

### 1. BACKGROUND

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

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council 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 Council risk or cost objectives.

The contribution the treasury management function makes to the Council 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.

The Chartered Institute of Public Finance and Accountancy (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."*

The Council's treasury function is undertaken by Public Sector Partnership Services Ltd (PSPSL) on behalf of the Council. PSPSL is responsible for the:

- Production of the annual treasury management strategy
- Production of regular treasury management policy reports
- Production of treasury management practices
- Production of budget and budget variations relating to the treasury management function
- Production of management information reports
- Provision of adequate treasury management resources and skills, and effective division of responsibilities within the treasury management function
- Arrangement of the appointment of external service providers.

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

### 1.2 Reporting requirements

#### 1.2.1 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 elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

### 1.2.2 Treasury Management reporting

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

- 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 residual capital expenditure 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. In addition, this Council will receive quarterly update reports.
- 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 Council. This role is undertaken by the Governance and Audit Committee.

### Quarterly reports

In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June/end of December) has also been required. However, these additional reports do not have to be reported to Full Council/Cabinet but do require to be adequately scrutinised. This role is undertaken by the Governance and Audit Committee. The reports, specifically, should comprise updated Treasury/Prudential Indicators.

### 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 Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

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

### **1.4 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 Council has addressed this by targeted training courses for relevant members.

The training needs of PSPSL treasury management officers are periodically reviewed and is supplemented by targeted training as necessary and technical advice from our treasury management advisors.

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

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and members.
- Require treasury management officers and members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the Council).
- Have regular communication with officers and members, encouraging them to highlight training needs on an ongoing basis.

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

Training for members will be arranged as required and the training needs of treasury management officers are periodically reviewed.

A formal record of the training received by officers central to the Treasury function will be maintained by the Treasury and Investments Manager (PSPSL). Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained by Democratic Services.

## 1.5 Treasury management consultants

PSPSL uses MUFG Corporate Markets as its external treasury management advisors for the Council.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon 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 in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

## 2. THE CAPITAL PRUDENTIAL INDICATORS 2026/27 TO 2030/31

The Council'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 are prudent, affordable and sustainable.

### 2.1 Capital Expenditure and Financing

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members approve capital expenditure forecasts as part of the annual budget report.

The capital expenditure plans mirror those within the budget report and will be amended throughout the year as spending plans alter.

The following table summarises the 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.

Capital Expenditure	2025/26 Estimate £'000's	2026/27 Estimate £'000's	2027/28 Estimate £'000's	2028/29 Estimate £'000's	2029/30 Estimate £'000's	2030/31 Estimate £'000's
LUF Projects	10,163	15,511	-	-	-	-
Pride In Place	-	250	1,300	300	725	-
UKSPF Projects	500	-	-	-	-	-
Other GF Projects	4,018	9,591	1,603	1,491	1,829	1,215
HRA	16,625	19,675	11,844	11,424	14,996	12,917
<b>Total</b>	<b>31,306</b>	<b>45,027</b>	<b>14,747</b>	<b>13,215</b>	<b>17,550</b>	<b>14,132</b>
GF Financing	(11,922)	(12,076)	(2,390)	(1,390)	(1,815)	(1,090)
HRA Financing	(15,505)	(12,999)	(6,119)	(6,609)	(6,403)	(7,304)
<b>Total Financing</b>	<b>(27,427)</b>	<b>(25,075)</b>	<b>(8,509)</b>	<b>(7,999)</b>	<b>(8,218)</b>	<b>(8,394)</b>
<b>Net financing need for the year</b>	<b>3,879</b>	<b>19,952</b>	<b>6,238</b>	<b>5,216</b>	<b>9,332</b>	<b>5,738</b>

Other long-term liabilities - the above financing need excludes leasing arrangements that already include borrowing instruments.

## 2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council'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 Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital source, 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. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, leases include a borrowing facility and so the Council is not required to separately borrow for these schemes.

As part of the formal governance process, the Council approves the CFR projections as follows:

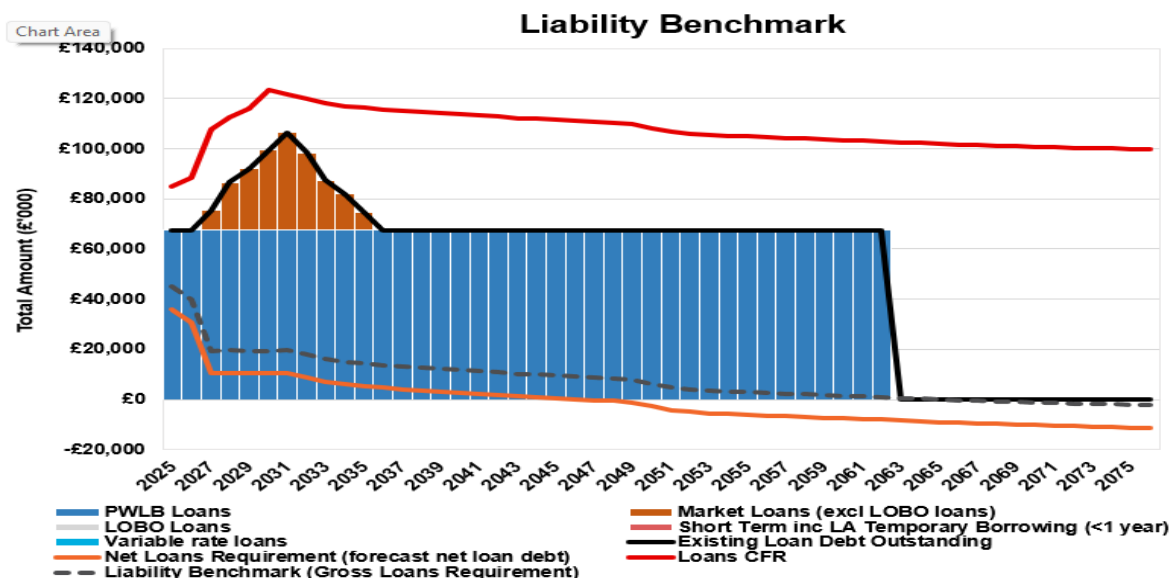
	2025/26 Estimate £'000's	2026/27 Estimate £'000's	2027/28 Estimate £'000's	2028/29 Estimate £'000's	2029/30 Estimate £'000's	2030/31 Estimate £'000's
CFR – Non HRA	18,662	31,153	30,050	28,758	27,754	26,061
CFR – HRA	69,547	76,223	81,948	86,763	95,356	100,969
<b>Total CFR</b>	<b>88,209</b>	<b>107,376</b>	<b>111,998</b>	<b>115,521</b>	<b>123,110</b>	<b>127,030</b>
<b>Movement in CFR</b>	<b>3,431</b>	<b>19,167</b>	<b>4,622</b>	<b>3,523</b>	<b>7,589</b>	<b>3,920</b>
Net financing need for the year (above)	3,879	19,952	6,238	5,216	9,332	5,738
Less MRP/VRP and other financing movements	(448)	(785)	(1,616)	(1,693)	(1,743)	(1,818)
<b>Movement in CFR</b>	<b>3,431</b>	<b>19,167</b>	<b>4,622</b>	<b>3,523</b>	<b>7,589</b>	<b>3,920</b>

## 2.3 Liability Benchmark

The Council is required to estimate and measure the Liability Benchmark (LB) for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB: -

1. **Existing loan debt outstanding:** the Council's existing loans that are still outstanding in future years.
2. **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.
3. **Net loans requirement:** this will show the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.



## 2.4 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources	2025/26 Estimate £'000's	2026/27 Estimate £'000's	2027/28 Estimate £'000's	2028/29 Estimate £'000's	2029/30 Estimate £'000's	2030/31 Estimate £'000's
General Fund Balance	2,078	2,078	2,078	2,078	2,078	2,078
GF Earmarked Reserves	8,741	8,791	9,152	8,932	8,965	8,981
GF Capital Grants Unapplied	10,887	4,172	4,272	4,372	4,472	4,572
GF Capital Receipts	520	-	-	-	-	-
HRA General Reserve	6,267	3,476	4,223	5,326	6,333	6,115
HRA Insurance Reserve	200	200	200	200	200	200
HRA Major Repairs Reserve	726	129	359	61	147	147
HRA Capital Receipts	8,132	7,462	6,746	5,985	5,176	4,304
<b>Total core funds</b>	<b>37,551</b>	<b>26,308</b>	<b>27,030</b>	<b>26,954</b>	<b>27,371</b>	<b>22,093</b>
Working capital*	3,000	3,000	3,000	3,000	3,000	3,000
Under borrowing	(20,753)	(31,920)	(25,542)	(23,565)	(23,654)	(20,574)
<b>Expected investments</b>	<b>19,798</b>	<b>(2,612)</b>	<b>4,488</b>	<b>6,389</b>	<b>6,717</b>	<b>4,519</b>

\* Working capital balances shown are estimated year-end; these may be higher mid-year.

## 2.5 Minimum revenue provision (MRP) policy statement

Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 ('the 2003 Regulations') requires local authorities to 'charge to a revenue account a minimum revenue provision (MRP) for that year'. The minimum revenue provision is an annual amount set aside from the General Fund to meet the cost of capital expenditure that has not been financed from available resources, namely: grants, developer contributions (e.g. s.106 and community infrastructure levy) revenue contributions, earmarked reserves or capital receipts.

MRP is sometimes referred to as the mechanism for setting aside monies to repay external borrowing. In fact, the requirement for MRP set aside applies even if the capital expenditure is being

financed from the Council's own cash resources and no new external borrowing or other credit arrangement has been entered into.

Regulation 27 of the 2003 Regulations sets out a duty for local authorities to make a Minimum Revenue Provision (MRP) and Regulation 28 requires full Council to approve a MRP Statement setting out the policy for making MRP and the amount of MRP to be calculated which the Council considers to be prudent. This statement is designed to meet that requirement.

Regulation 27 (the duty to make revenue provision) was amended in April 2024 and took effect from 7 May 2024, following a number of consultations. Key changes address some common practices used to underpay MRP, namely:

- using proceeds from asset sales to replace the revenue charge; and
- not making MRP on debt associated with investments.

In addition, the amendments to Regulation 27 include provisions for making MRP where a local authority borrows to lend the money onto a third party as a capital loan.

In setting a prudent level of MRP local authorities must have regard to guidance issued by the Secretary of State for Housing, Communities and Local Government. The latest version of this statutory MRP guidance, Capital finance: guidance on minimum revenue provision (5th edition), was issued by DLUHC (as it then was) in April 2024 to accompany the amendments to Capital Finance Regulations.

Paragraph 26 of the above statutory MRP Guidance explains that where a local authority proposes to deviate from statutory guidance and underpinning Codes of Practice, this has to be justified and agreed through the local authority's governance processes:

*Under statute, local authorities must have regard to these codes: "have regards to" has a specific meaning that local authorities should comply with the guidance unless, having duly considered the guidance, there is justifiable reason to depart from it. Decisions that do not "have regard to" relevant guidance may be susceptible to challenge.*

In setting a level which the Council considers to be prudent, the Guidance states that the broad aim is to ensure that debt is repaid over a period reasonably commensurate with that over which the capital expenditure provides benefits to the Council.

The Guidance sets out four "possible" options for calculating MRP, as set out below.

Option	Calculation method	Applies to
1: Regulatory method	Formulae set out in 2003 Regulations (later revoked)	Expenditure incurred before 1 April 2008
2: CFR method	4% of Capital Financing Requirement	Expenditure incurred before 1 April 2008
3: Asset life method	Amortises MRP over the expected life of the asset	Expenditure incurred after 1 April 2008
4: Depreciation method	Charge MRP on the same basis as depreciation	Expenditure incurred after 1 April 2008

Two main variants of Option 3 are set out in the 2024 Guidance: (i) the equal instalment method and (ii) the annuity method, The annuity method weights the MRP charge towards the later part of the asset's expected useful life. Whilst this method is increasingly becoming the most common MRP

option for local authorities, paragraph 42 of the Informal Commentary on the Statutory MRP Guidance explains that this method could be used where the flow of benefits from an asset are expected to increase in later years.

The 2024 Guidance also includes specific recommendations for setting MRP in respect of finance leases, investment properties and revenue expenditure which is statutorily defined as capital expenditure under the 2003 Regulations (also referred to as revenue expenditure funded from capital under statute or REFCUS). Examples of REFCUS include capitalised redundancy costs, loans or grants to third parties for capital purposes, and the purchase of shares in limited companies. Other approaches are not ruled out however they must meet the statutory duty to make prudent MRP provision each financial year.

With effect from 1 April 2024, MRP set aside requirements will also apply to "right of use" leased assets, following the introduction of IFRS 16.

### Key changes from the 2024 amendments to Regulation 27

The key changes to Regulation 27 are:

- explicit prohibition from using capital receipts in place of charging MRP to revenue,
- a clear requirement to charge MRP on investments where these meet the statutory definitions of capital expenditure set out in Regulation 25,
- a requirement to set aside MRP on all elements of the CFR.

Where loans have been advanced to third parties for a capital purpose on or after 7 May 2024, a local authority is now required to determine whether the loan is for a commercial purpose (i.e. principally advanced for financial return) or is a non-commercial loan:

- for commercial loans MRP will be set aside using an asset life approach based on the expected useful life of the underlying assets being financed;
- for non-commercial loans MRP will comprise:
  - (i) the principal element of any loan repayments received during the financial year and
  - (ii) the amount of any expected credit loss (ECL) recognised during the financial year. Any ECL recognised will not be spread over future years.

### Minimum Revenue Provision (MRP) policy statement

Having regard to the new 2024 Guidance on MRP issued by DLUHC and the "options" outlined in that Guidance, the Council is recommended to approve the following MRP Statement to take effect from 1 April 2026:

MRP Stream – General Fund	Estimated CFR at 31/3/26 £000's	MRP 2026/27 £000's	Policy	Explanation
Unsupported capital expenditure incurred since 2007/08.	8,385	771	MRP calculated on a straight-line basis using the expected useful lives of the assets (Option 3), subject to a maximum useful asset life of 50 years.	This complies with the Option 3 (Para. 58(b)) of the Guidance and the requirement for maximum asset lives of 50 years.

Loans to third parties for a capital purpose advanced before 7 May 2024.	6,546	-	MRP on these loans will be financed from the loan repayments as permitted by amended guidance.	These are the loans to Welland Homes.
Share Capital.	3,705	14	MRP charged on an annuity basis over a 50 year period. The annuity rate used will be the 50 year PWLB rate on 27/02/25 (date the 2025/26 MRP policy was approved).	Equity stake in Welland Homes. Underlying assets of the Company is houses with useful life in excess of 50 years - Independent Professional opinion sought.
MRP for "right of use" lease contracts.	TBA	TBA	The MRP charge will be equal to the principal element of the annual payment (for leased assets).	This complies with paragraph 80 of the MRP Guidance.
<b>TOTAL</b>	<b>18,636</b>	<b>785</b>		

Detailed policies applied to asset life identification, discount annuity rates, MRP commencement dates and the application of receipts from Property Fund liquidations are set out in the following table:

MRP Stream – General Fund	Policy	Explanation
Asset Lives	Asset lives used for MRP calculations will be determined by the Council's RICS-registered valuer where appropriate and will be consistent with the depreciation policies set out in the Council's annual Statement of Accounts. If no life can reasonably be attributed to an asset, such as freehold land, the estimated useful life will be taken to be a maximum of 50	This complies with paragraph 65 of the MRP Guidance.
Discount rate for use when applying the annuity method for calculating MRP under Option 3	MRP will be discounted using the PWLB new loan annuity rate applicable on the date when the Council approves the MRP Policy Statement for the forthcoming financial year.	The MRP Guidance does not suggest what discount rate(s) to use, Specifying the PWLB new loan annuity rate for the year in which MRP commences this provides a clearly evidenced trail to the discount rate to be used and reflects the type of borrowing undertaken by the Council.
MRP commencement.	MRP should normally begin in the financial year following the one in which the expenditure was incurred. However, in accordance with the statutory MRP Guidance, commencement of MRP may be deferred until the financial year following the one in which the asset becomes operational.	This approach complies with para. 63 and 64 of the MRP Guidance.

Repayments of third party loans issued pre 7 May 2024.	The loan repayment will be used to finance the equivalent MRP charge.	In accordance with previous policy as permitted by amended guidance.
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Based on the information provided above, the Council's view is that by complying fully with the 2024 Statutory Guidance, it is making a prudent provision for MRP in line with the requirements of Regulation 28.

### **MRP Overpayments**

Under the MRP guidance, charges can be made in excess of the statutory MRP 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.

At the end of the 2024/25 financial year the Council had made no VRP contributions. If this changes during the 2025/26 financial year it will be reported in the Annual Treasury Report for 2025/26.

### **3. BORROWING**

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council'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 the position as at 31 December 2025 are shown in the following table for both borrowing and investments.

<b>TREASURY PORTFOLIO</b>				
	actual	actual	current	current
	31.3.25	31.3.25	31.12.25	31.12.25
<b>Treasury investments</b>	£000	%	£000	%
Banks	1,531	6%	3,393	9%
Building societies - rated	0	0%	0	0%
Local authorities	15,000	60%	32,000	81%
DMADF (H.M.Treasury)	0	0%	0	0%
Money Market Funds	3,500	14%	4,000	10%
Certificates of Deposit	5,000	20%	0	0%
<b>Total managed in house</b>	<b>25,031</b>	<b>100%</b>	<b>39,393</b>	<b>100%</b>
Property Funds	0	0%	0	0%
<b>Total managed externally</b>	<b>0</b>	<b>0%</b>	<b>0</b>	<b>0%</b>
<b>Total treasury investments</b>	<b>25,031</b>	<b>100%</b>	<b>39,393</b>	<b>100%</b>
<b>Treasury external borrowing</b>				
Local Authorities	0	0%	0	0%
PWLB	67,456	100%	67,456	100%
<b>Total external borrowing</b>	<b>67,456</b>	<b>100%</b>	<b>67,456</b>	<b>100%</b>
<b>Net treasury investments / (borrowing)</b>	<b>-42,425</b>	<b>0</b>	<b>-28,063</b>	<b>0</b>

In addition to the above the Council has issued loans to Welland Homes totalling £6.546m at 31 December 2025. These loans are non-treasury investments and classified as long term debtors.

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

£'000's	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate	2030/31 Estimate
Debt at 1 April	67,456	67,456	75,456	86,456	91,956	99,456
Expected change in Debt	-	8,000	11,000	5,500	7,500	7,000
Other long-term liabilities (OLTL)	TBA	TBA	TBA	TBA	TBA	TBA
<b>Actual gross debt at 31 March</b>	<b>67,456</b>	<b>75,456</b>	<b>86,456</b>	<b>91,956</b>	<b>99,456</b>	<b>106,456</b>
<b>The Capital Financing Requirement</b>	<b>88,209</b>	<b>107,376</b>	<b>111,998</b>	<b>115,521</b>	<b>123,110</b>	<b>127,030</b>
<b>Under / (over) borrowing</b>	<b>20,753</b>	<b>31,920</b>	<b>25,542</b>	<b>23,565</b>	<b>23,654</b>	<b>20,574</b>

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

The Section 151 (S151) Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account 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.

Operational boundary £'000's	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate	2030/31 Estimate
Debt	106,000	110,000	110,000	110,000	110,000	110,000
Other long term liabilities	5,000	5,000	5,000	5,000	5,000	5,000
Total	111,000	115,000	115,000	115,000	115,000	115,000

**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 councils' plans, or those of a specific council, although this power has never been exercised.
- As part of the formal governance process, the Council approves the following indicators as shown below:

Authorised limit	2025/26 Estimate £'000's	2026/27 Estimate £'000's	2027/28 Estimate £'000's	2028/29 Estimate £'000's	2029/30 Estimate £'000's	2030/31 Estimate £'000's
Debt	110,000	114,000	114,000	114,000	114,000	114,000
Other long term liabilities	5,000	5,000	5,000	5,000	5,000	5,000
Total	115,000	119,000	119,000	119,000	119,000	119,000

3.3

#### Prospects for interest rates

The Council has appointed MUFG Corporate Markets as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. MUFG Corporate Markets provided the following forecasts on 11 August 2025. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 basis points (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% quarter on quarter (q/q) Gross Domestic Product (GDP) for Q2 and 0.1%

q/q GDP for Q3), falling inflation (currently Consumer Price Index (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 (MPC) to further reduce Bank Rate from 4% to 3.75% on 18 December.

- Surprisingly, to most market commentators, the recent steep fall in CPI inflation in one month from 3.6% to 3.2% did not persuade most “dissenters” from the November vote (Lombardelli, Greene, Mann and Pill) to switch to the rate-cutting side of the Committee. Instead, it was left to Bank Governor, Andrew Bailey, to use his deciding vote to force a rate cut through by the slimmest of margins, 5-4.
- Given the wafer-thin majority for a rate cut it was not unexpected to hear that although rates would continue on a “gradual downward path”, suggesting a further rate cut or cuts in the offing, MPC members want to assess incoming evidence on labour market activity and wage growth. Indeed, with annual wage growth still over 4.5%, the MPC reiterated that the case for further rate cuts would be “a closer call”, and Governor Bailey observed there is “limited space as Bank Rate approaches a neutral level”.
- Accordingly, the MUFG Corporate Markets forecast has been revised to price in a rate cut in Q2 2026 to 3.5%, likely to take place in the wake of a significant fall in the CPI inflation reading from 3% in March to 2% in April (as forecast by Capital Economics), followed by a short lull through the summer whilst more data is garnered, and then a further rate cut to 3.25% in Q4.
- As in August, nonetheless, threats to that central scenario abound. What if wage increases remain stubbornly high? There are, after all, several sectors of the domestic economy, including social care provision and the building/construction industries, where staff shortages remain severe. Moreover, by May 2026, following the local elections, we will have a better handle on whether or not the Starmer/Reeves team is going to see out the current Parliament or whether they face a Leadership challenge from within their own party. If so, how will gilt markets react to these variables...and will there be additional geo-political factors to also bake in, particularly the Fed's monetary policy decisions in 2026 and the ongoing battle to lower rates whilst inflation remains close to 3%.
- Accordingly, our updated central forecast is made with several hefty caveats. We are confident, as we have been for some time, that our forecast for Bank Rate and the 5-year PWLB Certainty Rate is robust, and we have marginally brought forward the timing of the next rate cut(s). But for the 10-, 25- and 50-years part of the curve, the level of gilt issuance, and the timing of its placement, will be integral to achieving a benign trading environment. That is not a “given”, and additionally, the inflation outlook and political factors domestically and, crucially, in the US, are also likely to hold sway. Matters should be clearer by June in the UK, but the US mid-term elections are scheduled for November.
- Our revised PWLB rate forecasts are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012. Please note, the lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 for those authorities with an HRA (standard rate minus 60 bps) and is set to prevail until at least the end of March 2026. Hopefully, there will be a further extension to this discounted rate announced in January.
- Money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.

## 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 as follows:-

PWLB debt	Current borrowing rate as at 22.12.25 p.m.	Target borrowing rate now (end of Q4 2027)	Target borrowing rate previous (end of Q4 2027)
5 years	4.81%	4.10%	4.20%
10 years	5.39%	4.70%	4.70%
25 years	6.01%	5.30%	5.30%
50 years	5.78%	5.10%	5.10%

**Borrowing advice:** Our long-term (beyond 10 years) forecast for the neutral level of Bank Rate remains at 3.50%. As all PWLB certainty rates are currently significantly 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 as follows:-

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

## **(End of MUFG Corporate Markets Commentary)**

### **3.4 Borrowing Strategy**

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the 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 fall from their current levels, albeit only once prevailing inflation concerns are addressed by restrictive near-term monetary policy. That is, Bank Rate remains relatively elevated in 2026 even if some rate cuts arise.

Against this background and the risks within the economic forecast, caution will be adopted with the 2026/27 treasury operations. The S151 Officer 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.

### **3.5 Policy on 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.

### **3.6 Debt rescheduling**

Rescheduling of current borrowing in our debt portfolio may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.

If rescheduling is to be undertaken, it will be reported to the Cabinet, at the earliest meeting following its action.

### **3.7 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.

### 3.8 Approved sources of long- and short-term borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
Local Authorities	●	●
Banks	●	●
Pension Funds	●	●
Insurance Companies	●	●
UK National Wealth Fund	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock Issues	●	●
Local Temporary	●	●
Local / Community Municipal Bonds	●	
Local Authority Bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Leases	●	●

## 4. ANNUAL INVESTMENT STRATEGY

### 4.1 Investment policy – management of risk

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 report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy, (a separate report).

The Council’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 Council’s funds are managed by PSPSL with reference to a detailed cash flow forecast on a daily basis. Protocols are in place to govern the movement of funds within specific limits.

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and within the Council'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 MHCLG and CIPFA place a high priority on the management of risk. This Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

- 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.
- **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 Council will engage with its advisors to maintain a monitor on market pricing such as "**credit default swaps**" (CDS) and overlay that information on top of the credit ratings.
- **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.
- This Council has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in **Appendix 5.3** under the categories of 'specified' and 'non-specified' investments.
  - **Specified 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 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.
- **Non-specified and loan investments limits.** The Council has determined that it will limit the maximum exposure to non-specified investments to £5m of the total investment portfolio, (see paragraph 4.3).
- **Lending limits,** The maximum total investments to any individual financial institution or its parent group is £5m. The maximum limit for individual money market funds is £10m. There is no maximum limit for deposits with the UK Debt Management Agency Deposit Facility

(DMADF) as this is effectively the UK Government. The maximum permitted duration of investments for each institution will be determined in accordance with paragraph 4.2.

- **Transaction limits** are set for each type of investment in paragraph 4.2.
- This Council will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.4).
- Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).
- PSPSL has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Council in the context of the expected level of cash balances and need for liquidity throughout the year.
- All investments will be denominated in **sterling**.
- As a result of the change in accounting standards 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.

However, this Council will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

### **Changes in risk management policy from last year.**

The above criteria are unchanged from last year.

## **4.2 Creditworthiness Policy**

This Council applies the creditworthiness service provided by the MUFG Corporate Markets. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's, and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- "watches" and "outlooks" from credit rating agencies;
- CDS spreads to 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 Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow                    5 years\*
- Dark Pink                5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light Pink                5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple                      2 years

- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

*\* Please note: the yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt.*

The MUFG Corporate Markets 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 Council 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. PSPSL is alerted to changes to ratings of all three agencies through its use of the MUFG Corporate Markets creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings PSPSL will be advised of information in movements in CDS spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis provided exclusively to it by MUFG Corporate Markets. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition, this Council 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.

## **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. MUFG Corporate Markets monitor CDS prices as part of their creditworthiness service to local authorities and the Authority has access to this information via its MUFG Corporate Markets -provided Passport portal.

### 4.3 Limits

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

- **Non-specified investment limit.** The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified investments to £5m of the total investment portfolio.
- **Country limit.** The Council has determined that it will only use approved counterparties from the United Kingdom and countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in **Appendix 5.4**. 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 £5m will be placed with any non-UK country at any time;
  - limits in place above will apply to a group of companies;
  - sector limits will be monitored regularly for appropriateness

### 4.4 Investment strategy

**In-House Funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that rates can be expected to fall throughout 2026, but only if the CPI measure of inflation maintains a downwards trend towards the Bank of England's 2% target. Rates may be cut quicker than expected if the economy stagnates.

Accordingly, while some cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

## Investment returns expectations.

The current forecast shown in paragraph 3.3, includes a forecast for Bank Rate to fall to a low of 3.25% in 2026.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year were updated on 22 December 2025 and are as follows:

<i>Average earnings in each year</i>	<i>Now</i>	<i>Previously</i>
	<i>%</i>	<i>%</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

Caution must

be exercised in respect of all interest rate forecasts.

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits, (overnight to 100 days), to benefit from the compounding of interest.

**Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

As part of the formal governance process, the Council approves the treasury indicator and limit, as follows:

<b>£'000</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>	<b>2029/30</b>	<b>2030/31</b>
Principal sums invested for longer than 365 days (excluding non-treasury investments)	5,000	5,000	5,000	5,000	5,000
Current treasury management investments as at 30 November 2025 in excess of 1 year maturing in each year	-	-	-	-	-

Loans to and equity purchases in Welland Homes do not count towards this limit.

## 4.5 Investment risk benchmark

The Council has not adopted any formal benchmarks in this area. Officers believe that decisions on counterparties and maximum investment levels are adequate to monitor the current and trend position and will amend the operational strategy to manage risk as conditions change.

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of the 3 month Sterling Overnight Index Average (SONIA) rate.

#### **4.6 End of year investment report**

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

## **5. APPENDICES**

- 5.1 Prudential and treasury indicators
- 5.2 Interest rate forecasts
- 5.3 Treasury management practice 1 – credit and counterparty risk management
- 5.4 Approved countries for investments
- 5.5 Treasury management scheme of delegation
- 5.6 The treasury management role of the Section 151 Officer

## APPENDIX 5.1 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2026/27 – 2030/31

The Council'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 are prudent, affordable and sustainable.

Details are provided in paragraph 2.1 and summary totals are shown below.

### 5.1.1 Capital expenditure (subject to change during the budget setting process)

Capital Expenditure	2025/26 Estimate £'000's	2026/27 Estimate £'000's	2027/28 Estimate £'000's	2028/29 Estimate £'000's	2029/30 Estimate £'000's	2030/31 Estimate £'000's
LUF Projects	10,163	15,511	-	-	-	-
Pride In Place	-	250	1,300	300	725	-
UKSPF Projects	500	-	-	-	-	-
Other GF Projects	4,018	9,591	1,603	1,491	1,829	1,215
HRA	16,625	19,675	11,844	11,424	14,996	12,917
<b>Total</b>	<b>31,306</b>	<b>45,027</b>	<b>14,747</b>	<b>13,215</b>	<b>17,550</b>	<b>14,132</b>
GF Financing	(11,922)	(12,076)	(2,390)	(1,390)	(1,815)	(1,090)
HRA Financing	(15,505)	(12,999)	(6,119)	(6,609)	(6,403)	(7,304)
<b>Total Financing</b>	<b>(27,427)</b>	<b>(25,075)</b>	<b>(8,509)</b>	<b>(7,999)</b>	<b>(8,218)</b>	<b>(8,394)</b>
<b>Net financing need for the year</b>	<b>3,879</b>	<b>19,952</b>	<b>6,238</b>	<b>5,216</b>	<b>9,332</b>	<b>5,738</b>

### 5.1.2 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

#### a. Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

%	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate	2030/31 Estimate
Non HRA	(0.29%)	0.93%	3.90%	4.49%	5.98%	5.89%
Welland Homes	(1.58%)	(1.50%)	(1.50%)	(1.50%)	(1.48%)	(1.47%)
HRA	31.49%	31.34%	32.31%	32.37%	32.37%	32.49%
<b>Total</b>	<b>15.72%</b>	<b>16.22%</b>	<b>18.70%</b>	<b>19.46%</b>	<b>20.28%</b>	<b>20.48%</b>

The estimates of financing costs include current commitments and the proposals in this budget report.

## b. HRA ratios

Ratio of Debt as a Percentage of Revenue:

	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate	2030/31 Estimate
HRA debt £m	67.456	74.456	79.456	84.956	92.456	98.456
HRA revenues £m	18.921	19.606	20.181	20.738	21.355	21.942
Ratio of debt to revenues %	357	380	394	410	433	449

Amount of Debt per Dwelling:

	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate	2030/31 Estimate
HRA debt £m	67.456	74.456	79.456	84.956	92.456	98.456
Number of HRA dwellings	3,818	3,761	3,756	3,751	3,746	3,741
Debt per dwelling £	17,668	19,797	21,154	22,649	24,681	26,318

### 5.1.3 Maturity structure of borrowing

These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

<b>Maturity structure of fixed interest rate borrowing 2026/27</b>		
	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%
<b>Maturity structure of variable interest rate borrowing 2026/27</b>		
	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%

### 5.1.3 Control of Interest Rate Exposure

Please see paragraphs 3.3, 3.4 and 4.4.

## APPENDIX 5.2 : Interest Rate Forecasts 2026 – 2029.

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
<b>BANK RATE</b>	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
<b>3 month ave earnings</b>	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
<b>6 month ave earnings</b>	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
<b>12 month ave earnings</b>	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
<b>5 yr PWLB</b>	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
<b>10 yr PWLB</b>	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
<b>25 yr PWLB</b>	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
<b>50 yr PWLB</b>	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

PWLB forecasts are based on PWLB certainty rates.

### APPENDIX 5.3 Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

**SPECIFIED INVESTMENTS:** All such investments will be sterling denominated, with **maturities up to 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.)

	Minimum ‘High’ Credit Criteria / Colour Band	Use
Debt Management Agency Deposit Facility	Yellow	In-house (No maximum limit)
Term Deposits - UK Local Authorities	N/A	In-house
Term Deposits – SHDC Parish Councils	N/A	In-house
Term Deposits – Banks and Building Societies	Minimum colour of green on our external treasury advisers credit rating matrix	In-house
UK Treasury Bills	UK sovereign rating	In-house
Certificates of Deposit issued by Banks and Building Societies	Minimum colour of green on our external treasury advisers credit rating matrix	In-house
Bonds issued by Multilateral Development Banks	AAA	In-house buy and hold
Money Market Funds – CCLA (Church, Charities & Local Authority)	AAA	In-house (£10m limit for cash flow purposes)
Money Market Funds CNAV (Constant Net Asset Value)	AAA	In-house
Money Market Funds LVNAV (Low Volatility Net Asset Value)	AAA	In-house
Money Market Funds VNAV (Variable Net Asset Value)	AAA	In-house

**Term deposits with nationalised banks and banks and building societies.**

	Minimum Credit Criteria	Use	Max of total investments	Max. maturity period
UK Part Nationalised Banks	Minimum colour of green on our external treasury advisers credit rating matrix	In-house	£5m	1 year
Banks Part Nationalised by AAA or AA- Sovereign Rating Countries – non UK	Minimum colour of green on our external treasury advisers credit rating matrix	In-house	£5m	1 year

**Accounting treatment of investments.** The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

**NON-SPECIFIED INVESTMENTS:** These are any investments which do not meet the Specified Investment criteria. A maximum of £5m may be held in aggregate in non-specified investments.

**Maturities of ANY period**

	Minimum Credit Criteria	Use	Max % of non-specified investments	Max. maturity period
Fixed Term Deposits with variable rate and variable maturities: -Structured deposits	Sovereign rating of AAA or AA- and minimum colour of green on our external treasury advisers credit rating matrix	In-house	£5m	1 year
UK Government Gilts	UK sovereign rating	In-house buy and hold	£5m	2 year
Sovereign Bond issues (other than the UK govt.)	AAA	In-house buy and hold	£5m	2 year
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government (e.g. National Rail)	UK sovereign rating	In-house buy and hold	£5m	2 year
Collateralised deposits (see note 1)	UK Sovereign rating	In-house	£5m	1 year

<b>Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -</b>				
	<b>Minimum Credit Criteria</b>	<b>Use</b>	<b>Max % of non-specified investments</b>	<b>Max. maturity period</b>
1. Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	In-house	£5m	Liquid
2. Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	In-house	£5m	Liquid
3. Bond Funds	Long-term AAA volatility rating MR1+	In-house	£5m	1 month notice period
4. Gilt Funds	UK Sovereign Rating	In-house	£5m	1 month notice period

*Note 1 : as collateralised deposits are backed by e.g., collateral of rated local authority LOBOs, this investment instrument is regarded as being in the MUFG Corporate Markets yellow category as it is equivalent to lending to a local authority.*

#### **Maturities in excess of 1 year**

	<b>Minimum Credit Criteria</b>	<b>Use</b>	<b>Max. of total investments</b>	<b>Max. maturity period</b>
Term Deposits – UK local authorities	N/A	In-house	£5m	5 years
SHDC Parish Councils (including SHDC Community Reserve)	N/A	In-house	£5m	5 years
Term Deposits – banks and building societies	Sovereign rating of AAA or AA- and minimum colour of orange on our external treasury advisers credit rating matrix	In-house	£5m	5 years
Certificates of Deposit issued by banks and building societies	Sovereign rating of AAA or AA- and minimum colour of orange on our external treasury advisers credit rating matrix	In-house	£5m	5 years
Corporate bonds issued by banks and building societies	Sovereign rating of AAA or AA- and minimum colour of orange on our external treasury advisers credit rating matrix	In-house	£5m	5 years
Bonds issued by multilateral development banks	AAA	In-house	£5m	5 years

Loans and investments with Welland Homes and South Holland Local Housing Company will not count towards the Non-Specified Investment limit.

The maximum total investment to any individual financial institution or its parent group is £5m and the limit with Money Market Funds is £10m and the UK Debt Management Agency Deposit Facility (UK Government) which has no maximum limit.

Lloyds Bank provides banking services to the Council and the above limits do not include the day to day balance in the Council's current account.

Whilst these are maximum limits, under normal circumstances the S151 Officer will ensure lower limits are maintained. The higher limits are required to allow flexibility in the movement of funds if a particular issue or circumstance arises e.g. global banking crisis.

### **Environmental, Social and Governance Considerations**

The Council continues to develop its strategy in this area.

The Council is interested in undertaking actions to reduce climate change and as an ethical investor will consider the environmental, social and governance issues.

Officers continue to work with the Council's external treasury advisors to establish how these issues can be taken into consideration when MUFG Corporate Markets formulate their Suggested Credit List which is used by the Council.

**APPENDIX 5.4 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 credit worthiness service.

***Based on lowest available rating (as at 23.12.25)***

**AAA**

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

**AA+**

- Canada
- U.S.A.

**AA**

- Abu Dhabi (UAE)
- Finland
- Qatar

**AA-**

- U.K.

**APPENDIX 5.5 - Treasury management scheme of delegation**

Council	<ul style="list-style-type: none"> <li>- Receive, Review and Approval of Treasury Policy Statement – February/March cycle</li> <li>- Receive, Review and Approval of Treasury Management Strategy Statement incorporating the Annual Investment Strategy and Minimum Revenue Provision Policy – February/March cycle followed by mid-year report update. Updates or revisions at other times as required</li> <li>- Receive, Review and Approval of Annual Treasury Outturn Report by 30 September after the year end</li> </ul>
Cabinet	<ul style="list-style-type: none"> <li>- Recommend to Council a Treasury Policy Statement</li> <li>- Recommend to Council a Treasury Management Strategy Statement incorporating the Annual Investment Strategy and Minimum Revenue Provision Policy – February/March cycle followed by mid-year report update</li> <li>- Extraordinary Activity and Investment Management arrangements – as soon as possible after significant change occurs</li> <li>- Recommend to Council a Treasury Management Outturn Report by 30 September after the year end</li> </ul>
Governance and Audit Committee	<ul style="list-style-type: none"> <li>- Receive Treasury Management Quarterly and Mid Term reports</li> <li>- Receive Treasury Management Outturn Report</li> <li>- Receive Treasury Management Practices annually if amended</li> <li>- Scrutiny of the Treasury Management Strategy before the commencement of each financial year</li> <li>- Scrutiny of Treasury Management performance as part of the Mid Term report and quarterly reports.</li> </ul>

**SCRUTINY AND MONITORING**

Council delegates the scrutiny and monitoring of the Treasury Management function to the Governance and Audit Committee. As a minimum they will receive quarterly reports and a Mid Term Treasury report on investment issues and performance. Training will be made available for members of the Governance and Audit Committee to ensure they have the necessary skills to undertake this role. Recommendations will be reported to Cabinet.

The Governance and Audit Committee will also have access to professional and independent advice and support as required in order to undertake this role.

**APPENDIX 5.6 - The treasury management role of the Section 151 Officer and deputy**

The S151 Officer responsibilities are as follows:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- review the performance of the treasury management function;
- ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensure the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe;
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the Council;
- ensure that the Council has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the Council does not undertake a level of investing which exposes the Council to an excessive level of risk compared to its financial resources;
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities;
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees ;
- ensuring that members are adequately informed and understand the risk exposures taken on by the Council;
- ensuring that the Council has adequate expertise, either in house or externally provided, to carry out the above;
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following :-
  - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
  - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;

- Decision making, governance and organisation (TMP3 and TMP 5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
- Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;
- Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

As an added safeguard, the S151 Officer is obliged to notify the Monitoring Officer of any material change proposed to approved treasury policies and of any major breaches which have occurred.

Any significant operational or other changes will be notified and discussed with the relevant Portfolio Holder. This is currently the Portfolio Holder for Finance. Any actions resulting from this will be reported to Governance and Audit. If timescales are such that due to urgency, the formal reporting process cannot be utilised, then emergency authorisation will be sought through existing mechanisms.

The S151 Officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to take the most appropriate form of investments in approved instruments.

The S151 Officer may delegate power to borrow and invest to members of staff. All dealing transactions must be conducted by the S151 Officer, or staff authorised by the S151 Officer, to act as temporary cover for leave/sickness.

The S151 Officer and the Monitoring Officer will ensure that the Policy is adhered to, and if not, will bring the matter to the attention of Members as soon as possible.

Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the S151 Officer to be satisfied, by reference to the Monitoring Officer, the Council's Legal Department and external advisors, as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations.

It is also the responsibility of the S151 Officer to ensure that the Council complies with the requirements of the Non Investment Products Code for principals and broking firms in the wholesale markets as well as the Financial Services Authority's Code of Market Conduct.

**Public Sector Partnership Services Limited is responsible for the provision of:**

- treasury management strategy statements and practices for approval
- capital strategy reports
- regular treasury management policy reports
- budget and budget variation reports
- management information reports
- adequate treasury management resources and skills, and effective division of responsibilities within the treasury management function, and;
- arranging the appointment of external treasury management advisors.

Where the use of particular instant access accounts, notice accounts and money market funds has been approved by the S151 Officer, PSPSL treasury officers have delegated authority to withdraw and deposit funds within the agreed limits contained in this strategy.