

# **Treasury Management Strategy 2026/27** (including Minimum Revenue Provision Statement 2026/27 & Treasury Management Policy Statement 2026/27)

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Telford & Wrekin Council

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# Treasury Management Strategy 2026/27

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## Purpose

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management strategy for 2026/27. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2026/27 the minimum reporting requirements are that the Full Council should receive the following reports:

- an annual treasury strategy in advance of the year (this report),
- a mid-year, (minimum), treasury update report, and
- an annual review following the end of the year describing the activity compared to the strategy.

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the Full Council. Member training on treasury management issues was undertaken in January 2026 in order to support members' scrutiny role.

## **1.0 BACKGROUND & CONTEXT**

### **1.1 Background**

The Authority 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 low-risk counterparties or instruments commensurate with the Authority's low risk appetite, providing adequate liquidity initially before considering investment return.

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

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

CIPFA defines treasury management as:

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

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

### **1.2 Reporting Requirements**

#### **Capital Strategy**

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of the strategy is to ensure that all the Authority's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite. The Council's Capital Strategy is included as part of the suite of Medium-Term Financial Strategy (MTFS) reports which are approved by Full Council each year.

### **Treasury Management Reporting**

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

- Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers: -
  - the capital plans, (including prudential indicators)
  - a minimum revenue provision (MRP) policy, (how capital expenditure funded by borrowing is charged to revenue over time)
  - the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
  - an Annual Investment Strategy, (the parameters on how investments are to be managed)
- A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.
- An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

**Scrutiny** - the above reports are required to be adequately scrutinised before being recommended to the Full Council. This role is undertaken by the Audit Committee.

**Other reports** – The above reports will be supplemented by updates as part of the financial monitoring taken to Cabinet.

## **1.3 Treasury Management Strategy for 2026/27**

The strategy for 2026/27 covers two main areas:

## Capital issues

- the capital expenditure plans and the associated prudential indicators
- the minimum revenue provision (MRP) policy

## Treasury management issues

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

These elements cover the requirements of the Local Government Act 2003, Department of Levelling Up, Housing and Communities (DLUHC) (now Ministry of Housing, Communities and Local Government (MHCLG)) Investment Guidance, DLUHC (now MHCLG) MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

## 2.0 THE CAPITAL PRUDENTIAL INDICATORS 2026/27 – 2028/29

The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

### 2.1 Capital Expenditure and Financing

This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts: -

| Capital expenditure (£m)               | 2024/25 Actual | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate | 2028/29 Estimate |
|----------------------------------------|----------------|------------------|------------------|------------------|------------------|
| General Fund Services                  | 43.238         | 62.857           | 44.310           | 65.544           | 31.158           |
| Housing Investment Programme (NuPlace) | 22.040         | 25.718           | 17.590           | 16.616           | 13.000           |
| Property Investment Portfolio          | 0.570          | 15.831           | 24.636           | 12.436           | 7.000            |
| Local Regeneration Fund                | 21.325         | 19.911           | 29.780           | 7.000            | 0.000            |
| <b>Total</b>                           | <b>87.173</b>  | <b>124.317</b>   | <b>116.316</b>   | <b>101.594</b>   | <b>51.158</b>    |

Other long-term liabilities - the above financing need excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

| Financing of capital expenditure (£m) | 2024/25 Actual | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate | 2028/29 Estimate |
|---------------------------------------|----------------|------------------|------------------|------------------|------------------|
| Capital receipts                      | 2.178          | 6.877            | 3.571            | 1.340            | 6.000            |
| Capital grants                        | 30.462         | 49.777           | 36.457           | 40.680           | 22.776           |
| Revenue                               | 0.258          | 0.841            | 0.250            | 0.000            | 0.000            |
| External                              | 10.020         | 3.548            | 1.426            | 0.000            | 0.000            |
| Net financing need for the year       | 44.255         | 63.274           | 74.612           | 59.574           | 22.382           |
| <b>Total Financing</b>                | <b>87.173</b>  | <b>124.317</b>   | <b>116.316</b>   | <b>101.594</b>   | <b>51.158</b>    |

## 2.2 The Authority's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Authority's Capital Financing Requirement (CFR). 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 Authority's indebtedness and so it's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

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.

The CFR includes any other long-term liabilities (e.g., PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of schemes include a borrowing facility by the PFI, PPP lease provider and so the Authority is not required to separately borrow for these schemes. The Authority currently has £39.1m of such schemes within the CFR (31.03.2025).

The Committee is asked to approve the CFR projections below:

| Capital Financing Requirement (£m)         | 2024/25 Actual | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate | 2028/29 Estimate |
|--------------------------------------------|----------------|------------------|------------------|------------------|------------------|
| <b>Capital Financing Requirement</b>       |                |                  |                  |                  |                  |
| General Fund Service                       | 460.005        | 478.740          | 508.366          | 533.284          | 526.547          |
| Housing Investment Programme (NuPlace Ltd) | 89.557         | 115.275          | 132.866          | 149.482          | 162.482          |
| Property Investment Portfolio              | 64.931         | 78.263           | 101.701          | 111.645          | 118.645          |
| Solar Farm                                 | 3.800          | 3.800            | 3.800            | 3.800            | 3.800            |

| Capital Financing Requirement (£m) | 2024/25 Actual | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate | 2028/29 Estimate |
|------------------------------------|----------------|------------------|------------------|------------------|------------------|
| <b>Total CFR</b>                   | <b>618.293</b> | <b>676.078</b>   | <b>746.733</b>   | <b>798.211</b>   | <b>811.474</b>   |
| Movement in CFR                    |                | 57.785           | 70.655           | 51.478           | 13.263           |

Note, the breakdown between Housing Investment Programme, Property Portfolio and Solar Farm are based on the original prudential borrowing requirement and are for illustration purposes. Figures are reported as at 31 March for each financial year.

## 2.3 Liability Benchmark

The Authority is required to estimate and measure the Liability Benchmark for the forthcoming financial year and the following two financial years, as a minimum although CIPFA strongly recommends that the Liability Benchmark is produced for at least 10 years and should ideally cover the full debt maturity profile.

There are four components to the Liability Benchmark: -

- Existing loan debt outstanding: the Authority's 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 MRP.
- Net loans requirement: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
- Liability benchmark (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

The full Liability Benchmark is included at Appendix Bii.

## 2.4 Capital and Treasury Management Prudential Indicators

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Treasury Management and Prudential Indicators. These indicators are used to measure and manage the Authority's measures exposure to treasury management risks including –

- Capital Expenditure & Financing
- Capital Financing Requirement (CFR)
- Limits to Borrowing Activity
- Liability Benchmark
- Security
- Liquidity
- Interest Rate Exposure

- Maturity Structure of Fixed Rate Borrowing
- Principle sums invested for periods longer than a year

Capital and Treasury Management Prudential Indicators are detailed in Appendix Bii.

### 3.0 ANNUAL BORROWING STRATEGY

The capital expenditure plans set out in Section 2 provide details of the service activity of the Authority. The treasury management function ensures that the Authority's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Authority's Capital Strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions, and the Annual Investment Strategy.

#### 3.1 Current Portfolio Position

The overall treasury management portfolio as at 31 March 2025 and estimated position as at 31 March 2026 are shown below for both borrowing and investments.

| Treasury Portfolio                                                     | 31.3.25<br>Actual | 31.3.25<br>Actual | 31.03.26<br>Estimate | 31.03.26<br>Estimate |
|------------------------------------------------------------------------|-------------------|-------------------|----------------------|----------------------|
| <b>Treasury investments</b>                                            | <b>£m</b>         | <b>%</b>          | <b>£m</b>            | <b>%</b>             |
| Banks                                                                  | 3.482             | 15.8              | 2.500                | 16.7                 |
| Money Market Funds                                                     | 4.980             | 22.6              | 4.980                | 33.2                 |
| H.M. Treasury's Debt<br>Management Account Deposit<br>Facility (DMADF) | 13.600            | 61.6              | 7.520                | 50.1                 |
| <b>Total treasury investments</b>                                      | <b>22.062</b>     | <b>100.0</b>      | <b>15.000</b>        | <b>100.0</b>         |
| <b>Treasury external borrowing</b>                                     |                   |                   |                      |                      |
| Local Authorities                                                      | 151.012           | 32.8              | 147.468              | 30.0                 |
| PWLB                                                                   | 279.285           | 60.6              | 313.537              | 63.8                 |
| Market Loans                                                           | 15.000            | 3.3               | 15.000               | 3.1                  |
| LOBOs                                                                  | 15.000            | 3.3               | 15.000               | 3.1                  |
| Municipal Loans                                                        | 0.145             | 0.0               | 0.110                | 0.0                  |
| <b>Total external borrowing</b>                                        | <b>460.442</b>    | <b>100.0</b>      | <b>491.115</b>       | <b>100.0</b>         |
| <b>Net treasury investments /<br/>(borrowing)</b>                      | <b>438.380</b>    |                   | <b>476.115</b>       |                      |

The Authority's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

| External Financing & Investments (£m) | 31.3.25 Actual | 31.3.26 Estimate | 31.3.27 Estimate | 31.3.28 Estimate | 31.3.29 Estimate |
|---------------------------------------|----------------|------------------|------------------|------------------|------------------|
| Total External Borrowing              | 434.903        | 491.115          | 565.727          | 625.301          | 647.683          |
| Other Long-Term Liabilities           | 41.170         | 39.093           | 38.638           | 34.317           | 30.065           |
| <b>Total Gross External Debt</b>      | <b>476.043</b> | <b>530.208</b>   | <b>604.365</b>   | <b>659.618</b>   | <b>677.748</b>   |
| The Capital Finance Requirement       | 618.293        | 676.078          | 746.733          | 798.211          | 811.474          |
| <b>Under / (over) borrowing</b>       | <b>142.220</b> | <b>145.870</b>   | <b>142.368</b>   | <b>138.593</b>   | <b>133.726</b>   |

Within the range of prudential indicators there are several key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority 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 or speculative purposes.

The Director of Finance, People & IDT reports that the Authority complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes account of current commitments, existing plans and the proposals in this budget report.

### 3.2 Treasury Indicators: Limits to Borrowing Activity

**The Operational Boundary:** This is the limit beyond which external debt 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 debt and the ability to fund under-borrowing by other cash resources.

The Committee is asked to approve the following Operational Boundary:

| Operational Boundary (£m)   | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate | 2028/29 Estimate |
|-----------------------------|------------------|------------------|------------------|------------------|
| Debt                        | 645.0            | 760.0            | 820.0            | 840.0            |
| Other long-term liabilities | 50.0             | 45.0             | 35.0             | 35.0             |
| <b>Total</b>                | <b>695.0</b>     | <b>805.0</b>     | <b>855.0</b>     | <b>875.0</b>     |

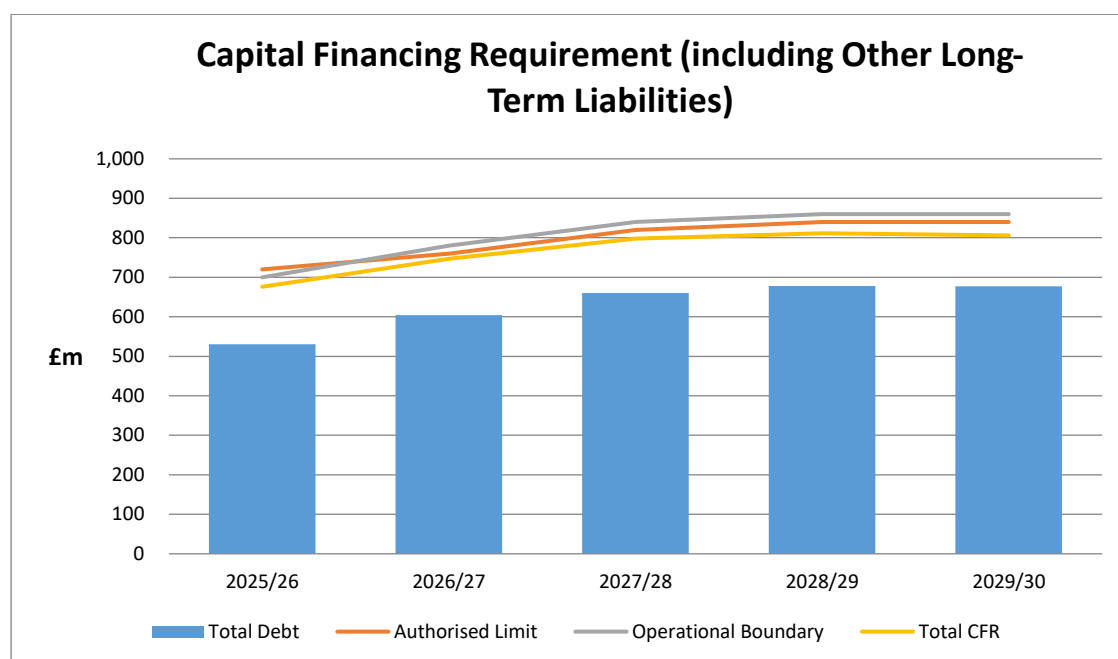
**The Authorised Limit for external debt:** This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short-term, but is not sustainable in the longer-term.

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 local authority plans, or those of a specific authority, although this power has not yet been exercised.

The Committee is asked to approve the following Authorised Limit:

| Authorised Limit (£m)       | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate | 2028/29 Estimate |
|-----------------------------|------------------|------------------|------------------|------------------|
| Debt                        | 665.0            | 780.0            | 840.0            | 860.0            |
| Other long-term liabilities | 54.0             | 50.0             | 40.0             | 40.0             |
| <b>Total</b>                | <b>719.0</b>     | <b>830.0</b>     | <b>880.0</b>     | <b>900.0</b>     |

The following chart displays total debt versus CFR, the Operational Boundary and the Authorisation Limit and demonstrates that projected total debt does not exceed the projected CFR or either projected limit in the short, medium or long-term.



### 3.3 Prospects for Interest Rates (provided by MUFG)

The Authority has appointed MUFG Corporate Markets as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. MUFG Corporate Markets provided the following forecasts on 22 December 2025. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

| 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.
- 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.

**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. Our target borrowing rates are set **two years forward** (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below: -

| <i>PWLB borrowing</i> | <i>Current borrowing rates as at 22.12.25 p.m. %</i> | <i>Target borrowing rate now (end of Q4 2027) %</i> | <i>Target borrowing rate previous (end of Q4 2027) %</i> |
|-----------------------|------------------------------------------------------|-----------------------------------------------------|----------------------------------------------------------|
| <b>5 years</b>        | 4.81                                                 | 4.10                                                | 4.20                                                     |
| <b>10 years</b>       | 5.39                                                 | 4.70                                                | 4.70                                                     |
| <b>25 years</b>       | 6.01                                                 | 5.30                                                | 5.30                                                     |
| <b>50 years</b>       | 5.78                                                 | 5.10                                                | 5.10                                                     |

**Borrowing advice:** Our long-term (beyond 10 years) forecast for the neutral level of Bank Rate remains at 3.5%. As all PWLB certainty rates are still above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve (<5 years PWLB maturity/<10 years PWLB EIP) and short-dated fixed LA to LA monies should also be considered. Temporary borrowing rates will, generally, fall in line with Bank Rate cuts.

Our suggested **budgeted earnings rates for investments** up to about three months' duration in each financial year are set out below.

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

We will continue to monitor economic and market developments as they unfold. Typically, we formally review our forecasts following the quarterly release of the Bank of England's Monetary Policy Report but will consider our position on an ad-hoc basis as required.

Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts

within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate

### 3.4 Borrowing Strategy

The Authority held £460.4m of loans as at 31 December 2025, an increase of £25.5m on the end of the previous financial year. It is anticipated that the total cumulative borrowing will increase to £491.1m by the end of 2025/26 in line with the approved Capital Programme. The Council is currently expected to need to borrow an additional £74.6m in 2026/27 based on the current capital programme plans and will adopt a flexible approach to borrowing.

The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to continue falling from their current levels albeit at a slower rate than previously forecast in May 2025.

Against this background and the risks within the economic forecast, caution will be adopted with the 2026/27 treasury operations. The Director of Finance, People & IDT will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.
- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the appropriate decision-making body at the next available opportunity.

**Objectives:** The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

**Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With the forecast for interest rates expected to continue falling through the forecast horizon, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow through the use of short-term loans of up to 1 year. By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. Whilst such a strategy is most likely to be beneficial over the next

year given to current downward trajectory in the interest rate forecast, over the medium-term we will make gradual moves into longer term borrowing as and when attractive opportunities arise. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years. External advisors will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2025/26 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Historically, the Authority has raised the majority of its short-term borrowing from the Local-to-Local market i.e. Local Authorities lending to and borrowing from each other, and this is likely to remain a major source going forward. The Authority may also consider the option of borrowing short term from the PWLB.

Likewise, the Authority has raised the majority of its long-term borrowing from the PWLB and this is likely to be a major source of borrowing going forward. The Authority may also consider alternative options for borrowing any long-term loans, such as banks, pension funds and local authorities, and the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.

Alternatively, the Authority may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow further short-term loans to cover unplanned cash flow shortages.

**Sources of Borrowing:** The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly PWLB)
- any institution approved for investments
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- Registered Housing providers
- Capital market bond investors

- Community Municipal Investments (Bond or Loan) raised from the general public (including a climate change investment opportunity).

**Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

**Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to meet its obligations for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable.

**New Financial Institutions as a source of borrowing and or types of borrowing:** Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

**LOBOs:** The Authority holds £15.0m (3.2% of the debt portfolio at 31 December 2025) of LOBO (Lender’s Option Borrower’s Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. None of the LOBOs have remaining options prior to the end of the financial year. Rates payable were competitive compared to PWLB rates at the time that the loans were taken out. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will not increase from the current £15.0m.

**Short-term and variable rate loans:** These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the

interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk.

**Borrowing in advance of need:** The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be 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.

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

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

## **4.0 ANNUAL INVESTMENT STRATEGY**

### **4.1 Investment Policy – Management of Risk**

#### **Investments that are not part of Treasury Management Activity**

The Ministry of Housing, Communities and Local Government (MHCLG) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This may include investment activity which is outside the purpose of normal treasury management. Public sector organisations may have investments for various purposes –

- **Investments for treasury management purposes** – are those investments that arise from the organisations cash flows or treasury risk management activity and ultimately represent balances which need to be invested until the cash is required for use in the course of business.
- **Investments for service purposes** – are taken or held primarily for the provision and for the purpose of delivering public services (including housing, regeneration and local infrastructure) or in support of joint working with others to deliver such services.
- **Investments for commercial purposes** – are long term investments taken or held primarily for financial return and are not linked to treasury management activity or directly part of delivering services. The Council does not hold any investments primarily for financial return.

This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Investments for both services purposes and commercial purposes are covered in greater detail in the Investment Strategy

Report and Capital Strategy Report which will be presented to Cabinet on 12 February 2026 and then Full Council on 26 February 2026.

The Authority's investment policy has regard to the following: -

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

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

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider "laddering" investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

The above guidance from the DLUHC and CIPFA places a high priority on the management of risk. This Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.
2. **Other information:** ratings will not be the sole determinant of the quality of an institution; 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 achieve this consideration the Authority will engage with its advisors to maintain a monitor on market pricing such as "**credit default swaps**" and overlay that information on top of the credit ratings.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This Authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in Appendix Biv under the categories of 'specified' and 'non-specified' investments.

**Specified Treasury investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year

left to run to maturity, if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.

**Non-specified Treasury investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified and loan investment limits.** The Authority has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments of £5m.
6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.
7. **Transaction limits** are set for each type of investment in paragraph 4.2.
8. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.2).
9. This Authority will set a limit for its investments which are invested for **longer than 365 days**, (see Appendix Bii).
10. This Authority has engaged **external consultants**, (see paragraph 3.3), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Authority in the context of the expected level of cash balances and need for liquidity throughout the year.
11. All investments will be denominated in **sterling**.
12. As a result of the change in accounting standards for 2023/24 under IFRS 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23. More recently, a further extension to the over-ride for existing pooled funds has been agreed by Government until 31.3.29.

However, this Authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

## 4.2 Creditworthiness Policy

This Authority applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard &

Poor's. The credit ratings of counterparties are supplemented with the following overlays: -

- “watches” and “outlooks” from credit rating agencies,
- CDS spreads that may give early warning of changes in credit ratings,
- sovereign ratings to select counterparties from only the most creditworthy countries.

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 colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Authority to determine the suggested duration for investments. The Authority will, therefore, use counterparties within the following durational bands:

- Yellow 5 years
- Dark pink 5 years for Ultra-Short Dated Bonds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bonds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (applies to nationalised / semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

The Link creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically, the minimum credit ratings criteria the Authority uses will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored daily. The Authority is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Authority will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link.

Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

Sole reliance will not be placed on the use of this external service. In addition, this Authority will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.

| Y          | Pi1        | Pi2        | P          | B         | O         | R           | G             | N/C       |
|------------|------------|------------|------------|-----------|-----------|-------------|---------------|-----------|
| 1          | 1.25       | 1.5        | 2          | 3         | 4         | 5           | 6             | 7         |
| Up to 5yrs | Up to 5yrs | Up to 5yrs | Up to 2yrs | Up to 1yr | Up to 1yr | Up to 6mths | Up to 100days | No Colour |

|                                                           | Colour (and long-term rating where applicable) | Money Limit (with any one counterparty) | Time limit         |
|-----------------------------------------------------------|------------------------------------------------|-----------------------------------------|--------------------|
| Banks                                                     | Yellow                                         | £15.0m                                  | 5yrs               |
| Banks                                                     | Purple                                         | £15.0m                                  | 2 yrs              |
| Banks                                                     | Orange                                         | £15.0m                                  | 1 yr               |
| Banks – part nationalised                                 | Blue                                           | £15.0m                                  | 1 yr               |
| Banks                                                     | Red                                            | £15.0m                                  | 6 mths             |
| Banks                                                     | Green                                          | £15.0m                                  | 100 days           |
| Banks                                                     | No Colour                                      | Not to be used                          |                    |
| Limit 3 category – Authority's banker (where "No Colour") | XXX                                            | £15.0m                                  | 1 day              |
| Other institutions limit                                  | -                                              | £7.5m                                   | 5yrs               |
| DMADF                                                     | UK sovereign rating                            | unlimited                               | 6 months           |
| Local authorities                                         | n/a                                            | £15.0m                                  | 1yrs               |
| Housing associations                                      | Colour bands                                   | £15.0m                                  | As per colour band |
|                                                           | Fund rating**                                  | Money Limit (with any one counterparty) | Time Limit         |
| Money Market Funds CNAV                                   | AAA                                            | £10.0m                                  | liquid             |
| Money Market Funds LVNAV                                  | AAA                                            | £10.0m                                  | liquid             |
| Money Market Funds VNAV                                   | AAA                                            | £10.0m                                  | liquid             |
| Ultra-Short Dated Bond Funds with a credit score of 1.25  | Dark Pink / AAA                                | £10.0m                                  | liquid             |
| Ultra-Short Dated Bond Funds with a credit score of 1.50  | Light Pink / AAA                               | £10.0m                                  | liquid             |

**Creditworthiness:** Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. Nonetheless,

when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

**CDS prices:** Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the days of the Truss/Kwarteng government in the autumn of 2022, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Authority has access to this information via its Link-provided Passport portal.

**Limits:** Due care will be taken to consider the exposure of the Authority's total investment portfolio to non-specified investments, countries, groups and sectors.

- a) **Non-specified treasury management investment limit:** The Authority has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being £5m.
- b) **Country limit:** The Authority has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix Bv. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

**Other limits.** In addition: -

- no more than £15m, with the exception of Money Market Funds where the Authority has no control of the sovereignty splits, will be placed with any non-UK country at any time,
- limits in place above will apply to a group of companies/institutions,
- sector limits will be monitored regularly for appropriateness.

#### 4.3 Treasury Investment Strategy

The Council generally expects to maintain an investment balance of between £10.0m and £25.0m, at each month end, for the forthcoming year. There may be circumstances where the Council takes advantage favourable borrowing rates and investments may exceed £25m on a short-term basis from time to time due to differing maturity dates or certain periods of the year when markets are less liquid and it is appropriate to hold more cash investments; further, the receipt of grant funding, may result in investments being higher at points during the year.

**Objectives:** The CIPFA Code requires the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of

receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

**Strategy:** For its cash flow generated balances, the Authority will seek to utilise its business reserve instant access and notice accounts, Money Market Funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest. This diversification of investments will represent a continuation of the strategy adopted in 2025/26.

**Business models:** Under the new IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

**Approved counterparties:** The Authority may invest its surplus funds with any of the counterparty types listed below, subject to the cash limits (per counterparty) and the time limits shown in the creditworthiness policy (4.2).

- **The UK Government, local authorities and other government entities:** Loans to, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is a lower risk of insolvency, although they are not without risk. Investments with the UK Government may be made in unlimited amounts for up to 50 years.
- **Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.
- **Banks & Building Societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.
- **Registered providers (unsecured):** Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish

Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

- **Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.
- **Strategic pooled funds:** Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.
- **Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.
- **Other investments:** This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk
- **Operational bank accounts:** The Authority may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £15.0m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25bn are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Approved Instruments: The Authority may lend or invest money using any of the following instruments:

- interest-bearing bank accounts
- fixed term deposits and loans
- callable deposits and loans where the borrower may repay before maturity, but subject to a maximum of £5million in total

- certificates of deposit
- bonds, notes, bills, commercial paper and other marketable instruments, and shares in money market funds and other pooled funds,

Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as SONIA, subject to the limits on interest rate exposures below.

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

#### 4.4 End of Year Investment Report

At the end of the financial year, the authority will report on its treasury management investment activity as part of its Annual Treasury Report.

#### 4.5 Ethical Investments

The Council will not knowingly directly invest in organisations whose activities include practices which directly pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the mission and values of the Council. At the same time the Council will take full responsibility for proper management of risk and safeguarding its investments by ensuring that they are diversified and made with organisations suitably credit assessed.

The Council's lending activity will be subject to (in order of rank)

- the assessment of meeting the minimum lending criteria as specified in the current Treasury Management Strategy and the minimum credit ratings as outlined in the Strategy.
- meeting the Security, Liquidity & Yield (SLY) criteria as set out in the current Treasury Management Strategy, and
- investments are not contrary to the values outlined in the Ethical Investment Framework (Appendix Bvii)

#### 4.6 Related Matters

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

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

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

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

**Markets in Financial Instruments Directive (MIFID):** The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but with the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

## **5.0 MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT 2026/27**

- 5.1 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 CFR from its calculation, unless by an exception set out in statute.

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 MRP Guidance (2024) provides four ready-made options for calculating MRP. An authority can use a mix of these options if it considers it appropriate to do so.

The Government considers that the methods of making prudent provision include the options set out in the statutory guidance. However, this does not rule out or otherwise preclude an authority from using an alternative method should it decide that is more appropriate. Any method used is subject to the conditions in paragraphs 61 to 65 of the guidance as far as these are relevant.

The four options set-out in the guidance include -

For expenditure incurred before 1 April 2008 which forms part of supported capital expenditure, the MRP policy will be:

- 4% reducing balance (regulatory method) - MRP will follow the historical practice outlined in former regulations as 4% of the opening GF CFR balance less adjustment A (Option 1); or
- 4% reducing balance (CFR method) (Option 2) – MRP will be calculated as 4% of the opening GF CFR balance; or

From 1 April 2008 for all unsupported borrowing the MRP policy will be (amend as appropriate):

- Asset life method (straight line) (Option 3)
- Asset life method (annuity) (Option 4)

The Authority is recommended to approve the following MRP Statement:

#### **5.1.2 MRP Statement 2026/27**

The Council will calculate MRP by the following methods –

Historic MRP (re pre 2007/08 borrowing). This will be calculated by dividing the balance at 31/3/07 (calculated in accordance with regulations) by 50 for an annual charge that charges over a finite period rather than a 4% reducing balance. This methodology is broadly in line with Option 3.

MRP in respect of prudential borrowing (subject to the 5.1.2 and 5.1.3 below), government supported allocations since 2007/08 and PFI will be charged over the life of the asset on an annuity basis - Option 3 in the regulations.

Regulation 27(3) allows a local authority to charge MRP in the financial year following the one in which capital expenditure finance by debt was incurred. Therefore, capital expenditure financed by borrowing in 2025/26 will not be subject to an MRP charge until 2026/27, or in the financial year following the one which the asset first becomes available for use.

The Authority will apply the asset life method for any expenditure capitalised under a Capitalisation Direction.

#### **5.1.2 Capital loans**

Regulation 27(4) allows a local authority to exclude capital loans that are financed by debt from the requirement to make MRP, provided the loan is not a commercial loan.

The Authority has issued capital loans that are categorised non-commercial loans and has chosen to not apply MRP in accordance with the statutory guidance.

### **5.1.3 Share Capital**

Where an Authority incurs expenditure that is capitalised on or after April 2008, which is financed by borrowing for the acquisition of share capital, Regulation 25(1)(d) Acquisition of share capital sets out the maximum period for an authority to provide MRP of 20 years.

The Authority has incurred expenditure that has been capitalised which is finance from borrowing for the acquisition of share capital. This expenditure relates solely to share capital in NuPlace Ltd, the Council's wholly owned subsidiary. MRP relating to such expenditure has been calculated in accordance with the statutory guidance, in line with Option 3 however the asset life has been included as 20 years.

### **5.1.4 MRP Overpayments**

Under the MRP guidance, charges made in excess of the statutory MRP can be made and are known as voluntary revenue provision (VRP).

VRP can be reclaimed in later years if deemed necessary or prudent. In order for these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

The Council has not made any VRPs to date.

## **6.0 TREASURY MANAGEMENT POLICY STATEMENT 2026/27**

6.1 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Treasury Management Code (TM Code)), as described in Section 5 of the TM Code.

Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- Suitable Treasury Management Practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- Investment Management Practices (IMPs) for investments that are not for treasury management purposes.

The Council will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Audit Committee and for the execution and administration of treasury management decisions to Director: Finance, People & IDT, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

The Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

## **6.2 Policies and objectives of Treasury Management Activities**

The Council 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."

This Council 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, and any financial instruments entered into to manage these risks.

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

The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt. The Council will look to minimise borrowing through the use of maturing investments to fund capital expenditure rather than reinvestment.

The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations. Generally as investments mature they will not be reinvested but be used to minimise borrowing.

## **7.0 OTHER ITEMS**

### **7.1 Financial Implications**

The budget for investment income in 2026/27 is £0.519m, based on an average investment portfolio of £15.0m at an interest rate of 3.46%. The budget for debt interest paid in 2026/27 is £15.167m, net of Nuplace interest received on capital

loans, based on an average debt portfolio of £496.803m at an average interest rate of 4.02%. If actual levels of investments and borrowing, or actual interest rates, differ from that forecast, performance against budget will be correspondingly different. Such differences will be reported through regular financial monitoring to Cabinet.

## **7.2 Balanced Budget Requirement:**

The Authority complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

## **7.3 Monitoring and Reporting on the Treasury Outturn and Prudential Indicators**

The Director: Finance, People & IDT will report to the Audit Committee on treasury management activity / performance and Performance Indicators as follows -

- Half yearly against the strategy approved for the year. The authority will produce an outturn report on its treasury activity no later than 31<sup>st</sup> July after the financial year end and an update report alongside the Treasury Strategy in the last quarter of the financial year.

Audit Committee will be responsible of the scrutiny of treasury management activity and practices.

A detailed list of the Treasury Management Section of Delegation and the Treasury Management Role of the Section 151 Officer are included at Appendix Biv.

## **7.4 Training**

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

The scale and nature of knowledge and training requirements will depend on the size and complexity of the organisation's treasury management needs.

Based on our treasury management portfolio the approach we will adopt is:

- Record attendance at training and circulate training materials to those unable to attend; also ensure action is taken where poor attendance is identified.
- Discuss and agree learning plans as part of APPD / 1-to-1 for treasury management officers; consider training plan requirements for members.
- Consider self-assessment requirements for both treasury management officers and relevant members.
- Periodically ask treasury management officers and relevant members to highlight any training needs.

Training has been undertaken by members in January 2025 and January 2026 and further training will be arranged as required.

A formal record of the training received by officers central to the Treasury function will be recorded as part of the APPD process. Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained by the Treasury Function.

## **7.5 Treasury Management Consultants**

The Authority uses MUFG Corporate Markets as its external treasury management advisors.

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

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

## Existing Treasury Portfolio Projected Forward to 2028/29

| Treasury Portfolio (£m)                       | Current Portfolio | %            | 31.3.26 Estimate | 31.3.27 Estimate | 31.3.28 Estimate | 31.3.29 Estimate |
|-----------------------------------------------|-------------------|--------------|------------------|------------------|------------------|------------------|
| <b>Treasury Investments:</b>                  |                   |              |                  |                  |                  |                  |
| Banks                                         | 4.925             | 19.8         | 2.500            | 2.500            | 2.500            | 2.500            |
| Money Markets                                 | 4.980             | 20.0         | 4.980            | 4.980            | 4.980            | 4.980            |
| DMADF                                         | 15.000            | 60.2         | 7.520            | 7.520            | 7.520            | 7.520            |
| <b>Total Treasury Investments</b>             | <b>24.905</b>     | <b>100.0</b> | <b>15.000</b>    | <b>15.000</b>    | <b>15.000</b>    | <b>15.000</b>    |
| <b>Treasury external borrowing</b>            |                   |              |                  |                  |                  |                  |
| Local Authorities & other temporary loans     | 151.012           | 32.8         | 147.468          | 100.029          | 100.029          | 100.029          |
| PWLB                                          | 279.285           | 60.7         | 313.537          | 435.661          | 495.272          | 517.654          |
| Market Loans                                  | 15.000            | 3.2          | 15.000           | 15.000           | 15.000           | 15.000           |
| LOBO                                          | 15.000            | 3.2          | 15.000           | 15.000           | 15.000           | 15.000           |
| Municipal Loans                               | 0.145             | 0.1          | 0.110            | 0.037            | 0.000            | 0.000            |
| <b>Total Treasury external borrowing</b>      | <b>460.442</b>    | <b>100.0</b> | <b>491.115</b>   | <b>565.727</b>   | <b>625.301</b>   | <b>647.683</b>   |
| <b>Net Treasury investments / (borrowing)</b> | <b>(435.537)</b>  |              | <b>(476.118)</b> | <b>(550.727)</b> | <b>(610.301)</b> | <b>(632.683)</b> |
| <b>Long Term Liabilities</b>                  |                   |              |                  |                  |                  |                  |
| PFI                                           | (38.428)          |              | (38.428)         | (38.138)         | (34.317)         | (29.905)         |
| Finance Leases                                | (0.665)           |              | (0.665)          | (0.500)          | (0.351)          | (0.160)          |
| <b>Total Long-Term Liabilities</b>            | <b>(39.093)</b>   |              | <b>(39.093)</b>  | <b>(38.638)</b>  | <b>(34.668)</b>  | <b>(30.065)</b>  |
| <b>Net investments / (borrowing)</b>          | <b>(474.630)</b>  |              | <b>(515.211)</b> | <b>(589.365)</b> | <b>(644.969)</b> | <b>(662.748)</b> |

## Capital and Treasury Management Prudential Indicators 2025/26 – 2028/29

### 1.0 Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

The Authority measures and manages its exposure to treasury management risks using the following indicators.

Committee is asked to approve the following Capital and Treasury Management Prudential Indicators for 2025/26.

### 2.0 Capital Expenditure and Financing:

This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts: -

| Capital expenditure (£m) | 2024/25 Actual | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate | 2028/29 Estimate |
|--------------------------|----------------|------------------|------------------|------------------|------------------|
| Total                    | 87.173         | 124.317          | 116.316          | 101.594          | 51.158           |

Other long-term liabilities - the above financing need excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

| Financing of capital expenditure (£m) | 2024/25 Actual | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate | 2028/29 Estimate |
|---------------------------------------|----------------|------------------|------------------|------------------|------------------|
| Capital receipts                      | 2.178          | 6.877            | 3.571            | 1.340            | 6.000            |
| Capital grants                        | 30.462         | 49.777           | 36.457           | 40.680           | 22.776           |
| Revenue                               | 0.258          | 0.841            | 0.250            | 0.000            | 0.000            |
| External                              | 10.020         | 3.548            | 1.426            | 0.000            | 0.000            |
| Net financing need for the year       | 44.255         | 63.274           | 74.612           | 59.574           | 22.382           |
| <b>Total Financing</b>                | <b>87.173</b>  | <b>124.317</b>   | <b>116.316</b>   | <b>101.594</b>   | <b>51.158</b>    |

### 3.0 The Authority's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Authority's Capital Financing Requirement (CFR). See Table 2 – Capital Financing Requirement (CFR) in Section 1.7 above.

The Authority is asked to approve the CFR projections below:

| Capital Financing Requirement (£m) | 2024/25 Actual | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate | 2028/29 Estimate |
|------------------------------------|----------------|------------------|------------------|------------------|------------------|
| Total CFR                          | 618.293        | 676.078          | 746.733          | 798.211          | 811.474          |
| Movement in CFR                    |                | 57.785           | 70.655           | 51.478           | 13.263           |

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. The CFR Table above shows that the Authority expects to fully comply with this recommendation.

#### 4.0 Limits to Borrowing Activity:

The Operational Boundary. This is the limit beyond which external debt 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 debt and the ability to fund under-borrowing by other cash resources.

| Operational Boundary (£m)   | 2025/26 Actual | 2026/27 Estimate | 2027/28 Estimate | 2028/29 Estimate |
|-----------------------------|----------------|------------------|------------------|------------------|
| Debt                        | 645.0          | 760.0            | 820.0            | 840.0            |
| Other long-term liabilities | 50.0           | 45.0             | 35.0             | 35.0             |
| <b>Total</b>                | <b>695.0</b>   | <b>805.0</b>     | <b>855.0</b>     | <b>875.0</b>     |

The Authorised Limit for external debt. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the 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.

- 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 local authority plans, or those of a specific authority, although this power has not yet been exercised.
- The Authority is asked to approve the following Authorised Limit:

| Authorised Limit (£m)       | 2025/26 Actual | 2026/27 Estimate | 2027/28 Estimate | 2028/29 Estimate |
|-----------------------------|----------------|------------------|------------------|------------------|
| Debt                        | 665.0          | 780.0            | 840.0            | 860.0            |
| Other long-term liabilities | 54.0           | 50.0             | 40.0             | 40.0             |
| <b>Total</b>                | <b>719.0</b>   | <b>830.0</b>     | <b>880.0</b>     | <b>900.0</b>     |

#### 5.0 Liability benchmark:

To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as the Capital Financing Requirement (CFR), but that cash and investment balances are kept to a minimum level of £15m at each year-end to maintain sufficient liquidity but minimise credit risk.

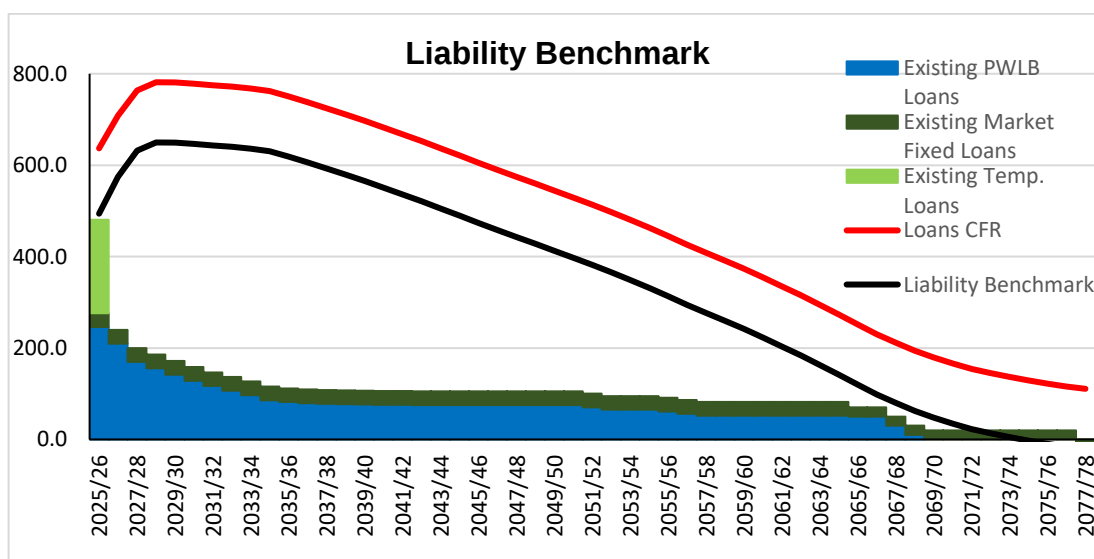
| Liability Benchmark (£m)      | 31.3.25 Actual | 31.3.26 Estimate | 31.3.27 Forecast | 31.3.28 Forecast | 31.3.29 Forecast |
|-------------------------------|----------------|------------------|------------------|------------------|------------------|
| CFR                           | 618.293        | 676.078          | 746.733          | 798.211          | 811.474          |
| Less: PFI & Leases            | 41.170         | 39.093           | 38.638           | 34.668           | 30.065           |
| <b>Loans CFR</b>              | <b>577.123</b> | <b>636.985</b>   | <b>708.095</b>   | <b>763.543</b>   | <b>781.409</b>   |
| Less: Balance Sheet Resources | 150.901        | 157.724          | 148.690          | 146.983          | 146.736          |
| <b>Net Loans Requirement</b>  | <b>426.222</b> | <b>479.261</b>   | <b>559.405</b>   | <b>616.560</b>   | <b>634.673</b>   |
| Plus: Liquidity Allowance     | 22.062         | 15.000           | 15.000           | 15.000           | 15.000           |
| <b>Liability Benchmark</b>    | <b>448.284</b> | <b>494.261</b>   | <b>574.405</b>   | <b>631.560</b>   | <b>649.673</b>   |

Following on from the medium-term forecasts in the table above, the long-term liability benchmark has been calculated (see chart below) and assumes capital expenditure funded by borrowing in line with the capital programme, minimum revenue provision on new capital expenditure based on appropriate asset lives and balance sheet resources reducing in line with anticipated use of reserves.

The liability benchmark is a projection of the amount of loan debt outstanding which the authority needs each year into the future, in order to fund its existing debt liabilities, planned prudential borrowing and other cash flows.

The headroom for the future borrowing requirement is shown by the gap between the authority's existing loans which are still outstanding at a given future date, and the authority's future need for borrowing (as shown by the liability benchmark).

It therefore shows how closely the existing loans book fits the future needs of the authority based only on its current plans. Any shortfall will need to be met by future borrowing; any excess will have to be invested (unless existing borrowing is prematurely repaid). Refinancing risk, interest rate risk and credit risk can be minimized or reduced by ensuring that the existing loans portfolio shows a profile close to the liability benchmark.



For Telford & Wrekin Council, the benchmark shows that our current level of external borrowing is below the amount needed to fund commitments and therefore future borrowing will be required.

In particular, the liability benchmark identifies the maturities needed for new borrowing, in order to match future liabilities. It therefore avoids borrowing for too long or too short. Local authorities have sometimes used the CFR as their benchmark of borrowing needs, but this is likely to result in substantial over-borrowing because authorities generally have systemic in-hand cash flows and balances which keep actual debt (net of treasury investments) well below the CFR. Borrowing needs are based on cash flows, not the CFR – accepting the need for a reasonable but not excessive holding of short-term investments for liquidity management.

The liability benchmark makes no assumption about the level of future prudential borrowing in as yet unknown capital budgets. This avoids making large assumptions which may prove to be spectacularly wrong; but the main reason is that it enables the benchmark to be compared like-for-like with the existing loans portfolio to identify the future borrowing and investment needs arising from the authority's existing plans. It shows us what the current debt maturity profile should be to match the authority's current borrowing commitments less MRP and other forecast cash flows. Matching the portfolio to the need minimises treasury risks.

## 6.0 Maturity Structure of Fixed Rate borrowing:

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment. For loans with Lender Options / Borrower Options (LOBOs) this is assumed as the final maturity date.

| Maturity structure of fixed rate borrowing | Lower Limit<br>for 2026/27<br>% | Upper Limit<br>for 2026/27<br>% | Existing level<br>31.12.25<br>% |
|--------------------------------------------|---------------------------------|---------------------------------|---------------------------------|
| under 12 months                            | 0                               | 70                              | 18.5                            |
| 12 months and within 24 months             | 0                               | 30                              | 27.2                            |
| 24 months and within 5 years               | 0                               | 50                              | 16.9                            |
| 5 years and within 10 years                | 0                               | 75                              | 12.1                            |
| 10 years and above                         | 0                               | 100                             | 25.3                            |

## 7.0 Security of Investments:

The Council considers security, liquidity and yield, in that order, when making investment decisions.

Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

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

| Credit Risk Indicator          | Target                                                                | Current<br>(31.12.25) |
|--------------------------------|-----------------------------------------------------------------------|-----------------------|
| Portfolio average credit score | 6 or lower, (which is equivalent to a credit rating of 'A' or higher) | 1.79                  |

#### 8.0 Principal sums invested for periods longer than a year:

The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

| Limit on principal sums invested for periods longer than a year | 2025/26<br>Estimate<br>% | 2026/27<br>Estimate<br>% | 2027/28<br>Estimate<br>% |
|-----------------------------------------------------------------|--------------------------|--------------------------|--------------------------|
| Limit on total investments                                      | 95                       | 95                       | 95                       |

## Interest Rate Forecasts and Economic Background

### Interest rate forecasts 2024 - 2027

| 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   |

Please note, PWLB forecasts are based on PWLB certainty rates.

### ECONOMIC BACKGROUND (to 23 December 2025)

The first half of 2025/26 saw:

- A 0.3% pick up in 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.
- 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).
- 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 to be in the region of 1.5%.
- Sticking with future economic sentiment, the composite Purchasing Manager Index (PMI) for the UK increased to 52.2 in October. The manufacturing PMI output balance improved to just below 50 but it is the services sector (52.2) that continues to drive the economy forward. Nonetheless, the PMIs suggest tepid growth is the best that can be expected in the second half of 2025 and the start of 2026. Indeed, on 13 November we heard that GDP for July to September was 0.1% q/q.

- Turning to retail sales volumes, and the 1.5% year-on-year rise in September, accelerating from a 0.7% increase in August, marked the highest gain since April. On a monthly basis, retail sales volumes rose 0.5%, defying forecasts of a 0.2% fall, following an upwardly revised 0.6% gain in August. Household spending remains surprisingly resilient, but the headwinds are gathering.
- Prior to the November Budget, the public finances position looked weak. The £20.2 billion borrowed in September was slightly above the £20.1 billion forecast by the OBR. For the year to date, the £99.8 billion borrowed is the second highest for the April to September period since records began in 1993, surpassed only by borrowing during the COVID-19 pandemic. The main drivers of the increased borrowing were higher debt interest costs, rising government running costs, and increased inflation-linked benefit payments, which outweighed the rise in tax and National Insurance contributions.
- 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.
- 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 £2.0m will generate £0.4bn.
- The weakening in the jobs market looked clear in the spring. May's 109,000 m/m fall in the PAYE measure of employment was the largest decline (barring the pandemic) since the data began and the seventh in as many months. The monthly change was revised lower in five of the previous seven months too, with April's 33,000 fall revised down to a 55,000 drop. More recently, however, the monthly change was revised higher in seven of the previous nine months by a total of 22,000. So instead of falling by 165,000 in total since October, payroll employment is now thought to have declined by a smaller 153,000. Even so, payroll employment has still fallen in nine of the ten months since the Chancellor announced the rises in National Insurance Contributions (NICs) for employers and the minimum wage in the October 2024 Budget. The number of job vacancies in the three months to November 2025 stood at 729,000 (the peak was 1.3 million in spring 2022). All this suggests the labour market continues to loosen, albeit at a slow pace.
- A looser labour market is driving softer wage pressures. The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% in April to 4.6% in September. (still at that level in November). The rate for the private sector has slipped just below 4% as the year end approaches.
- CPI inflation remained at 3.8% in September but dropped to 3.2% by November. Core inflation also fell to 3.2% by November while services inflation

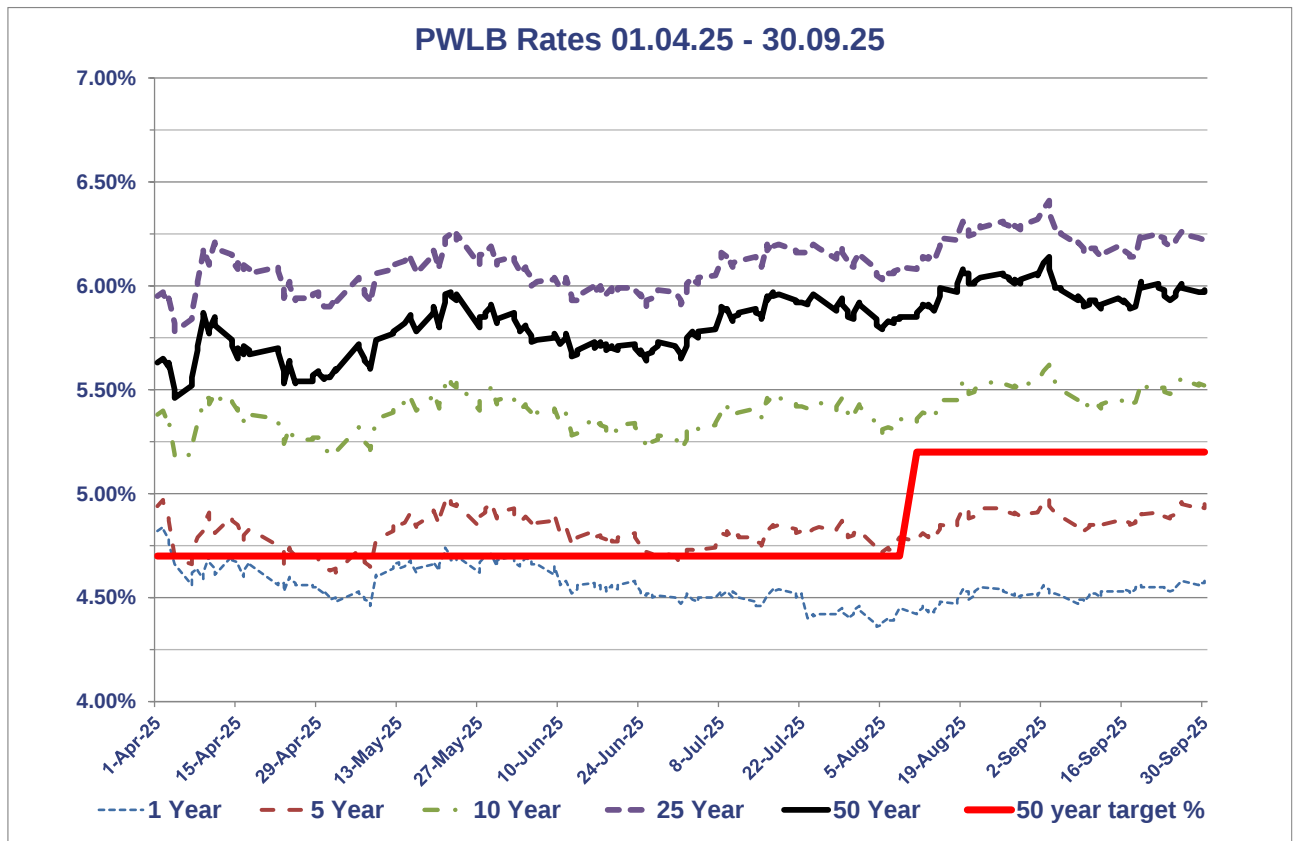
fell to 4.4%. Nonetheless, a further loosening in the labour market and weaker wage growth may be a requisite to UK inflation coming in below 2.0% by 2027.

- An ever-present issue throughout recent months has been the pressure being exerted on medium and longer dated gilt yields. The yield on the 10-year gilt moved sideways in the second quarter of 2025, rising from 4.4% in early April to 4.8% in mid-April following wider global bond market volatility stemming from the “Liberation Day” tariff announcement, and then easing back as trade tensions began to de-escalate. By the end of April, the 10-year gilt yield had returned to 4.4%. In May, concerns about stickier inflation and shifting expectations about the path for interest rates led to another rise, with the 10-year gilt yield fluctuating between 4.6% and 4.75% for most of May. Thereafter, as trade tensions continued to ease and markets increasingly began to price in looser monetary policy, the 10-year yield edged lower, and ended June at 4.50%.
- More recently, the yield on the 10-year gilt rose from 4.46% to 4.60% in early July as rolled-back spending cuts raised fiscal concerns. Although the spike proved short lived, it highlighted the UK’s fragile fiscal position. In an era of high debt, high interest rates and low GDP growth, the markets are now more sensitive to fiscal risks than before the pandemic. During August, long-dated gilts underwent a particularly pronounced sell-off, climbing 22 basis points and reaching a 27-year high of 5.6% by the end of the month. While yields have since eased back, the market sell-off was driven by investor concerns over growing supply-demand imbalances, stemming from unease over the lack of fiscal consolidation and reduced demand from traditional long-dated bond purchasers like pension funds. For 10-year gilts, by late September, sticky inflation, resilient activity data and a hawkish Bank of England kept yields elevated over 4.70% although by late December had fallen back again to a little over 4.50%.
- The FTSE 100 fell sharply following the “Liberation Day” tariff announcement, dropping by more than 10% in the first week of April - from 8,634 on 1 April to 7,702 on 7 April. However, the de-escalation of the trade war coupled with strong corporate earnings led to a rapid rebound starting in late April. As a result, the FTSE 100 ended June at 8,761, around 2% higher than its value at the end of March and more than 7% above its level at the start of 2025. Since then, the FTSE 100 has enjoyed a further 4% rise in July, its strongest monthly gain since January and outperforming the S&P 500. Strong corporate earnings and progress in trade talks (US-EU, UK-India) lifted share prices and the index hit a record 9,321 in mid-August, driven by hopes of peace in Ukraine and dovish signals from Fed Chair Powell. September proved more volatile and the FTSE 100 closed September at 9,350, 7% higher than at the end of Q1 and 14% higher since the start of 2025. Future performance will likely be impacted by the extent to which investors’ global risk appetite remains intact, Fed rate cuts, resilience in the US economy, and AI optimism. A weaker pound will also boost the index as it inflates overseas earnings. In early November, the FTSE100 climbed to a record high just above 9,900. By late December, the index had clung on to most of those gains standing at 9,870 on 23 December.

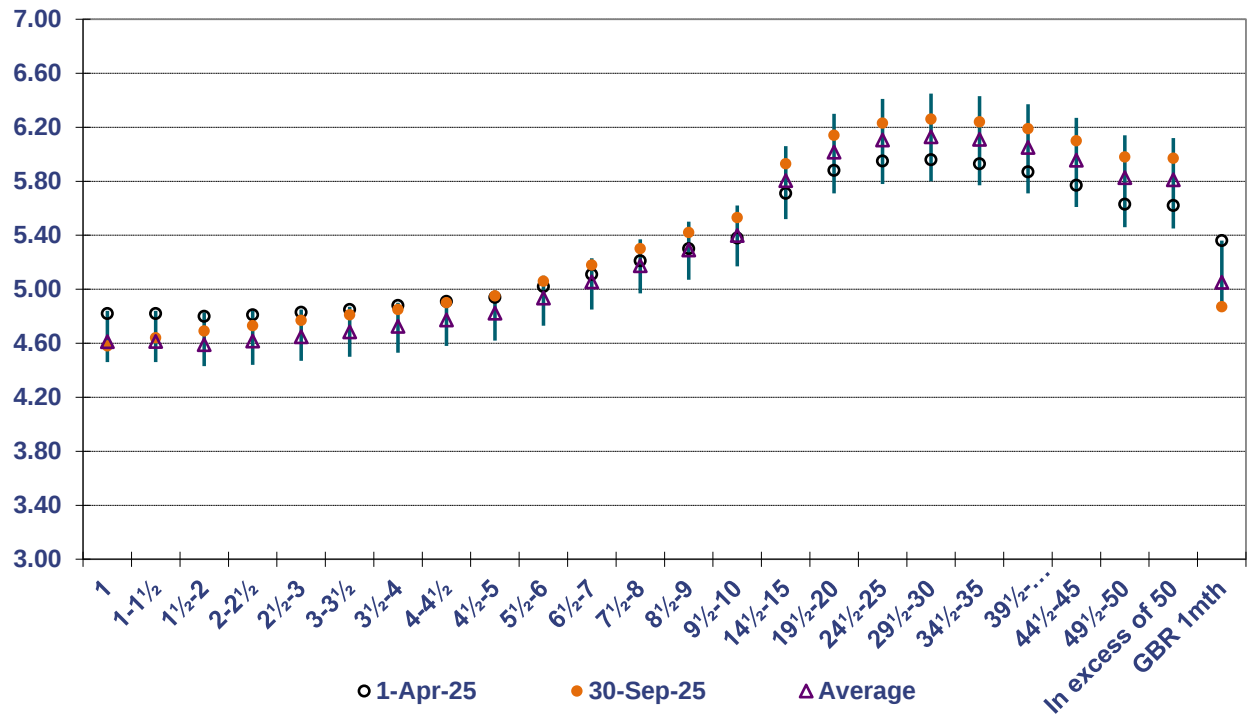
**MPC meetings** (8 May, 19 June, 7 August, 18 September, 6 November and 18 December 2025)

- There were six Monetary Policy Committee (MPC) meetings held between April and December. In May, the Committee cut Bank Rate from 4.50% to 4.25%, while in June policy was left unchanged. In June's vote, three MPC members (Dhingra, Ramsden and Taylor) voted for an immediate cut to 4.00%, citing loosening labour market conditions. The other six members were more cautious, as they highlighted the need to monitor for "signs of weak demand", "supply-side constraints" and higher "inflation expectations", mainly from rising food prices. By repeating the well-used phrase "gradual and careful", the MPC continued to suggest that rates would be reduced further.
- In August, a further rate cut was implemented. However, a 5-4 split vote for a rate cut to 4% laid bare the different views within the Monetary Policy Committee, with the accompanying commentary noting the decision was "finely balanced" and reiterating that future rate cuts would be undertaken "gradually and carefully". Ultimately, Governor Bailey was the casting vote for a rate cut but with the CPI measure of inflation expected to reach at least 4% later this year, the MPC was wary of making any further rate cuts until inflation begins its slow downwards trajectory back towards 2%.
- With wages still rising by just below 5%, it was no surprise that the September meeting saw the MPC vote 7-2 for keeping rates at 4% (Dhingra and Taylor voted for a further 25bps reduction). Moreover, the Bank also took the opportunity to announce that they would only shrink its balance sheet by £70bn over the next 12 months, rather than £100bn. The repetition of the phrase that "a gradual and careful" approach to rate cuts is appropriate suggested the Bank still thought interest rates will fall further.
- At the 6 November meeting, Governor Bailey was once again the deciding vote, keeping Bank Rate at 4% but hinting strongly that a further rate cut was imminent if data supported such a move. By 18 December, with November CPI inflation having fallen to 3.2%, and with Q2 GDP revised down from 0.3% q/q to only 0.2% q/q, and Q3 GDP stalling at 0.1%, the MPC voted by 5-4 to cut rates further to 3.75%. However, Governor Bailey made it clear that any further reductions would require strong supporting data, and the pace of any further decreases would be slow compared to recent months. The markets expect Bank Rate to next be cut in April.

## PWLB RATES 01.04.25 - 30.09.25



## PWLB Certainty Rate Variations 01.04.25 to 30.09.25



**HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.25 – 30.09.25**

|            | 1 Year     | 5 Year     | 10 Year    | 25 Year    | 50 Year    |
|------------|------------|------------|------------|------------|------------|
| 01/04/2025 | 4.82%      | 4.94%      | 5.38%      | 5.95%      | 5.63%      |
| 30/09/2025 | 4.58%      | 4.95%      | 5.53%      | 6.23%      | 5.98%      |
| 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    | 4.55%      | 4.82%      | 5.40%      | 6.11%      | 5.83%      |
| Spread     | 0.48%      | 0.37%      | 0.45%      | 0.63%      | 0.68%      |

## Credit and Counterparty Risk Management

**Specified Investments:** All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months.)

**Non-specified Investments:** These are any investments which do not meet the specified investment criteria. A maximum of £5m will be held in aggregate in non-specified investment.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

|                                                          | Minimum credit criteria / colour band       | ** Max % of total investments / £ limit per institution | Max. maturity period                                          |
|----------------------------------------------------------|---------------------------------------------|---------------------------------------------------------|---------------------------------------------------------------|
| DMADF – UK Government                                    | Yellow                                      | 100%                                                    | 6 months (max. is set by the DMO*)                            |
| UK Gilts                                                 | Yellow                                      |                                                         | 5 years                                                       |
| UK Treasury Bills                                        | Yellow                                      |                                                         | 364 days (max. is set by the DMO*)                            |
| Bonds issued by multilateral development banks           | Yellow                                      |                                                         | 5 years                                                       |
| Money Market Funds CNAV                                  | AAA                                         | 100%                                                    | Liquid                                                        |
| Money Market Funds LNAV                                  | AAA                                         |                                                         | Liquid                                                        |
| Money Market Funds VNAV                                  | AAA                                         |                                                         | Liquid                                                        |
| Ultra-Short Dated Bond Funds with a credit score of 1.25 | AAA                                         | 100%                                                    | Liquid                                                        |
| Ultra-Short Dated Bond Funds with a credit score of 1.5  | AAA                                         | 100%                                                    | Liquid                                                        |
| Local Authorities                                        | Yellow                                      | 100%                                                    | 5 years                                                       |
| Term Deposits with Housing Associations                  | Blue<br>Orange<br>Red<br>Green<br>No Colour |                                                         | 12 months<br>12 months<br>6 months<br>100 days<br>Not for use |

|                                                          | <b>Minimum credit criteria / colour band</b> | <b>** Max % of total investments / £ limit per institution</b> | <b>Max. maturity period</b>                                   |
|----------------------------------------------------------|----------------------------------------------|----------------------------------------------------------------|---------------------------------------------------------------|
| Term Deposits with Banks and Building Societies          | Blue<br>Orange<br>Red<br>Green<br>No Colour  |                                                                | 12 months<br>12 months<br>6 months<br>100 days<br>Not for use |
| CDs or Corporate Bonds with Banks and Building Societies | Blue<br>Orange<br>Red<br>Green<br>No Colour  |                                                                | 12 months<br>12 months<br>6 months<br>100 days<br>Not for use |
| Gilt Funds                                               | UK sovereign rating                          |                                                                |                                                               |

## Approved Countries for Investments

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the MUFG Corporate Markets creditworthiness service.

### *Based on lowest available rating*

#### **AAA**

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

#### **AA+**

- Canada
- U.S.A.

#### **AA**

- Abu Dhabi (UAE)
- Finland

#### **AA-**

- Qatar
- U.K.

## Treasury Management Scheme of Delegation

### (i) Full Council

- approval of annual strategy and mid-year update and annual report, and
- approval of/amendments to the organisations adopted clauses, treasury management policy, treasury management practices, treasury management indicators and prudential indicators

### (ii) Full Council / Cabinet

- budget consideration and approval, and
- receiving and reviewing regular monitoring reports and acting on recommendations,

### (iii) Audit Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body, Full Council.

## The Treasury Management Role of the Section 151 Officer

### The S151 (responsible) officer

The Council's S151/Chief Financial Officer has delegated authority for all Treasury Management activities and decisions, including borrowing and investments, as long as they are within the overall approved Treasury Management Strategy.

- Recommending the Treasury Management Strategy, 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,
- ensuring the adequacy of internal audit, and liaising with external audit, and
- recommending the appointment of external service providers.

## **Ethical Investment Framework – Telford and Wrekin Council**

At the current time the Council's treasury activity consists principally of making short-dated loans to the UK Government (through the Debt Management Agency Deposit Facility) and to banks and building societies which adheres to the S-L-Y principles of (Security, Liquidity and Yield, in that order).

The preservation of capital is the Council's principal and overriding priority. The banks and building societies on the Council's lending list are selected only if the institutions and the sovereign meet a minimum credit criteria. In accordance with its social and corporate governance responsibilities, the Council seeks to support institutions which additionally have an ethical and responsible approach to environmental and social issues including employment and global trade. These "ethical" criteria and their basis are described below.

### **1. Environmental and Social Standards**

#### **Equator Principles**

The Equator Principles (EPs) are a voluntary set of guidelines based on the environmental and social standards practiced by the International Finance Committee when evaluating financing projects. Financial institutions that adopt the Principles agree to use a screening process aiming to ensure that environmental and social assessments help inform decisions to finance development projects. This allows signatories to engage proactively with their stakeholders on environmental and social policy issues.

The EPs are a screening framework for determining, assessing and managing environmental and social risk in project finance transactions for major infrastructure and industrial projects. The EPs are adopted voluntarily by financial institutions and are applied where total project capital costs exceed US\$10 million. The EPs are primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making. They are based on the International Finance Corporation's performance standards on social and environmental sustainability and on the World Bank Group Environmental Health and Safety Guidelines.

Financial institutions which are signatories to the EPs commit to not providing loans to projects where the borrower will not or is unable to comply with their respective social and environmental policies and procedures that implement the EPs.

The following banks relating to institutions on the Council's lending list have adopted the Equator Principles:

- Lloyds Banking Group (parent of Bank of Scotland plc and Lloyds Bank plc)
- Banco Santander (parent of Santander UK plc)
- Barclays plc (parent of Barclays Bank)
- HSBC Holding plc (parent of HSBC plc)
- Nat West Group plc
- Standard Chartered plc
- Australia and New Zealand Banking Group

- Commonwealth Bank Australia
- Westpac Banking Corp.
- Bank of Montreal
- Bank of Nova Scotia
- Canadian Imperial Bank of Commerce
- Royal Bank of Canada
- Nordea Bank Finland
- Deutsche Bank AG
- ING Bank NV

<http://www.equator-principles.com/index.php/members-reporting>

## **2. Human Rights, Labour and Environment**

The **UN Global Compact** is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.

Corporations which sign up to the UN Global Compact are encouraged to themselves embrace and in turn, support and enact, within their sphere of influence, a set of core values which are derived from:

- The Universal Declaration of Human Rights
- The International Labour Organization's Declaration on Fundamental Principles and Rights at Work
- The Rio Declaration on Environment and Development
- The United Nations Convention Against Corruption

### Human Rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.

### Labour

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.

### Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;

- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

#### Anti-Corruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

The following banks relating to institutions on the Council's lending list are participants/stakeholders of the UN Global Compact:

- Lloyds Banking Group
- Svenska Handelsbanken AB
- Santander UK plc
- HSBC
- Standard Chartered Bank
- Nationwide Building Society
- NatWest Group plc
- Commonwealth Bank of Australia
- National Australia Bank
- Westpac Banking Corp.
- Nordea Bank AB
- Rabobank Group

<http://www.unglobalcompact.org/ParticipantsAndStakeholders/index.html>

#### Limitations to ethical policies:

It should be noted here that the individual institutions which have signed up to the Equator Principles and to the Global Compact screen borrowers before lending for infrastructure and industrial projects.

However, financial institutions also engage daily in money market and interbank lending transactions; the criteria for such lending is based primarily on credit risk assessment (i.e. the assessment of their lending being repaid in full and on time when it is due). Being a signatory to the EPs will not necessarily be a critical feature of such credit assessment and the Council is not in a position to monitor interbank lending. The same applies to an individual financial signing up to the UN Global Compact.

It should also be noted that becoming a signatory of voluntary guidelines (Equator Principle or Global Compact) does not guarantee that that institution's policies and practices are of a better standard than those institutions which are not signatories to the voluntary guidelines.

**Activist investment:** The Council does not invest directly in shares traded on the markets or in corporate bonds. Not only are such investments inherently higher risk investments and requires a distinct and separate set of fund management expertise. Under current legislation (SI 2003 No 3146) the purchase of share capital or loan

capital of a body corporate is a capital expenditure investment which, on sale or maturity, becomes a capital receipt and is unsuitable for the Council's treasury investments which are primarily the cash management of its operating surpluses and reserves. Corporate bond and equity investments would however be made by the Council's pension fund (run by Shropshire Council).

Other than through its pension fund (which is measured by Shropshire Council), the Council cannot seek to influence decision making at a company by voicing concerns, engaging in a dialogue with management, or lobbying other shareholders for support. Activist investors attempt to purchase sufficient shares or obtain seats on the board with the goal of effecting major change in the company to make the company more valuable financially or socially (for example to change management policies and adopt better governance; optimise shareholder value through acquisitions/divestitures, be more socially responsible etc).

## Credit Ratings – A Guide.

### *Long-term credit ratings and Sovereign Ratings*

Fitch Rating's long-term credit ratings are set up along a scale from 'AAA' to 'D', first introduced in 1924 and later adopted and licensed by Standard & Poors (S&P). Moody's also uses a similar scale but names the categories differently. Like S&P, Fitch also uses intermediate modifiers for each category between AA and CCC (i.e., AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB- etc.).

#### Investment grade

- **AAA:** the best quality, reliable and stable
- **AA:** good quality, a bit higher risk than AAA
- **A:** economic situation can affect finance
- **BBB:** medium class counterparties, which are satisfactory at the moment

#### Non-investment grade

- **BB:** more prone to changes in the economy
- **B:** financial situation varies noticeably
- **CCC:** currently vulnerable and dependent on favourable economic conditions to meet its commitments
- **CC:** highly vulnerable, very speculative bonds
- **C:** highly vulnerable, perhaps in bankruptcy or in arrears but still continuing to pay out on obligations
- **D:** has defaulted on obligations and Fitch believes that it will generally default on most or all obligations
- **NR:** not publicly rated

### *Short-term credit ratings*

Fitch's short-term ratings indicate the potential level of default within a 12-month period.

- **F1+:** best quality grade, indicating exceptionally strong capacity of obligor to meet its financial commitment
- **F1:** best quality grade, indicating strong capacity of obligor to meet its financial commitment
- **F2:** good quality grade with satisfactory capacity of obligor to meet its financial commitment
- **F3:** fair quality grade with adequate capacity of obligor to meet its financial commitment but near-term adverse conditions could impact the obligor's commitments
- **B:** of speculative nature and obligor has minimal capacity to meet its commitment and vulnerability to short term adverse changes in financial and economic conditions
- **C:** possibility of default is high, and the financial commitment of the obligor are dependent upon sustained, favourable business and economic conditions
- **D:** the obligor is in default as it has failed on its financial commitments.

## **Support Ratings (1 – 5)**

### **The Purpose and Function of Support Ratings**

Support Ratings are Fitch Ratings' assessment of a potential supporter's propensity to support a bank and of its ability to support it. Its propensity to support is a judgment made by Fitch Ratings. Its ability to support is set by the potential supporter's own Issuer Default Ratings, both in foreign currency and, where appropriate, in local currency. Support Ratings do not assess the intrinsic credit quality of a bank. Rather they communicate the agency's judgment on whether the bank would receive support should this become necessary. These ratings are exclusively the expression of Fitch Ratings' opinion even though the principles underlying them may have been discussed with the relevant supervisory authorities and/or owners.

### **Timeliness and Effectiveness Requirements**

Fitch Ratings' Support Rating definitions are predicated on the assumption that any necessary "support" is provided on a timely basis. The definitions are also predicated on the assumption that any necessary support will be sufficiently sustained so that the bank being supported is able to continue meeting its financial commitments until the crisis is over.

### **Obligations and Financial Instruments Covered**

In terms of these definitions, unless otherwise specified, "support" is deemed to be in terms of foreign currency. It is assumed that typically the following obligations will be supported: senior debt (secured and unsecured), including insured and uninsured deposits (retail, wholesale and interbank); obligations arising from derivatives transactions and from legally enforceable guarantees and indemnities, letters of credit, and acceptances; trade receivables and obligations arising from court judgments.

Likewise, the agency does not assume that the following capital instruments will be supported when sovereign support is involved: preference/preferred shares or stock; hybrid capital (tier 1 and upper tier 2), including reserve capital instruments (RCIs) and variations upon RCIs; and common/ordinary equity capital. It is also assumed that there will be no support for any moral obligation on securitizations. The sovereign support status of subordinated debt is difficult to categorize in advance; it is assessed on a case-by-case basis, distinguishing among different jurisdictions.

### **Definitions:**

- 1:** A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long-Term Rating floor of 'A-'.
- 2:** A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-Term Rating floor of 'BBB-'.

- 3: A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so. This probability of support indicates a minimum Long-Term Rating floor of 'BB-'.
- 4: A bank for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so. This probability of support indicates a minimum Long-Term Rating floor of 'B'.
- 5: A bank for which external support, although possible, cannot be relied upon. This may be due to a lack of propensity to provide support or to very weak financial ability to do so. This probability of support indicates a Long-Term Rating floor no higher than 'B-' and in many cases no floor at all.

## GLOSSARY

| Term                                                     | Meaning                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|----------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Annuity                                                  | A method of repaying a loan where the cash payment remains constant over the life of the loan, but the proportion in interest reduces and the proportion of principal repayment increases over time.                                                                                                                                                                                                                                                                                     |
| Authorised Borrowing Limit                               | The maximum amount the authority can borrow at any point of time in the year. This limit should never be exceeded. The limit is set by Full Council at the beginning of March and is a prudential indicator.                                                                                                                                                                                                                                                                             |
| Bail-in                                                  | A method of rescuing a failing financial institution by cancelling some of its deposits and bonds. Investors may suffer a haircut but may be given shares in the bank as part compensation. See also bail-out                                                                                                                                                                                                                                                                            |
| Bail-out                                                 | A method of rescuing a failing financial institution by the injection of public money. This protects investors at the expense of the taxpayer.                                                                                                                                                                                                                                                                                                                                           |
| Call account                                             | A deposit account that can be called back, normally on instant access.                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Capital Financing Requirement (CFR)                      | This represents the underlying need for the authority to borrow and represents the assets of the authority less the long-term capital liabilities.                                                                                                                                                                                                                                                                                                                                       |
| Credit Default Swaps (CDS)                               | CDS are bought by investors to insure against defaults (i.e. the counterparty not being able to repay). The higher the cost/premium then the higher the risk – CDS therefore given a market view of the credit worthiness of an organisation.                                                                                                                                                                                                                                            |
| Credit Ratings                                           | Rating on the ability of an organisation to meet its obligations; ratings are assigned by independent, specialist companies, such as Fitch and Moody's using market intelligence they gather.                                                                                                                                                                                                                                                                                            |
| Credit Risk                                              | The risk that the debtor will default on their obligations                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Counterparty                                             | The organisation that you are conducting your business with.                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Debt Management Account Deposit Facility (H.M. Treasury) | Provided by the <a href="#">Debt Management Office</a> , users can place cash in secure fixed-term deposits. Deposits are guaranteed by the government and therefore have the equivalent of a sovereign triple-A credit rating.                                                                                                                                                                                                                                                          |
| Derivative Instruments                                   | A security whose price is dependent upon or derived from one or more underlying assets. The derivative itself is merely a contract between two or more parties. Its value is determined by fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes. Most derivatives are characterized by high leverage. For example, a stock option is a derivative because it derives its value from |

| Term                            | Meaning                                                                                                                                                                                                                                                                                                                                                                                |
|---------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                 | the value of a stock. An interest rate swap is a derivative because it derives its value from one or more interest rate indices.                                                                                                                                                                                                                                                       |
| Discounts                       | These relate to Public Works Loans Board loans. If rates have increased since the borrowing was undertaken, then part of the benefit that PWLB will achieve from being able to loan out at that higher rate are passed back to an authority if they repay the loan early.                                                                                                              |
| Fund Managers                   | Independent investment managers who work to a specific mandate and if appointed invest funds on behalf of the Council                                                                                                                                                                                                                                                                  |
| IFRS                            | International Financial Reporting Standards, the set of accounting rules in use by UK local authorities since 2010.                                                                                                                                                                                                                                                                    |
| Inflation                       | The rise in prices of goods and services over a period of time.                                                                                                                                                                                                                                                                                                                        |
| Interest Rate Risk              | The risk that the value of an investment will change due to changes to the interest rate.                                                                                                                                                                                                                                                                                              |
| Internal Borrowing              | This is where the amount of an authority's borrowing is less than its CFR or underlying need to borrow and represents the use of internal balances rather than borrowing from the market.                                                                                                                                                                                              |
| Liquidity Risk                  | The risk of not being able to trade an investment quickly to release cash.                                                                                                                                                                                                                                                                                                             |
| LOBO                            | Lender's Option Borrower's Option – a long-term loan where the lender has the option to propose an increase in the interest rate on pre-determined dates. The borrower then has the option to either accept the new rate or repay the loan without penalty. LOBOs increase the borrower's interest rate risk and the loan should therefore attract a lower rate of interest initially. |
| Minimum Revenue Provision (MRP) | This is the amount charged against the Income and Expenditure Account for the year in relation to the repayment of debt on borrowing in order to fund capital expenditure.                                                                                                                                                                                                             |
| Money Market Fund (MMF)         | Mutual funds that invest in short term debt instruments. They offer a higher level of security than banks and interest rates are generally higher.                                                                                                                                                                                                                                     |
| Obligor                         | An individual or company that owes debt to another individual or company (the creditor), as a result of borrowing or issuing bonds.                                                                                                                                                                                                                                                    |
| Operational Borrowing Limit     | The amount the authority would normally borrow at any point of time in the year. This boundary might be exceeded temporarily but only in exceptional circumstances. The limit is set by Full Council at the beginning of March and is a prudential indicator.                                                                                                                          |

| <b>Term</b>                        | <b>Meaning</b>                                                                                                                                                                                                                                         |
|------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Premia                             | This is the penalty applied to the early redemption of PWLB loans where rates have fallen since the loan was undertaken.                                                                                                                               |
| Prudential Code                    | A professional code of practice which provides regulatory framework to local authorities on capital expenditure, investments and borrowing activities.                                                                                                 |
| Prudential Indicators              | A set of indicators developed within the Prudential Code which define thresholds for investment and borrowing within a local authority.                                                                                                                |
| PWLB                               | Public Works Loans Board – a government agency providing long- and short-term loans to local authorities. Interest rates are generally lower than the private sector and slightly higher than the rates at which the Government themselves may borrow. |
| Quantitative Easing                | This is where the government buy back their own gilt issuance to effectively pump money into the financial markets of the economy.                                                                                                                     |
| Re-scheduling                      | This relates to repaying existing borrowing early and replacing it with borrowing for a different period usually, but not necessarily, at lower rates                                                                                                  |
| Return                             | The gain from holding an investment over a given period                                                                                                                                                                                                |
| Security                           | An investment instrument, other than an insurance policy or fixed annuity, issued by a corporation, government or other organisation which offers evidence of debt or equity.                                                                          |
| SONIA                              | Sterling Overnight Interbank Average – a key Bank of England interest rate benchmark; it is a measurement of the cost of borrowing and reflects the average of interest that banks pay to borrow sterling overnight from other financial institutions. |
| Sovereign Exposure                 | Risk of exposure to one particular country.                                                                                                                                                                                                            |
| Supranational Bonds                | These are bonds (similar to gilts) issued by multi government development organisations and are supported by all of the governments who form part of the organisation. E.g. European Investment Bank and are usually very secure.                      |
| Treasury Management Code (TM Code) | CIPFA's Code of Practice for Treasury Management in the Public Services and Cross-Sectoral Guidance Notes, to which local authorities are required by law to have regard.                                                                              |