefully, there will be a further extension to this discounted rate announced in January.*

- *Money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.*

52. MUFG Corporate Markets suggested budgeted earnings rates for investments up to about three months' duration in each financial year are set out below.

Average earnings in each year	Now %	Previously %
2025/26 (residual)	3.80	3.90
2026/27	3.40	3.60
2027/28	3.30	3.30
2028/29	3.30	3.50
2029/30	3.50	3.50
Years 6-10	3.50	3.50
Years 10+	3.50	3.50

<u>Borrowing Strategy</u>

53. The Council is currently under borrowed and is forecast to be under borrowed by the end of the MTFS in 2029/30. Under borrowed means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with external loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure, called internal borrowing. This strategy is prudent as medium and

longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy.

54. Borrowing rates very rarely move in one direction without there being periods of volatility, and it is sensible to maintain a flexible and proactive stance towards when borrowing should be carried out (if, indeed, any borrowing is taken). Likewise it is sensible to retain flexibility over whether short, medium or long-term funding will be taken and whether some element of variable rate funding might be attractive. Any borrowing carried out will take into account the medium term costs and risks and will not be based on minimising short term costs if this is felt to compromise the medium term financial position of the Council.

External v Internal Borrowing

55. The Council currently has significant cash balances invested, and at the end of December 2025 these stood at £410m. These balances relate to a number of different items; reserves, provisions, grants received in advance of expenditure and simple cash flow are some of them.

56. As mentioned earlier the draft MTFS capital programme includes a funding requirement of £75m. Due to the levels of internal cash balances and the interest return compared with the cost of raising new external debt it is more economical to temporarily utilise internal cash balances

57. The Council has over the last decade repaid more than £208m of external loans with no new borrowing. If any further opportunities to repay debt occur that are sensible from a financial perspective, they will be taken.

58. The balance between internal and external borrowing will be managed proactively, with the intention of minimising long-term financing costs.

59. In line with the requirements of the Prudential Code, and before any increase in the CFR is required, the Council will undertake an annual review of options to exit investments held primary for return (those included in the IiLP Strategy). The reviews evaluate the benefit of holding such assets with taking out new borrowing and any risk reduction benefits.

Policy on borrowing in advance of need

60. The Council will not borrow in advance of need simply to benefit from earning more interest on investing the cash than is being paid on the loan. Where borrowing is required in the approved capital programme, and value for money can be demonstrated by borrowing in advance, this option may be taken, but only if it is felt that the money can be invested securely until the cash is required. This allows borrowing to be taken out at an opportune time rather than at the time expenditure is incurred.

61. In determining whether borrowing will be taken in advance of the need the Council will:

- ensure that there is a clear link between the capital programme and maturity profile of existing debt which supports taking financing in advance of need
- ensure that the revenue implications of the borrowing, and the impact on future plans and budgets have been considered

- evaluate the economic and market factors which might influence the manner and timing of any decision to borrow
- consider the merits (or otherwise) of other forms of funding
- consider a range of periods and repayment profiles for the borrowing.

Debt Rescheduling/Premature Debt Repayment

62. Debt rescheduling usually involves the premature repayment of debt and its replacement with debt for a different period, to take advantage of differences in the interest rate yield curve. The repayment and replacement do not necessarily have to happen simultaneously but would be expected to have occurred within a relatively short period of time.

63. If medium and long-term loan rates rise substantially in the coming years, there may be opportunities to adjust the portfolio to take advantage of lower rates in shorter periods. It is important that the debt portfolio is not managed to maximise short-term interest savings if this is felt to be overly risky, and a maturity profile that is overly focussed into a single year will be avoided. Changes to the way that PWLB rates are set, and the gap between new borrowing costs and the rate used in calculating premia/discounts for premature debt repayments, significantly reduces the probability of debt rescheduling being attractive in the future.

64. If there is a meaningful increase in medium and long-term premature repayment rates there is a possibility that premature repayment of existing debt might become attractive. This type of action would only be carried out if it was considered likely to be beneficial in the medium term.

65. All debt rescheduling or premature repayments will be reported to the Corporate Governance Committee at the earliest meeting following any action taken.

Annual Investment Strategy

Investment Policy – Management of Risk

66. The government) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of physical assets and service investments, are covered in the Capital Strategy and the IiLP Strategy.

67. The Council's investment policy has regard to the following:

- Government Guidance on Local Government Investments
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021.

68. The Council's investment priorities are security first, portfolio liquidity second and then yield. The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security, liquidity, inflation expectations and with regard to the Council's risk appetite.

69. The above guidance places a high priority on the management of risk. The Council's policy in respect of deciding which counterparties are acceptable has always been stringent.

70. In broad terms the list of acceptable counterparties uses the list produced by MUFG Pension & Market Services (the Council's treasury management advisor) but excludes any party that is included in the MUFG Pension & Market Services list with a maximum loan maturity period of 100 days or less. All counterparties are also restricted to a maximum loan period of one year.

Creditworthiness Policy

71. MUFG Pension & Market Services' methodology includes the use of credit ratings from the three main credit rating agencies; Standard & Poor, Fitch and Moody's. The credit ratings of counterparties are supplemented with the following overlays:
- "Watches" and "outlooks" from credit rating agencies;
- Credit Default Swap (CDS) spreads that may give early warning of changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

72. This modelling approach combines credit ratings, and any assigned watches and outlooks, in a weighted scoring system which is then combined with an overlay of CDS spreads. The end-product of this is a series of bands which indicate the relative creditworthiness of counterparties. These are used by the Council to determine the suggested duration for investments. The Council further restricts the list of acceptable counterparties from the base list provided by MUFG Pension & Market Services, details are described in Annex 3.

73. MUFG Pension & Market Services issues timely information in respect of changes to credit ratings or outlooks, and changes to their suggested counterparty list are also issued. These reports are monitored within a short time of receipt and any relevant changes to the counterparty list are actioned as quickly as is practical. A weekly summary of the credit ratings etc. of counterparties is also issued and this gives an opportunity to ensure that no important information has been missed.

Country Limits

74. The MUFG Pension & Market Services criteria includes a requirement for the country of domicile of any counterparty to be very highly rated. This is on the basis that it will probably be the national government which will offer financial support to a failing bank, but the country must itself be financially able to afford the support. The Council's list of acceptable counterparties will include a limit on the maximum amount that can be invested in all counterparties domiciled in a single country (except for the UK) in order to mitigate sovereign risk. All bank loans are made in sterling.

UK Local Authorities

75. The counterparty list from MUFG Pension & Market Services does not include Local Authorities, due to credit ratings not being available for the majority of organisations. Having never defaulted in history, UK Local authorities and levying authorities are and have always been regarded as safe counterparties.

76. Despite the difficult financial situation that many Local Authorities find themselves in, the legal basis underpinning them and their requirement to repay loans has not changed. It is considered very unlikely that one will be allowed to collapse and default on its debt. The language used to describe the financial position of Local Authorities and companies is very similar. However, the actual position is very different. Despite Government cuts to grants Local Authorities are in control of the majority of their income, due to their tax-raising powers. To regain a balanced budget service reductions can take place without a corresponding income reduction. Companies do not have this ability and if a service is cut by them, all of the related income stops. Historically when public sector re-organisations have taken place, resulting in the cessation of one or more entities, Central Government has nominated successor organisations. These organisations take on all of the historic assets and liabilities of the original entities. If a limited company ceases trading the known liabilities can only be settled out of the assets held by the company at that time.

77. Local Authorities remain very low risk counterparties and it is extremely unlikely that loans would not be repaid in full, on time and with full interest. The Council's treasury management advisors are aware of local authorities being on the list of authorised counterparties and are supportive of it, and comfortable that they remain low-risk counterparties. There is evidence that lending between local authorities continues to happen, including to those that have been highlighted as in very difficult financial positions.

Counterparty List

78. The combination of all these factors produces a counterparty list, for the County Council, which comprises only very secure financial institutions, and a list that is managed pro-actively as new information is available.

79. There is a requirement within the Annual Investment Strategy to state which of the approved methods of lending are specified, and which are non-specified. In broad terms a specified investment will be capable of repayment within one year and be made to a counterparty with a high credit rating; by implication non-specified investments are riskier than specified investments as they are either for longer periods of time or to lower-quality counterparties. Anything that does not meet either of these 'tests' is, by default, non-specified and must be highlighted as such within the Strategy. The long-term nature of the 'LOBO-offset' loan to Danske Bank means that it is non-specified investment, although the off-setting nature of the borrowing and the loan actually makes it low risk. Investment in pooled private debt, capital release funds, pooled property and pooled infrastructure funds are also non-specified, primarily due to the illiquid and medium-term nature of the investment.

Investment	Repayment within 12 months	Level of Security	Maximum Period	Maximum % of Portfolio or cash sum[1]
Term deposits with the Debt Management Office	Yes	Government-Backed	1 year	100%
UK Government Treasury Bills	Yes	Government-Backed	1 year	100%
Term deposits with credit-rated institutions with maturities up to 1 year[2] (including both ring fenced and non-ring fenced banks)	Yes	Varied acceptable credit ratings, but high security	1 year	100%

Term deposits with overseas banks domiciled within a single country.	Yes	Varied acceptable credit ratings, but high security	1 year	£70m
Private Term deposits that are legally capable of offset against existing LOBO borrowing that the Council has[3]	No	Varied, but off-setting nature of borrowing against loan gives a very low risk	20 years	25%
Money Market Funds: Constant NAV[4] Low Volatility NAV[5]	Yes	At least as high as acceptable credit – rated banks	Daily, same-day redemptions and subscriptions	£200m (includes any investment in variable NAV MMFs)
Variable NAV Money Market Funds[6]	Yes	At least as high as acceptable credit – rated banks	Same day subscriptions, 2 – 3 day redemption period	£160m (includes any investment in other MMFs)
Pooled private debt funds	No	Diversification within pooled fund and historic loss rate suggests high security	Varies across funds – likely to be at least a three year investment period, followed by a further three years to redeem all loans	£50m (£30m plus temp £20m overlap at renewal)
Pooled bank capital release funds	No	Diversification within pooled fund, resilience of SME loans to default and historic loss rate suggests high security	Varies across funds – likely to be at least an 18 month investment period, followed by a further 5 years to redemption	£20m
Pooled Property Funds	No	Diversification within pooled fund, exposure to UK property market.	Varies across funds	£20m
Pooled Infrastructure Funds	No	Diversification within pooled fund, exposure to global core infrastructure assets.	Open ended	£15m
Term Deposits with UK Local Authorities up to 1 year	Yes	LA's do not have credit ratings, but high security	1 year	50%
Certificates of Deposit with credit-rated institutions with maturities of up to 1 year	Yes	Varied acceptable credit ratings, but high security	1 year	100%

(1) As the value of the investment portfolio is variable, the limit applies at time of agreeing the investment. Subsequent changes in the level of the portfolio will not be classed as a breach of any limits.

(2) For administrative purposes a commitment may need to be made in advance of the investment period commencing. To avoid being overexposed with a counterparty this will be kept to a few days.

(3) Non-specified investment

(4) Funds where the capital value of a unit will always be maintained at £1. These funds have to maintain at least 99.5% of their assets in government backed assets.

(5) Funds are permitted to maintain the unit price at £1 as long as the net asset value does not deviate by more than 0.20% from this level.

(6) Funds will value their units on the basis of the underlying value of the assets that they hold; the unit price will not necessarily always be exactly £1

80. Following the lasting implications of the Covid-19 pandemic, in particular, the demonstration that unforeseeable events can very quickly cause significant uncertainty and shock financial markets, it is recognised that in exceptional circumstances the Director of Corporate Resources, in order to protect capital balances and liquidity, may have to take immediate action that breaches the above policy on a temporary basis. The action will only be taken as a last resort and will be reported, along with the rationale behind it, to the Corporate Governance Committee at the first opportunity.

Investment Strategy

81. The investment strategy shall be to only invest in those institutions and/or asset types that are included in the counterparty list, and only to lend up to the limit set for each counterparty. Periods for which loans are placed will take into account the outlook for interest rates and, to a lesser extent, the need to retain cash flows. There may be occasions when it is necessary to borrow to fund short-term cashflow issues, but there will generally be no deliberate intention to make regular borrowing necessary.

Environmental, Social and Governance (ESG) Policy

82. The Council is committed to being a responsible investor at all times. Responsible investment means to recognise the importance of the long-term health and stability of the financial markets, and to understand that this depends on key external non-financial factors, such as the environment, social stability and strong governance. Collectively, these factors are often referred to under the umbrella of ESG.

83. The Council's objective is to recognise all these risks, to mitigate them where possible and thereby improve the security of its portfolio in the long-term.

84. Within these risks, the Council has identified climate change as a long-term, material and systemic financial risk with the potential to significantly impact the treasury portfolio and the Council's financial resilience over time. Therefore, the Council seeks to:

- Minimise exposure to counterparties and investments heavily impacted by climate change risk;
- Increase exposure to sectors, counterparties and investments, such as renewables, whose activities aid the transition to a lower carbon world and economy;
- Contribute meaningfully to an improved economically sustainable future locally and nationally, without sacrificing security.

85. The Council sees positive social impact also as a key mitigation to aid long-term financial stability, and as a meaningful contribution to the local, regional and national economy. Good governance meanwhile is also critical to safeguarding the Council's reputational risk.

86. The Council will incorporate ESG issues into its analysis and decision making processes when considering the treasury portfolio and investments. The Council will seek to use data and analysis to determine the type and materiality of relevant issues for counterparties, and their alignment with the Council's core principles.

87. It is important to note that the Council shall invest on the collective basis of its investment priorities – security, liquidity, yield and ESG impact – having considered all factors contributing to the risk of its counterparties and investments, including ESG

factors to the extent these indirectly or directly impact on financial risk and return as well as the Council's broader policy objectives and reputation.

Scheme of Delegation

88. (i) Full Council
- Approval of annual strategy
- Other matters where full Council approval is required under guidance or statutory requirement

(ii) Cabinet
- Approval of updates or revisions to strategy during the year
- Approval of Annual Treasury Outturn report

(iii) Corporate Governance Committee
- Mid-year treasury management updates (usually quarterly)
- Review of treasury management policy and procedures, including making recommendations to responsible body
- Scrutiny of Treasury Management Strategy/Annual Investment Strategy and Annual Treasury Outturn report.

(iv) Director of Corporate Resources
- Day-to-day management of treasury management, within agreed policy
- Appointment of external advisers, within existing Council procurement procedures

Role of Section 151 Officer

89. The Section 151 Officer is the Director of Corporate Resources, who has responsibility for the day-to-day running of the treasury management function.

Pension Fund Cash

90. The Council will comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which were implemented on 1st January 2010, and will not pool pension fund cash with its own cash balances for investment purposes. Any investments made by the pension fund directly with the County Council after 1st April 2010 will comply with the requirements of SI 2009 No 3093. From time to time the Council will manage short term cash flow requirements for either the County Council or the Pension Fund on a non-beneficial basis (i.e., at no beneficial cost – no charge will be incurred above and beyond costs incurred).

Eastern Shires Purchasing Organisation (ESPO)

91. As part of the service level agreement with ESPO, the council provides a treasury management service on behalf of ESPO for investment of surplus balances and borrowing. This service is carried out with due regard to this policy and responsibility for day-to-day management lies with the Director of Corporate Resources. Surplus balances are invested in their own right and not pooled with the County Council.

ANNEX 1

ANNUAL STATEMENT FOR THE DETERMINATION OF THE ANNUAL MINIMUM REVENUE PROVISION (MRP)

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP). The 2003 Regulations have been further amended with full effect from April 2025 to expressly provide that in determining a prudent provision local authorities cannot exclude any amount of Capital Financing Requirement (CFR) from its calculation, unless by an exception set out in statute.

Prudent Provision.

The Authority is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The definition of what is prudent provision is determined by each local Council based on guidance rather than statutory regulation.

During 2024/25 the Authority undertook a review of its MRP policy to assess its appropriateness. The review has identified that changes to the existing policy can be made to remain prudent and to more accurately reflect the time value of money through the use of an Annuity calculation. This results in a consistent charge to the general fund for assets over their useful lives. Setting the annuity rate at the Bank of England's Monetary Policy Committee's inflation target rate of 2% is considered appropriate and prudent. MRP will increase by this percentage each year. This reflects the time value of money and can be considered to be fairer on council tax-payers as it produces a consistent charge as measured in real terms. The previous policy was to apply MRP at a rate of 2.5% per year using the straight line method. The revised approach, with effect from 2025/26, was approved by the Council in February 2025.

CIPFA's Practitioners' Guide to Capital Finance in Local Government supports the use of the Annuity method on the basis that the MRP charge to the General Fund takes account of the time value of money.

It is proposed that provision is made on the following basis:

<u>Government supported borrowing and Prudential (unsupported) borrowing as at 31 March 2025:</u>

Provision to be based on the estimated life of the assets remaining with repayments by annuity instalments of 2% each year. The extent of borrowing required to finance the capital programme is not directly linked to any specific projects thus in determining the average life of assets an average of 35 years has calculated for all existing assets as at 31 March 2025.

<u>Prudential (unsupported) borrowing and expenditure capitalised by direction of the Secretary of State and certain other expenditure classified as capital incurred after 31 March 2025:</u>

Provision to be based on the estimated life of the assets remaining with repayments by annuity instalments of 2% each year. The extent of borrowing required to finance the capital programme is not directly linked to any specific projects thus in determining the average life of assets an average of 40 years has been taken as a proxy for the average life of assets.

The County Council will also look to take opportunities to use general underspends and one-off balances to make additional (voluntary) revenue provision where possible to reduce ongoing capital financing costs. As at 31 December 2025, the cumulative amount of voluntary MRP paid in advance was £12m.

Financial Implications

MRP is a constituent of the Financing of Capital budget shown within Central Items component of the revenue budget and for 2026/27 is estimated to total £4.2m, excluding finance lease MRP.

ANNEX 2

PRUDENTIAL AND TREASURY INDICATORS

In line with the requirements of the CIPFA Prudential Code for Capital Finance in local authorities, the various indicators that inform authorities whether their capital investment plans are affordable, prudent and sustainable, are set out below.

A further key objective of the Code is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. The indicators for Treasury management are set out in this paper.

Compliance with the Code is required under Part I of the Local Government Act 2003.

	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Capital Expenditure	£200m	£164m	£166m	£145m	£146m
Capital financing requirement	£193m	£189m	£195m	£220m	£250m
Ratio of total financing costs to net revenue stream	2.0%	2.0%	1.9%	1.8%	1.9%
Ratio of net income from commercial activities to net revenue stream	1.0%	1.3%	1.3%	1.3%	1.3%

The projected level of capital expenditure shown above differs from the total of the detailed four year programme presented in the MTFS as an allowance has been provided to cover estimated additional expenditure that may occur during the course of a year, for instance projects funded by government grants, section 106 contributions and projects funded from the future developments programme.

The capital financing requirement (CFR) measures the Council's need to borrow for capital purposes and as such is influenced by the availability of capital receipts and income from third parties, e.g. grants and developer contributions. The CFR is increasing during the MTFS period for essential investment in services, investment for growth and invest to save projects. The prudential code includes the following as a key indicator of prudence:

'In order to ensure that over the medium term gross debt will only be for a capital purpose, the local Council should ensure that gross debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years'. In the short term this indicator will not be met due to the reduction in the capital financing requirement in recent years and the currently prohibitively expensive premiums to repay existing debt. The Council will consider options to reduce this position where they are in the long term financial interests of the Council. Further details are included in the main Treasury Management Strategy Statement and Annual Investment Strategy 2026/27.

In respect of external debt, it is recommended that the Council approves the limits detailed in the tables below for its total external debt for the next four financial years. These limits separately identify borrowing from other long term liabilities such as finance leases. The Council is asked to approve these limits and to delegate authority to the Director of Corporate

Resources, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities. Any such changes made will be reported to the Cabinet at its next meeting following the change.

There are two limits on external debt: the ‘Operational Boundary’ and the ‘Authorised Limit’. Both are consistent with the current commitments, existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices. They are both based on estimates of most likely, but not worst case, scenario. The key difference is that the Authorised Limit cannot be breached without prior approval of the County Council. It therefore includes more headroom to take account of eventualities such as delays in generating capital receipts, forward borrowing to take advantage of attractive interest rates, use of borrowing in place of operational leasing, “invest to save” projects, occasional short term borrowing to cover temporary revenue cash flow shortfalls as well as an assessment of risks involved in managing cash flows. The Operational Boundary is a more realistic indicator of the likely position.

Operational boundary for external debt

	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m
Borrowing	194	200	225	255
Other long term liabilities (finance leases)	1	1	1	1
Total	**195**	**201**	**226**	**256**

Authorised limit for external debt

	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m
Borrowing	204	210	235	265
Other long term liabilities (finance leases)	1	1	1	1
Total	**205**	**211**	**236**	**266**

In agreeing these limits, the Council is asked to note that the authorised limit determined for 2026/27 will be the statutory limit determined under Section 3(1) of the Local Government Act 2003.

Comparison of original 2025/26 indicators with the latest forecast

In February 2025 the County Council approved certain prudential limits and indicators, the latest projections of which are shown below:

	Prudential Indicator 2025/26	Latest Projection 31/12/25
Actual Capital Financing Costs as a % of Net Revenue Stream	2.2%	1.9%
Capital Expenditure	£164m	£200m
Operational Boundary for External Debt	£207m	£207m
Authorised Limit for External Debt	£217m	£217m
Net Income from Commercial Activities as % of net revenue stream	1.0%	1.0%
Estimated Debt as at 31/03/2026	N/A	£146m
Capital Financing Requirement	£196m	£193m
Liability Benchmark - Gross loans requirement (£m)	£-186m	£-192m

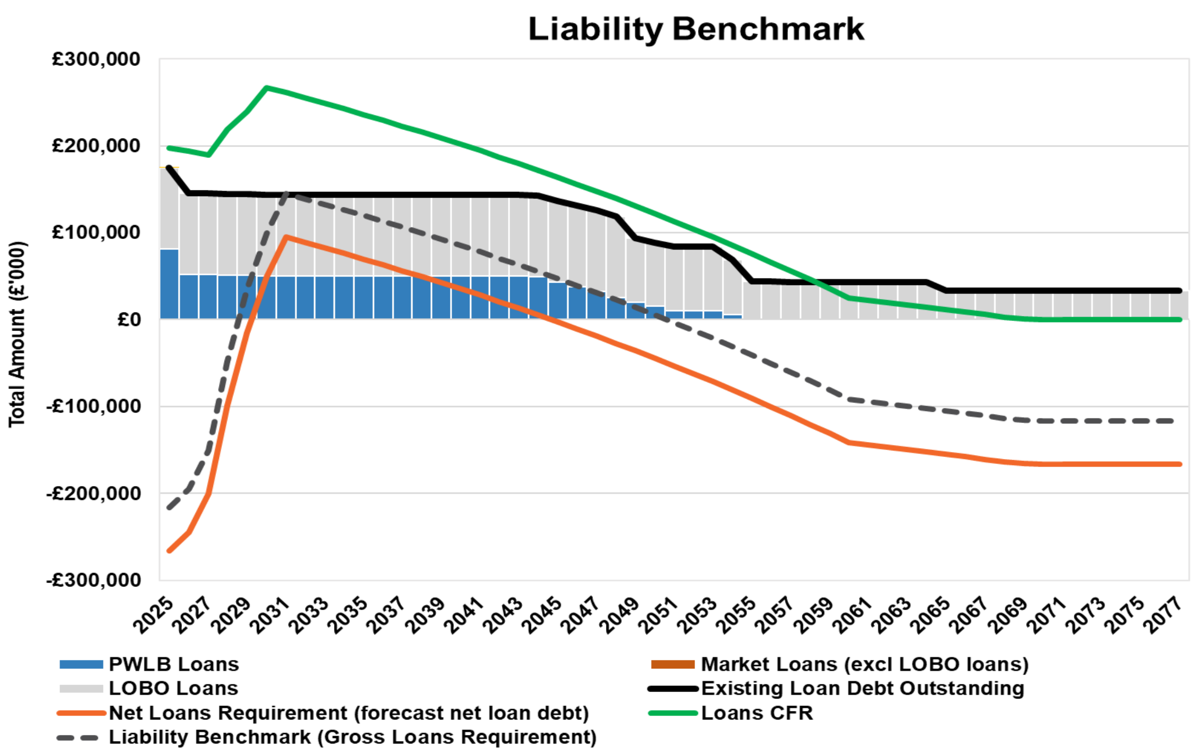
With the exception of the capital expenditure forecast for 2025/26 all other indicators are within the targets set. The latest estimate of capital expenditure in 2025/26 is £200m compared with the original prudential indicator of £164m. The increase is due to additional government capital grants, announced after the MTFS was approved, and the rephasing of capital expenditure (and its funding) from the 2024/25 outturn. The increase in the programme is fully funded. The Director of Corporate Resources reports that no difficulties are envisaged in complying with these indicators. The latest forecast of external debt at 31 March 2026 is £146m and is within both the authorised borrowing limit and the operational boundary set for 2025/26. The maturity structure of debt is within the indicators set.

Treasury Management Indicators

The Local Government Act 2003 requires the County Council to ensure that treasury management is carried out with good professional practice. The Treasury Management and Prudential Codes includes the following as the required indicators in respect of treasury management:

a) Liability benchmark - is a projection of the amount of loan debt outstanding that the Council needs each year into the future to fund its existing debt liabilities, planned prudential borrowing and other cash flows. This is shown by the gap between the Council's existing loans that are still outstanding at a given future date and the Council's future need for borrowing (as shown by the liability benchmark). It is presented as a chart, covering four sections:

- Existing loan debt outstanding – shown by the type of debt, to show interest risk
- Loans capital financing requirement – same as the CFR
- Net loans requirement (NLR) – gross debt less treasury management investments, proposed prudential borrowing, MRP and any other major cash flows forecast
- Liability bench mark (or gross loans required) equals the net loans requirement plus short-term liquidity allowance.



The opening position is as at April 2025. At this point the net loans requirement (NLR) is calculated as outstanding debt of £175m less treasury management investments of £441m. For the Council this is a negative figure of £-266m. The liability benchmark, or gross loans requirement, is this figure plus the short-term liquidity requirements of the Council, which provides a negative figure of £-216m. This position is primarily due to funding set aside to fund the capital programme, no new prudential borrowing for over a decade and limited opportunities to repay debt early.

As the chart moves through the MTFS period 2026-30 the liability benchmark (gross loans requirement) increases as the capital strategy is actioned through prudential borrowing and earmarked reserves being used. After this date the benchmark then reduces as MRP reduces the CFR. Despite this the gross loans requirements is always below the level of existing debt outstanding which indicates that no external borrowing is likely to be required.

There are limitations with the chart in that it is focused on current commitments and makes no assumption of any future possible prudential borrowing needs. However, it is a useful tool to review the net management of the treasury position with the aim to minimise and reduce refinancing, interest and credit risk by profiling borrowing portfolio to benchmark borrowing requirements.

b) Upper and lower limits for the maturity structure of its borrowings as follows:
Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate:

	Upper Limit %	Lower Limit%
under 12 months	30	0
12 months and within 24 months	30	0
24 months and within 5 years	50	0
5 years and within 10 years	70	0
10 years and above	100	25

c) An upper limit for treasury management investments longer than 1 year is 25% of the portfolio.

The County Council has adopted the CIPFA code of Practice for Treasury Management in the Public Services.

ANNEX 3

POLICY ON APPROVED ORGANISATIONS FOR LENDING

APPROVED ORGANISATIONS/ LIMITS FOR LENDING

Institution*	Maximum Sum Outstanding/Period of Loan
UK Clearing Banks and UK Building Societies**	£35m/6 months up to £55m/12months (Not special Institutions) £75m/12months (special Institutions) 'Special' = significant element of UK government ownership.
UK Debt Management Office	No maximum sum outstanding/12 months
UK Government Treasury Bills	No maximum sum outstanding/12 months
Overseas Banks	£10m/6 months £20m/12 months
Money Market Funds***	£40m ongoing limit within any AAA-rated fund, rising to £50m should the cash position necessitate. £200m maximum exposure to all Money Market Funds
UK Local Authorities	£10m/12 months
Pooled Private Debt Funds	£50m/variable 3-6 years
Pooled Bank Capital Release Funds	£20m/variable 3-6 years
Pooled Property Funds	£20m/variable
Pooled Infrastructure Funds	£15m/variable

* includes ring fenced and non-ring fenced banks.
**In the event that an investment is entered into which is legally offset against borrowing in the form of a LOBO (Lender's Option, Borrower's Option) from the same counterparty, the maximum period will be 20 years and the maximum sum will be the amount of the LOBO deal against which the legal offset exists.
*** For the most part, a practical limit of £40m will apply to each of the four MMF's available. However, if the total cash requirement for MMFs does exceed £160m (e.g. the £40m limit is reached in each), then the limit can be increased to £50m for each MMF.

The list of acceptable institutions will mirror the list of suggested counterparties maintained by MUFG Pension & Market Services, except the maximum maturity period will be restricted to 1 year and any institution with a suggested maturity period of 100 days or less will be excluded.

Some financial institutions have both a parent company and a subsidiary that are licensed deposit takers in the UK. Where this is the case a 'group limit' will apply, and this will be the limit that is given to the parent company.

In some cases the parent company will be an overseas institution and they will have UK-registered subsidiaries. Where this is the case the parent company limit will apply at a total group level, even if this limit is less than would be given to the UK subsidiary on a stand-alone basis. Any money invested with a UK subsidiary of an overseas institution will be classed as being invested in the country of domicile of the parent if the parent is an overseas institution for country-maximum purposes.

If the credit rating of an individual financial institution decreases to a level which no longer makes them an acceptable counterparty the Director of Corporate Resources will take action to bring this back into line at the earliest opportunity. It should be noted that there will be no legal right to cancel a loan early, and any premature repayment can only be made with the approval of the counterparty and may include financial penalties. Similar actions will be taken if a counterparty is downgraded to a level which allows them to remain on the list of acceptable counterparties, but where the unexpired term of any loan is longer than the maximum period for which a new loan could be placed with them.

In the event that the circumstances highlighted above occur, the Director of Corporate Resources will report to the Corporate Governance Committee.

ANNEX 4

TREASURY MANAGEMENT POLICY STATEMENT (TMPS)

1. This organisation defines its treasury management activities as:

   "The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks"

2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

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

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