

Annex L

Treasury Management Strategy Report 2026/27

West Oxfordshire District Council

Summary

The Council has cash balances invested in various financial instruments; Money Market Funds, Short Term deposits and pooled funds, delivering a vital income stream to support the Council's revenue budget. Events in the financial markets in the last three years have meant that many of our pooled funds lost a material amount of capital value while producing a significantly higher revenue return. The capital value has significantly recovered over the last year with current advice from our Treasury advisors being a complete recovery over the next 18 months to 2 years as interest rates fall.

The statutory override for pooled funds, which allows fair value gains and losses to be recorded in an unusable reserve rather than the revenue account (unless the fund is sold), has been extended until 31 March 2029 for investments held before 1 April 2024.

The override was due to end in March 2025 and in preparation for this the Council established an earmarked reserve in 2023/24 to absorb fair value changes in pooled funds and mitigate any adverse impact on revenue. This reserve was used to fund the capital loss when the UBS pooled fund was withdrawn in September 2024; the remaining balance in this reserve will now be released.

The Council has always stated its intention to endeavour to maintain an investment balance of £10m which allows us to retain our status under Markets in Financial Instruments Directive (MiFiD) 2 criteria as a professional investor. This categorisation allows us access to a wider range of financial instruments than we would otherwise be able to use.

The current levels of Treasury Investment are made up not only of the Council's general reserves but also capital receipts, unspent earmarked reserves and capital grants unapplied. These balances will be used up over time as they have designated purposes and, in some cases, we are merely the custodians of them.

The CIPFA Code requires the Council to manage its treasury investments with prudence, prioritising security and liquidity before seeking to maximise returns. The Council's investment objective is to maintain an appropriate balance between risk and return, minimising the risk of financial loss through defaults and avoiding unduly low income from investments.

For funds expected to be invested for more than one year, the Council will seek to achieve a total return at least equal to the prevailing rate of inflation, thereby preserving the real value of the invested sum. In addition, the Council is committed to being a responsible investor and will take environmental, social, and governance (ESG) considerations into account when making investment decisions.

Introduction

Treasury Management is the management of the Council's cash flows, borrowing and treasury investments, and the associated risks. The Council has invested significant sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risks are therefore central to the Council's prudent financial management.

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's 'Treasury Management in the Public Services: Code of Practice 2017 Edition' (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

Non treasury investments, are considered in the Council's Investment Strategy paper but the approach to borrowing outlined here and the availability of cash will underpin both that paper and the Capital Strategy paper.

Treasury Management is important to both the short and long term plans of the Council. On a day to day basis it ensures that there is sufficient immediately available cash to settle all payments the Council needs to make, that surplus cash is earning money where possible and that everywhere that cash is held has been assessed for current risk.

In the longer term it provides an important source of income for the Council and underpins the availability of cash and selection of sources of borrowing for capital spend and investments. The revenue budget is set out at the start of the year and monitored quarterly to ensure that we stay within plan, but the management of cash is a daily function that facilitates every transaction the Council undertakes. We regularly receive cash on behalf of third parties such as council tax, business rates, grant funding and S106 monies and the Treasury function must deal appropriately with those monies and forecast when they will need to be "spent" in order to determine the best way to do that.

Balances

On 31st December 2025, the Council held £35.47m of investments as shown in the tables below.

WODC Treasury investments – one year return

Investments	December 2024 -December 2025			
	Dec 2025	Capital Return	Income Return	Total Return
£				
Money Market Funds	20,000,000	0.00%	4.26%	4.26%
Bank Account	500,000	0.00%	4.06%	4.06%
Short Term Deposit	2,500,000	0.00%	4.10%	4.10%
Internal Investments	23,000,000	0.00%	4.14%	4.14%
 Strategic Pooled Funds:				
Aegon Diversified Monthly Income Fund	3,018,861	7.40%	5.21%	12.61%
CCLA Better World Cautious Fund	2,749,375	-2.58%	2.47%	-0.11%
M & G Strategic Corporate Bond Fund	1,809,248	1.66%	5.04%	6.70%
Royal London Short Dated Credit Fund	1,895,530	2.48%	5.04%	7.52%
Schroder Income Maximiser Fund	1,083,148	15.65%	7.60%	23.25%
Threadneedle UK Equity Income Fund	1,268,301	7.98%	2.82%	10.80%
Fundamentum Social Housing REIT	650,000	-5.80%	3.26%	-2.54%
	12,474,463	3.41%	4.36%	7.77%
Total Investment	35,474,463	Annualised income return		4.14%
Pooled funds	12,474,463	Annualised income return		4.36%

You can see from the table above that there is a spread of holdings both of shorter term more liquid holdings and of longer-term holdings which have an element of both capital appreciation (or depreciation) and income.

The forecast average cash position for 2025/26 is £18.82m in the overnight Money Market Funds returning interest of £593,425. Effective cashflow forecasting gives us some certainty over our short term cash requirements (12 months), which is essential when identifying any need for borrowing. To keep our borrowing requirement at as low a level as possible, we have reduced the amount of working capital required to meet our daily expenditure.

This is vital when interest rates are high, due to the negative impact on potential investment returns. There is an active lending market between local authorities for short term requirements making it possible to leave money in higher return funds and supplement a fluctuation in working capital requirements with short term borrowing if interest rates determine that as the more advantageous course of action.

WODC Treasury investments – lifetime return

Mar 14 to Dec 25

Investments	Dec 2025	Capital Return	Income Return	Total Return
	£			
Strategic Pooled Funds:				
Aegon Diversified Monthly Income Fund	3,018,861	0.63%	24.23%	24.86%
CCLA Better World Cautious Fund	2,749,375	-8.35%	14.62%	6.27%
M & G Strategic Corporate Bond	1,809,248	-9.54%	32.70%	23.16%
Royal London Short Dated Credit Fund	1,895,530	-4.40%	21.59%	17.19%
Schroder Income Maximiser Fund	1,083,148	8.31%	72.73%	81.04%
Threadneedle UK Equity Income Fund	1,268,301	26.83%	28.86%	55.69%
Fundamentum Social Housing REIT	650,000	-35.00%	13.96%	-21.04%
	12,474,463	-3.96%	26.72%	22.76%
Pooled Funds	12,474,463	Annualised income return		3.45%

Borrowing requirement

The forecast borrowing requirement tracks the transition from internal borrowing to external borrowing showing our Capital Financing Requirement (CFR) and how increasing capital funding requirements will affect the amount of cash available for investment. The balance between retained treasury investments and external borrowing will be dictated by the relative interest rates for both borrowing and investment and the recovery of the capital values of the funds.

In the table below, the underlying need to borrow for capital purposes is measured by the CFR, while usable reserves and working capital are the underlying resources available for investment. The Council's strategy has been to use our cash reserves to fund capital expenditure – internal borrowing, rather than to borrow externally. At some point however, our capacity to internally borrow will be exhausted and the refinancing of existing capital expenditure will necessitate taking on external debt.

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. The table below

shows that the use of borrowing is expected to change the Council's debt free position from 2027/28 onwards in order to fund the Capital Programme.

Forecast borrowing requirement £m

	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Forecast £m	2029/30 Forecast £m
Capital Financing Requirement (CFR)	32.88	33.46	31.40	29.01	26.69
Less external borrowing	0.00	0.00	(2.75)	(2.55)	(2.16)
Internal borrowing	32.88	33.46	28.65	26.46	24.53
Usable reserves	(37.19)	(33.74)	(26.19)	(18.12)	(13.70)
Working capital	(14.01)	(14.71)	(13.97)	(15.37)	(13.84)
 Cash available for investments	 (18.32)	 (15.00)	 (11.52)	 (7.03)	 (3.01)

The authorised limit for external debt uses the calculated CFR to set limits for agreement on the amount of external debt that it would be prudent for the Council to stay within. Above the CFR there is an operational boundary which should provide an early warning system that we are close to our limits, followed by the Council approved Authorised limit, which should never be exceeded.

The Council is asked to approve the following authorised limit:

Authorised limit and operational boundary for external debt £m

	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Forecast £m	2029/30 Forecast £m
Capital Financing Requirement (CFR)	32.88	33.46	31.40	29.01	26.69
Operational Boundary	34.88	35.46	33.40	31.01	28.69
Authorised Borrowing Limit	39.88	40.46	38.40	36.01	33.69

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 not yet been exercised.

The final prudential indicator in this set is the liability benchmark. It tracks the projected situation were we to use up all of our available funds ahead of borrowing. It shows the funding requirement we currently have (CFR) and how we are projecting that into the future and how much of that could be funded by usable reserves should we choose to do so. It considers our balance sheet working capital in the form of debtors and creditors, plus a liquidity allowance which we have set around the balance we intend to maintain in pooled funds till they recover their capital value.

The liability benchmark should then show the level of external funding required. Our estimated borrowing is within this indicator showing that we are making good use of internal borrowing before going externally. While it shows that if we are unable to recover the capital value of our currently invested funds, we may have to increase our external borrowing, it is important to note that working capital balances are very difficult to project accurately far in advance and this indicator is reviewed quarterly and reported to the Audit & Governance Committee in the Treasury Management report.

What it does show is that our expected external borrowing levels are justified and prudent. The liquidity allowance of £14m allows us to hold our current treasury investments pending capital recovery and also keeps us above the £10m threshold required to qualify as a professional investor under MiFID 2.

Liability Benchmark	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Forecast £m	2029/30 Forecast £m
Capital Financing Requirement (CFR)	32.88	33.46	31.40	29.01	26.69
Less usable reserves	(37.19)	(33.74)	(26.19)	(18.12)	(13.70)
Less working capital	(14.01)	(14.71)	(13.97)	(15.37)	(13.84)
Net loans requirement	(18.32)	(15.00)	(8.77)	(4.48)	(0.85)
Plus liquidity allowance	14.00	14.00	14.00	14.00	14.00
Liability Benchmark	(4.32)	(1.00)	5.23	9.52	13.15

Borrowing Strategy

The Council is likely to enter into debt before the end of 2027/28 to fund the replacement of the waste vehicle fleet and other planned capital expenditure which is demonstrated by the table above.

The Council may need to convert some of its current internal borrowing into external borrowing, providing this does not exceed the authorised limit but there are no current plans to borrow in advance of need.

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 service activity. This will

involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities.

The Council'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 Council's long-term plans change, is a secondary objective.

The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. A mixture of short term and long term borrowing will be used as determined by the medium to long term expectations on interest rates.

While very short term requirements may involve borrowing from other local authorities, if longer term loans were considered appropriate, the preferred option would be to use the Public Works Loan Board (PWLB). The Council will however consider long-term loans from other sources including banks, pensions and local authorities, and will investigate 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 but the Council's investment strategy aims to find investments within the local area that deliver the Council's priorities and are compliant with the PWLB requirements.

Sources of borrowing:

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

- HM Treasury's PWLB lending facility (formerly Public Works Loan Board)
- any institution approved for investments (see below)
- 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 (except Oxfordshire County Council Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local Council bond issues
- Community bonds

In addition, capital finance may be raised by the following methods that are not borrowing:

- leasing
- 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 for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

Short-term and variable rate loans: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

Interest Rate Risk	Limit £k
Upper limit on one year revenue impact of a 1% rise in interest rates	350
Upper limit on one year revenue impact of a 1% fall in interest rates	(350)

We are also required to set upper and lower limits for the maturity structure of any borrowing. The reality is that the period of the loan will be determined by the optimum affordability based on the cashflows delivered by the project but should not exceed the life of the underlying asset it is funding.

Maturity structure of borrowing	Upper Limit	Lower Limit
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and within 30 years	100%	0%
30 years and above	100%	0%

Treasury Investment Strategy

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held.

Objectives

Both the CIPFA Code and the Communities and Local Government (CLG) Guidance require the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, balancing 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 Council will aim to achieve a total return that is equal to or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Ethical Investment Approach

While the Council's primary investment priorities remain security, liquidity, and yield in accordance with the CIPFA Code, the Council recognises the importance of responsible investment practices.

Therefore:

- The Council will incorporate ESG considerations into its investment decisions where this does not conflict with its statutory obligations and primary objectives. Ethical considerations will not override the requirement to ensure security and liquidity, but they will form an equal part of the evaluation process when selecting investment instruments and counterparties.
- Preference will be given, where possible, to counterparties and financial institutions that demonstrate strong ESG credentials, such as commitments to sustainability, ethical governance, and social responsibility.

For any new investment in pooled funds, the Council will avoid any direct or indirect investment in organisations whose primary activities include:

- Fossil fuel extraction and combustion
- Support for oppressive regimes
- Manufacture or sale of armaments and weapon systems
- Gambling operations
- Pornography
- Tobacco production or distribution
- Provision of high-cost, short-term (“pay-day”) loans

In conjunction with the priorities of the CIPFA Code, the Council will actively seek opportunities to invest in organisations or financial products that prioritise:

- Renewable energy generation and technologies
- Green and sustainable investment products
- Social housing and low-carbon housing initiatives

In April 2025, the Council showed its commitment to ethical investing by placing funds in a new Money Market Fund with HSBC. Specifically, their Sterling ESG Liquidity Fund. This fund prioritises the safety of the Council's money while also taking account of ESG factors.

Strategy

Given the relatively low returns from short-term unsecured bank investments, the Council, in previous years, diversified into more secure and/or higher yielding asset classes and this strategy will be maintained through 2026/27. The majority of the Council's current surplus cash is invested in money market funds and pooled funds.

Approved counterparties: The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown.

Treasury investment counterparties and limits

Sector	Time Limit	Counterparty Limit	Sector Limit
The UK Government	50 years	Unlimited	n/a
Local Authorities	3 years	£15m	Unlimited
Other Government Entities	25 years	£4m	Unlimited
Secured investments*	25 years	£10m	Unlimited
Banks (unsecured)*	13 months	£3m	£10m
Building societies (unsecured)*	13 months	£2m	£5m
Registered providers (unsecured)*	5 years	£3m	£5m
Money market funds*	n/a	£5m	Unlimited
Strategic pooled funds	n/a	£5m	£25m
Real estate investment trusts	n/a	£3m	£5m
Other investments*	5 years	£5m	£10m

*Treasury Management investments will only be made with entities whose lowest published long term rating is no lower than A-.

Minimum Credit rating Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account. For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

Government: Loans, 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 generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore 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 and 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. If the Registered Provider has no credit rating, then due diligence checks through our external treasury advisors will be conducted beforehand.

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 Council will seek 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 offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

Real estate investment trusts (REITs): 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. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

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 Council's investment at risk. This is reflected in the lower time and sector limits. Additional due diligence and monitoring would be required in these instances.

Operational bank accounts: The Council banks with Lloyds (Lloyds Banking Group). On adoption of this Strategy, it will meet the minimum credit criteria of A- (or equivalent) long term. It is the Council's intention that even if the credit rating of Lloyds Bank falls below the minimum criteria A- the bank will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements. This would of course be reviewed should the credit rating fall significantly.

Policy Investments: The Council provides cash-flow cover for third-party organisations linked to the Council. The following limit is set for 2026/27:-

• Publica Group -	£500,000 up to one year duration
• Ubico -	£500,000 up to one year duration

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

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

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

Other information on the security of investments: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including financial statements, information on potential government support and reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will

be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, this is not generally reflected in credit ratings but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example. This may cause investment returns to fall but would protect the principal sum invested.

Investment limits:

The Council's forecast revenue reserves available to cover investment losses are £37.19 million on 31st March 2026. In order that no more than 20% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government and registered providers) will not exceed £7.4 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country since the risk is diversified over many countries.

	Cash limit
Any single organisation, except the UK Central Govt	£5m each
UK Central Govt	unlimited
Any group of organisations under the same ownership	£5m per group
Any group of pooled funds under the same mgmt	£5m per manager
Real Estate Investment Trusts (REITS)	£3m max per REIT
Foreign countries	£1m per country
Registered providers	£5m in total
Unsecured investments with building societies	£2m in total per BS
Money Market Funds	£5m per MMF

Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.

Treasury Management Indicators

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

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating 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 are assigned a score based on their perceived risk.

Credit Risk Indicator

	<u>Rating</u>
Portfolio Average Credit Target	A-
Portfolio Credit Risk at 31st December 2025	A+

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling 3 month period without borrowing.

<u>Liquidity Risk indicator</u>	<u>Target</u>
Total cash available within 3 months	£5m

Interest rate exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

	2025/26	2026/27	2027/28
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable interest rate exposure	100%	100%	100%

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate. The table above reflects the fact that, at time of writing, we have no current borrowing and that any future borrowing would be recommended on its merit and suitability as the need arose. The Council's preference is not to undertake variable rate borrowing over long periods of time.

Principal sums invested for periods longer than 364 days: The purpose of this indicator is to quantify and control cash tied up for longer than the current financial year. Penalties may be incurred for money withdrawn early but for the reasons explained above, longer term investment opportunities are likely to need to be held where they are in the short to medium term to avoid crystallising capital losses. Although removing funds early potentially risks a variation in capital value, in most cases the money can be withdrawn in around a week and the returns that can be earned in the meantime are significant. Where funds are known to be needed, they would not be placed in

long term funds but in the absence of firm timescales, it is beneficial to the Council to earn as much on the available funding as possible, within the constraints in the tables above.

Principal sums invested for periods longer than a year

	2026/27	2027/28	2028/29	2029/30
Limit on principal invested > year	£15m	£15m	£15m	£15m
Treasury invested with no fixed maturity date	£15m	£15m	£15m	£15m

The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2026/27	2027/28	2028/29	No fixed date
Limit on principal invested beyond year end	£15m	£15m	£15m	£15m

Other Items

There are a number of additional items that the Council is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

Policy on the use of 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. Lender Option Borrower Option (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 Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, 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, assessed using the appropriate credit rating for derivative exposures. An

allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

Mifid 2: Is a legislative framework instituted by the European Union to regulate the financial markets and improve protections for investors. This Council has elected for Professional Client Status which means that to be able to invest in certain investments, it must hold a minimum of £10m in investments. If this falls below the minimum level, then access to certain financial market instruments would not be available to this Council. This threshold will be monitored and taken into consideration when evaluating whether to borrow externally or cash in an investment.

Investment training: The needs of the Council's treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff will regularly attend training courses, seminars and conferences provided by Arlingclose, CIPFA and other such organisations.

Investment advisers: The Council appointed Arlingclose Limited as treasury management advisers through a tender process in February 2023. The level of desired treasury support has been increased to reflect the greater complexity of managing our cash balances and the dynamic nature of global markets.

Arlingclose Limited Economic Forecast December 2025

The Bank of England cut interest rates in December as expected. However, even though recent economic data has been weak, the Monetary Policy Committee (MPC) meeting notes show that policymakers are cautious about inflation and how quickly they should cut rates further. The vote was very close (5-4), which means it might be harder to get more rate cuts than people thought, even though inflation could hit the 2% target in 2026.

Government policies and technical factors will help bring inflation down in 2026, along with slow economic growth and a weaker job market. But some policymakers worry that businesses and households still expect prices to rise, which could keep inflation higher for longer. Expectations fell slightly in December but are still above the 2% target at 3.5%.

These concerns seem a bit out of step with current data: inflation dropped to 3.2% in November, wage growth is slowing, unemployment is at its highest since the pandemic, and the economy shrank in October. Business surveys show slightly better activity in December but also suggest that weakness before the Budget was not just temporary. Overall, the trend points to tough economic conditions affecting prices and wages.

Risks for growth and inflation are mostly on the downside, which could mean lower interest rates than expected. But the minutes suggest it will be harder to cut rates below 3.25%, and short-term risks for higher rates have grown. Still, inflation expectations should fall naturally as headline inflation drops.

Investors have eased pressure on the UK government after the Budget, with long-term borrowing costs slightly lower than in late summer. However, heavy borrowing worldwide, the UK issuing more short-term debt, and doubts about fiscal plans will keep short- and medium-term borrowing costs higher than interest rate expectations alone would suggest.

	Current	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central Case	3.75	3.50	3.25										
Downside risk	0.00	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central Case	3.82	3.55	3.30	3.35	3.35	3.35							
Downside risk	0.00	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5yr gilt yield													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	3.96	3.85	3.80	3.75	3.80	3.80	3.80						
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
10yr gilt yield													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.52	4.40	4.35	4.30	4.35	4.35	4.35						
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
20yr gilt yield													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	5.16	5.00	4.95	4.90	4.95	4.95	4.95						
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
50yr gilt yield													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.74	4.65	4.60	4.65	4.65	4.65							
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%; PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
 PWLB HRA Rate (Maturity Loans) = Gilt yield + 0.40%; National Wealth Fund Rate (Maturity Loans) = Gilt yield + 0.40%