CAB3538 REVISED
CABINET

REPORT TITLE: TREASURY MANAGEMENT STRATEGY 2026/27

12 FEBRUARY 2026

REPORT OF CABINET MEMBER: Cllr Neil Cutler, Deputy Leader and Cabinet Member for Finance and Transformation

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WARD(S): ALL WARDS

PURPOSE

This report sets out the proposed Treasury Management Strategy Statement, including the Annual Investment Strategy for the council for 2026/27.

Following the council's declaration of a Climate Emergency in June 2019 the Investment Strategy (Section 16) includes a commitment not to make equity investments either directly or indirectly (via pooled funds) in companies directly involved in the fossil fuel industry.

In addition, following changes to the Public Works Loans Board (PWLB) lending criteria which precludes a local authority from borrowing from PWLB for any purpose if it plans to purchase assets primarily for yield, the Borrowing Strategy (section 15) confirms the council has no such plans.

RECOMMENDATIONS:

That Cabinet recommends to council:

1. That the Treasury Management Strategy Statement which includes the Annual Treasury Investment Strategy for 2026/27 (and the remainder of 2025/26) is approved;

2. That authority is delegated to the Section 151 Officer to manage the council's pooled property investment and long-term borrowing according to the Treasury Management Strategy Statement as appropriate; and

3. That authority is delegated to the Section 151 Officer, who in turn discharges this function to Hampshire County Council's Director of Corporate Operations, as agreed in the Service Level Agreement, to manage all council investments (other than the high yield portfolio) and short-term borrowing according to the Treasury Management Strategy Statement as appropriate.

IMPLICATIONS:

1 COUNCIL PLAN OUTCOME

1.1 Treasury management is an integral part of helping to deliver the council Plan and all of its outcomes.

2 FINANCIAL IMPLICATIONS

2.1 Effective treasury management ensures both the financial security and liquidity of the council. The council forecasts a return of 3.4% on an average balance of £18m in 2026/27. This would represent income of £0.6m. The actual return depends on several variable factors including the interest rates available throughout the period and the level of cash and investment balances.

3 LEGAL AND PROCUREMENT IMPLICATIONS

3.1 The council's Treasury Management Strategy Statement follows the latest codes of practice and the MHCLG and CIPFA guidance.

3.2 With effect from September 2014 Hampshire County Council (HCC) and Winchester City Council (WCC) established arrangements for the joint discharge of functions under Section (101)(1) and (5) of the Local Government Act 1972 and Section 9EA and 9EB Local Government Act 2000. Under this arrangement, HCC's Investments and Borrowing Team provide a Treasury Service which includes the management of WCC's cash balances and investment of surplus cash or sourcing of short-term borrowing in accordance with the agreed Treasury Management Strategy Statement.

4 WORKFORCE IMPLICATIONS

4.1 Hampshire County Council's Investments and Borrowing Team carry out the day-to-day management of the council's cash balances and investments. The council's in-house finance team undertake the accounting and retain responsibility for long-term borrowing decisions.

5 PROPERTY AND ASSET IMPLICATIONS

5.1 None.

6 CONSULTATION AND COMMUNICATION

6.1 This report has been produced in consultation with Hampshire County council's Investments & Borrowing team.

6.2 In November 2025 several members attended the annual treasury management briefing session provided by the council's treasury advisors Arlingclose.

6.3 The Scrutiny Committee discussed the report at its meeting held on 10 February 2026. Due to the dispatch date any particular matters that the Committee wishes to raise with Cabinet will be reported at the meeting.

7 ENVIRONMENTAL CONSIDERATIONS

7.1 Following the council's declaration of a Climate Emergency in June 2019, and in line with its ethical stances in its investment policy (see Section 16 below), the council has no direct or indirect equity investments in companies directly involved in the fossil fuel industry.

8 PUBLIC SECTOR EQUALITY DUTY

8.1 None.

9 DATA PROTECTION IMPACT ASSESSMENT

9.1 None required.

10 RISK MANAGEMENT

Risk	**Mitigation**	**Opportunities**
Returns from investments are too low	*A diversified strategy that attempts to manage the balance between liquidity risk, credit risk and yield within the council's risk appetite.*	*Returns above budgeted levels*
A counterparty fails	*A diversified strategy that has relatively low levels of counter-party risk*	
Cash is not available	*A balanced portfolio of liquid and long-term funds are held to ensure cash is available to utilise. The council also mitigates this risk through cashflow forecasting*	*More accurate and immediate cashflow forecasting can help improve the return on investments through more active treasury management activity*
Access to Money Market Funds (MMFs) may be restricted when the UK exits the EU	*Invest in suitable alternatives*	
Insufficient capacity to deliver day to day treasury management	*Since 2014, Hampshire County Council's Investments and Borrowing Team has carried out the day-to-day management of the council's cash balances and investments*	*The economies of scale in HCC carrying out the day-to-day management gives the council access to a much wider range of skills, and resilience, at a far lower cost than managing in-house*

SUPPORTING INFORMATION:

11 Summary

11.1 The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) requires authorities to determine the Treasury Management Strategy Statement (TMSS) before the start of each financial year.

11.2 As per the requirements of the Prudential Code, the council adopts the CIPFA Treasury Management Code. This report fulfils the council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

12 Introduction

12.1 Treasury management is the management of the council's cash flows, borrowing and investments, and the associated risks. The council has borrowed and invested 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 risk are therefore central to the council's prudent financial management.

12.2 Treasury risk management at the council is conducted within the framework of the CIPFA Code which requires the council to approve a Treasury Management Strategy Statement (TMSS) 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.

12.3 Investments held for service purposes or for commercial profit are considered in a different report, the Capital Investment Strategy.

12.4 Hampshire County Council's Investments & Borrowing Team has been contracted to manage the council's treasury management balances since September 2014 but overall responsibility for treasury management remains with the council. No treasury management activity is without risk; the effective identification and management of risk are integral to the council's treasury management objectives.

13 External Context

13.1 The following paragraphs explain the economic and financial background against which the TMSS is being set.

Economic background

13.2 The impact on the UK from the government's Autumn Budget will influence the council's treasury management strategy for 2026/27. Other influences will include lower short-term interest rates alongside higher medium- and longer-term rates, slower economic growth, together with ongoing uncertainties around the global economy, stock market sentiment, and ongoing geopolitical issues.

13.3 The Bank of England's Monetary Policy Committee (MPC) voted to cut Bank Rate by 25 basis points, from 4.00% to 3.75%, in December 2025.

Credit outlook

13.4 Credit Default Swap (CDS) prices, which are used as an indicator of credit risk, where higher premiums indicate higher perceived risks, spiked in April 2025 following President Trump's 'Liberation Day' tariff announcements, and have since trended lower, returning to levels broadly consistent with their 2024 averages. Although CDS prices rose modestly in October 2025, the overall credit outlook remains stable, and credit conditions are expected to remain close to the range seen over the past two years.

13.5 While lower interest rates may weigh on banks' profitability, strong capital positions, easing inflation, steady economic growth, low unemployment, and reduced borrowing costs for households and businesses all support a favourable outlook for the creditworthiness of institutions on Arlingclose's (the council's treasury management advisor) counterparty list. Arlingclose's advice on approved counterparties and recommended investment durations is kept under continuous review and will continue to reflect prevailing economic and credit conditions.

Interest rate forecast (December 2025)

13.6 Arlingclose forecasts that the Bank of England's Monetary Policy Committee will continue to reduce Bank Rate through 2025 and 2026, reaching around 3.25%. This forecast reflects amendments made following the Autumn Budget and an assessment of the fiscal measures and their market implications.

13.7 Long-term gilt yields, and therefore interest rates payable on long-term borrowing, are expected to remain broadly stable on average, though with continued volatility, and to end the forecast period marginally lower than current levels. Yields are likely to stay higher than in the pre-quantitative tightening era, reflecting ongoing balance sheet reduction and elevated bond issuance. Short-term fluctuations are expected to persist in response to economic data releases and geopolitical developments.

13.8 A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

14 Balance Sheet Summary and Forecast

14.1 On 31 December 2025, the council held £159.4m of borrowing and £35.9m of investments. This is set out in further detail at Appendix B. Forecast changes in these sums, subject to delivery of the capital programme, are shown in the balance sheet analysis in Table 1.

14.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while reserves and working capital are the underlying resources available for investment. The council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

14.3 The council has a forecast increasing CFR due to the planned capital programme over the coming years, and the council's reserves will gradually reduce over the same period. This will reduce the council's capacity to internally borrow and will ultimately result in the council needing to take out additional external borrowing.

14.4 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. Table 1 shows that the council expects to comply with this recommendation during 2026/27.

Table 1: Balance sheet summary and forecast

	31/03/25 Actual £m	**31/03/26 Estimate £m**	**31/03/27 Forecast £m**	**31/03/28 Forecast £m**	**31/03/29 Forecast £m**
General Fund CFR	70.4	69.4	72.5	71.4	69.2
HRA CFR	212.5	212.5	212.5	232.2	247.3
Total CFR	**282.9**	**281.9**	**285.0**	**303.6**	**316.5**
Less other debt liabilities *	(3.3)	(2.7)	(2.1)	(1.4)	(1.0)
Borrowing CFR	**279.6**	**279.2**	**282.9**	**302.2**	**315.5**
Less: External borrowing **	(154.5)	(154.3)	(143.5)	(132.8)	(132.1)
Internal borrowing	**125.1**	**124.9**	**139.4**	**169.4**	**183.4**
Less: Balance sheet resources	(141.4)	(129.5)	(133.8)	(115.2)	(104.5)
New borrowing or (investments)	**(16.3)**	**(4.6)**	**5.6**	**54.2**	**78.9**

* finance leases that form part of the council's total debt

** existing external borrowing

<u>Liability benchmark</u>

14.5 To compare the council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 1, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

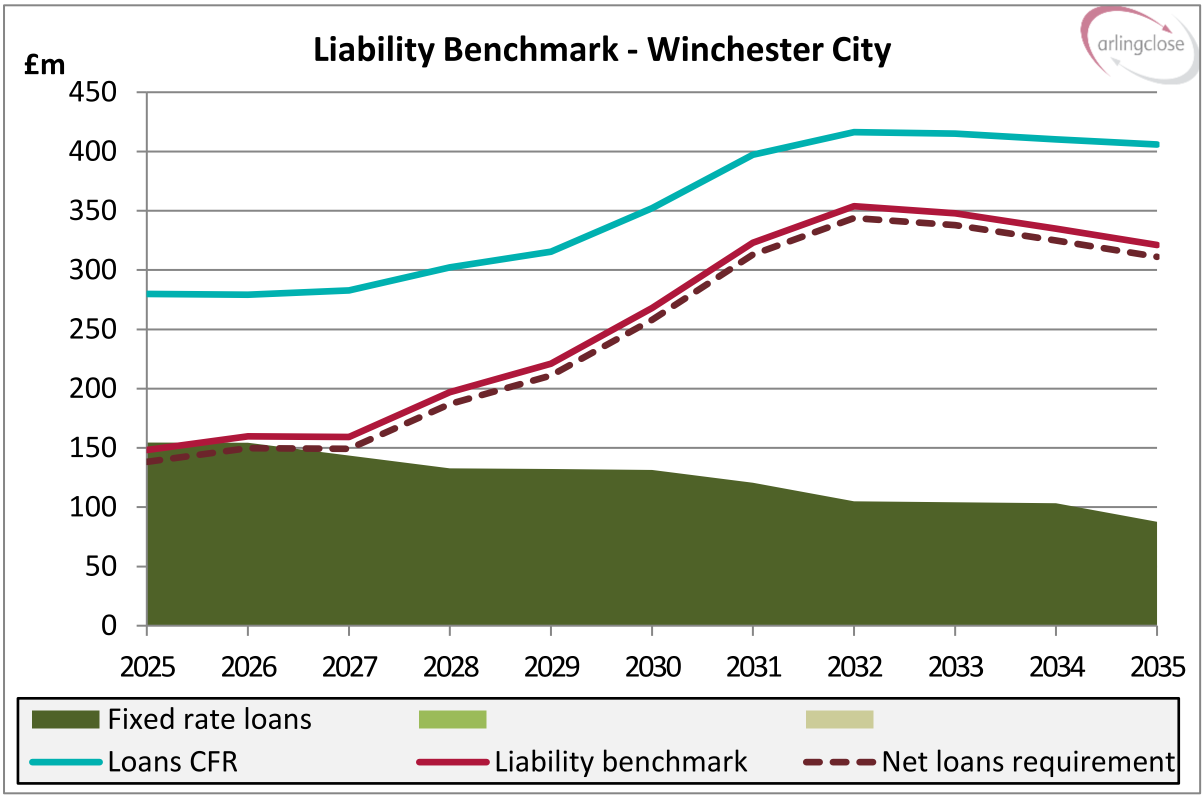
14.6 The liability benchmark is an important tool to help establish whether the council is likely to be a long-term borrower or long-term investor in the future and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 2: Liability benchmark

	31/03/25 Actual £m	**31/03/26 Estimate £m**	**31/03/27 Forecast £m**	**31/03/28 Forecast £m**	**31/03/29 Forecast £m**
Loans CFR	279.6	279.2	282.9	302.2	315.5
Less: Balance sheet resources	(141.4)	(129.5)	(133.8)	(115.2)	(104.5)
Net loans requirement	**138.2**	**149.7**	**149.1**	**187.0**	**211.0**
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0
Liability benchmark	**148.2**	**159.7**	**159.1**	**197.0**	**221.0**

14.7 At the start of the period, 31 March 2025, the council had a Loans CFR of £279.6m, fixed term loans of £154.5m and a liability benchmark of £148.2m. The difference of £125.1m between the CFR and fixed term loans is internal borrowing and is where the council has used its own cash and investment balances to fund its borrowing need.

Graph 1: Liability benchmark



14.8 The liability benchmark is the lowest level of debt the council could hold if it used all of its balances, reserves and cash flow surpluses.

14.9 The forward projection using the council's capital programme forecasts indicate that capital expenditure funded by borrowing of around £36.0m will occur from the position at the 31 March 2025 to 31 March 2029 as evidenced by the rising CFR, and where the liability benchmark increases above the debt portfolio is where the council will need to take on additional external borrowing to fund this expenditure. It is anticipated that to keep debt at a minimum level, a maximum of £66.5m of additional debt would need to be taken out. The actual CFR and external borrowing required will depend on several factors including delivery of the capital programme and the actual level of balance sheet resources available.

14.10 The full liability benchmark is available at Appendix D to this report.

15 <u>Borrowing Strategy</u>

15.1 The council currently holds £159.4m of loans as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in Table 1 shows that the council is forecast to maintain a net borrowing position and so may need to borrow to fund capital expenditure to maintain its long-term and minimum level of investments. The council may also borrow additional sums to pre-fund future years' requirements, providing total external borrowing does not exceed the authorised limit for borrowing of £306.5m.

Objectives

15.2 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.

Strategy

15.3 Given the significant cuts to public expenditure and in particular to local government funding, the council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term interest rates are currently higher than in the recent past but are expected to fall in the coming year and it is possible therefore to be more cost effective over the medium-term to either use internal resources, or to borrow short-term loans instead.

15.4 The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the council with this 'cost of carry' and breakeven analysis, and this will be used to help determine whether the council borrows additional sums at long-term fixed rates in 2026/27 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

15.5 The council has previously raised all of its long-term borrowing from the Public Works Loan Board (PWLB) but will consider long-term loans from other sources including banks, pension funds and local authorities, and will investigate the possibility of issuing bonds and similar instruments (including Community Municipal Investments (crowdfunding bonds) with the lenders being residents and the general public), in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. New PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield (including where individual purchases are not funded by borrowing); the council has no plans to undertake this activity and will therefore retain its access to PWLB loans. If the council were to elect to purchase assets primarily for yield it would have no access to the PWLB for loans for any purpose. This would expose the council to significant liquidity risk as it would need to obtain loans elsewhere in the market to finance its borrowing need.

15.6 The council may also arrange forward-starting loans during 2026/27, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. The council may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money.

15.7 In addition, the council may borrow further short-term loans (normally for up to one month) to cover unplanned cash flow shortages.

Sources of borrowing

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

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- National Wealth Fund Ltd (formerly UK Infrastructure Bank Ltd)
- Any institution approved for investments
- Any other bank, building society or insurance company authorised to operate in the UK
- Any other UK public sector body
- UK public and private sector pension funds (except Hampshire Pension Fund)
- Capital market bond investors
- Retail investors via a regulated peer-to-peer platform
- Special purpose companies created to enable local council bond issues

Other sources of debt finance

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

- Leasing
- Hire purchase
- Private Finance Initiative
- Sale and leaseback
- Similar asset-based finance

Short-term and variable rate loans

15.10 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 the interest rate exposure limits in the treasury management indicators at Section 17 of this TMSS.

Debt rescheduling

15.11 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. The council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities could arise and the opportunity to reschedule is kept under review.

16 Treasury Investment Strategy

16.1 The council holds invested funds representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the council's treasury investment balance has ranged between £15.6m and £55.5m.

Objectives

16.2 The CIPFA Code requires 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, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. The council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy

16.3 As demonstrated by the liability benchmark above, the council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments.

Environmental, social and governance factors

16.4 Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the council does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in pooled funds, the council will prioritise funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

16.5 The council declared a Climate Emergency in June 2019 and as a consequence will not make equity investments either directly or indirectly (via pooled funds) in companies directly involved in the fossil fuel industry.

Business models

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

Investments in pooled funds

16.7 The council continues to invest in a pooled property fund which enables it to achieve a greater degree of diversification than could effectively be achieved by directly owning individual assets. Pooled funds are managed by specialist external fund managers who are best placed to select and manage investments, for example with property investments in selecting appropriate buildings and then managing the relationship with tenants and the maintenance of those buildings.

16.8 Diversification in itself does not guarantee positive outcomes. The selection of a pooled fund is carefully managed to target funds with a strong performance track record and objectives that are well aligned to the council's income returns aims without putting its initial investment at undue risk over the longer term. The council is therefore currently invested in a pooled fund that specialises in providing income returns to support the revenue budget. As a result of their income focus this fund may not achieve the same capital growth and therefore total return, as other more general investment funds, however it is likely to deliver good income returns for the longer term.

16.9 The investible universe for pooled funds is vast, and part of the service provided by Arlingclose as treasury advisers is to conduct research and suitable due diligence on pooled funds prior to making recommendations to their clients.

16.10 Past performance does not guarantee that funds can replicate successful outcomes in future and knowing which funds will perform well is not an exact science. The council will therefore continue to conduct its own ongoing review and scrutiny of the performance of its pooled fund investments on a regular basis, including the active decisions of continuing to invest or redeem these investments, particularly with the requirement to take on additional borrowing approaching. The council will also discuss these investments regularly with Arlingclose, who provide advice based on regular meetings with representatives from the pooled funds and their own ongoing due diligence on areas such as performance and investment style, strategy and process.

16.11 As at the 31 December 2025, the council's pooled fund investment is valued with an unrealised capital gain of £0.2777m. To date, the statutory override in place on IFRS 9 for local authorities exempts the council from taking this unrealised gain to the Comprehensive Income and Expenditure Statement (CIES). This override has been extended to 31 March 2028 for investments made before 1 April 2024, at which time the council will be expected to reflect any gains and losses in the CIES.

Investment limits

16.12 The maximum that will be lent to any one organisation (other than the UK Government) will be £7m. Over the longer term it is expected that the council's cash balances will reduce, and new external borrowing will need to be taken. This limit allows the flexibility to ensure that all of the council's cash can be invested in accordance with this TMSS.

16.13 A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits are placed on fund managers as shown in Table 3.

Table 3: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£7m each
UK Central Government	Unlimited
Any group of pooled funds under the same management	£17.5m per manager

Approved counterparties

16.14 The council may invest its surplus funds with any of the counterparty types in Table 4, subject to the limits shown.

Table 4: Sector and counterparty limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	3 years	Unlimited	n/a
Local authorities & other government entities	3 years	£7m	Unlimited
	3 years	£7m	Unlimited
Secured investments *	3 years	£7m	Unlimited
Banks (unsecured) *	13 months	£3.5m	Unlimited
Building societies (unsecured) *	13 months	£3.5m	£7m
Registered providers (unsecured) *	3 years	£3.5m	£17.5m
Money market funds *	n/a	£7m	Unlimited
Strategic pooled funds	n/a	£7m	£35m
Real estate investment trusts	n/a	£7m	£17.5m
Other investments *	3 years	£3.5m	£7m

This table must be read in conjunction with the notes below.

Time limit

16.15 Borrowing to invest primarily for financial return is in contravention of the CIPFA Treasury Management Code. To reflect the expectation that long-term borrowing will be a requirement for the council, time limits for investment are set to a maximum of 3 years.

* Minimum credit rating

16.16 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-/A3. 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 known factors including external advice will be taken into account.

16.17 For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

UK Government

16.18 Sterling-denominated investments with or explicitly guaranteed by the UK Government, including the Debt Management Account Deposit Facility, treasury bills and gilts. These are deemed to be zero credit risk due to the government’s ability to create additional currency and therefore may be made in unlimited amounts for up to 3 years.

Local authorities and other government entities

16.19 Loans to, and bonds and bills issued or guaranteed by, other national governments, regional and local authorities, supranational banks 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.

16.20 The counterparty limit for loans to local authorities will be increased to an unlimited amount where (a) the government has announced that the council will merge with the borrowing authority and (b) the loan is scheduled to be repaid after the expected date of the merger.

Secured investments

16.21 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, secured deposits 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. A higher limit applies for investments fully secured on UK or other government collateral.

Banks and building societies (unsecured)

16.22 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)

16.23 Loans and bonds issued by, guaranteed by, or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds

16.24 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 take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

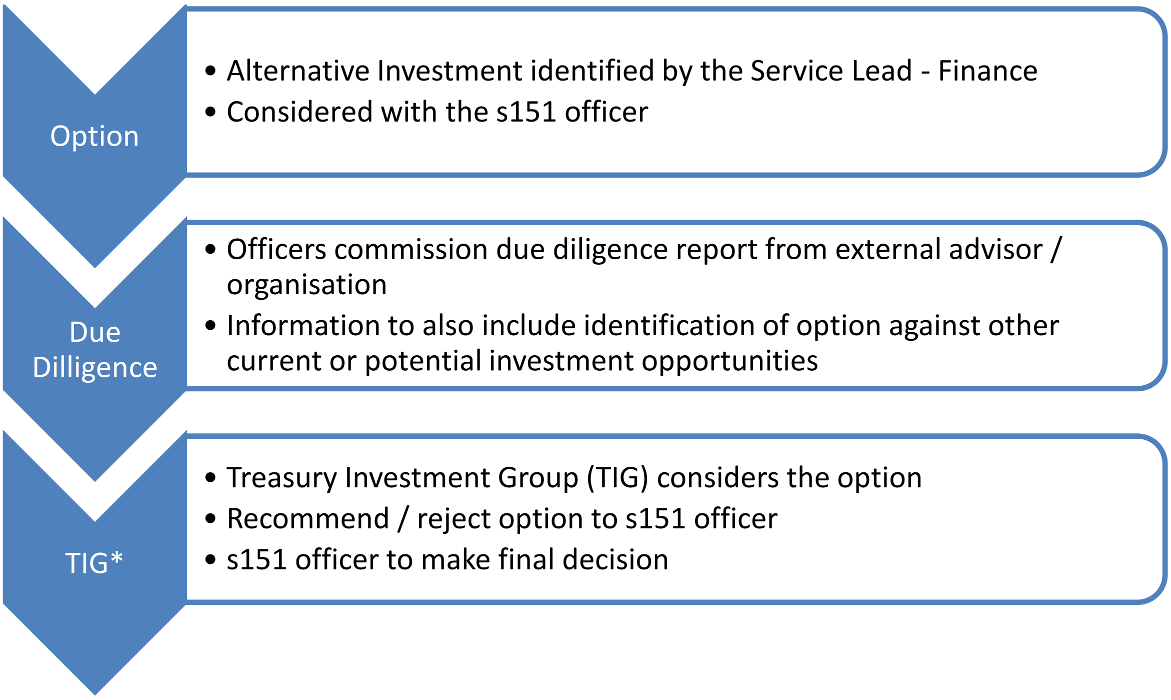
<u>Strategic pooled funds</u>

16.25 Bond, equity and property funds, including exchange traded funds, that 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 can be either withdrawn after a notice period or sold on an exchange, their performance and continued suitability in meeting the council's investment objectives will be monitored regularly.

<u>Other investments</u>

16.26 This category covers treasury investments not listed above, for example certificates of deposit (CDs), unsecured corporate bonds and unsecured loans to companies. Non-bank companies cannot be bailed-in but can become insolvent placing the council's investment at risk.

16.1 Where a counterparty does not have a credit rating and to ensure there is a clear process for external scrutiny specifically around these alternative investments, the governance structure detailed below was approved in the Treasury Management Mid-Year Review 2017/18 in order for the council to consider such investment opportunities in a timely manner and ensure that there has been effective scrutiny over the proposed decisions. The S151 officer will consult with this group on these types of investment prior to making the final decision.



* The Treasury Investment Group (TIG) includes the following officer and member roles:

- Service Lead - Finance
- Cabinet Member for Finance and Performance
- One other Cabinet member
- Chair of the Audit & Governance Committee
- Shadow Cabinet Member for Finance
- S151 officer

<u>Operational bank accounts</u>

16.2 The council may incur operational exposures, for example through current accounts, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept low. The council's operational bank account is with National Westminster and aims to keep the overnight balances held in current accounts as positive, and as close to zero as possible. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the council maintaining operational continuity.

Risk assessment and credit ratings

16.3 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.

16.4 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") 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 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

16.5 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 credit default swap prices, 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 above criteria.

16.6 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, 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, or with other local authorities. This will likely lead to investment returns falling but will protect the principal sum invested.

Liquidity management

16.7 The council has due regard for its future cash flows when determining the maximum period for which funds may prudently be committed. Historic cash flows are analysed in addition to significant future cash movements, such as payroll, grant income and council tax precept. Limits on long-term investments are set by reference to the council's medium term financial position (summarised in Table 1) and forecast short-term balances.

16.8 The council will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds), of which at least two will be UK domiciled, to ensure that access to cash is maintained in the event of operational difficulties at any one provider, except in cases of extreme market stress whereby the council will be able to invest all of its liquid cash in one provider only, being the Debt Management Office.

17 Treasury Management Prudential Indicators

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

Interest rate exposures

17.2 The following indicator shows the sensitivity of the council's current investments and borrowing to a change in interest rates. Fixed rate investments maturing during the year are assumed to be variable for the remainder of the year.

Table 5: Interest rate risk indicator

	31 December 2025	**Impact of +/-1% interest rate change**
	£m	**£m**
Sums subject to variable interest rates:		
- Investment	36.0	+/- 0.3
- Borrowing	(5.7)	+/- 0.0

Maturity structure of borrowing

17.3 This indicator is set to control the council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Table 6: Refinancing rate risk indicator

	Upper	Lower
Under 12 months	25%	0%
12 months and within 24 months	25%	0%
24 months and within 5 years	25%	0%
5 years and within 10 years	35%	0%
10 years and within 20 years	50%	0%
20 years and within 30 years	50%	0%
30 years and within 40 years	75%	0%
40 years and within 50 years	100%	0%

17.4 Time periods start of the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal sums invested for periods longer than a year

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

Table 7: Price risk indicator

	2026/27	2027/28	2028/29	No fixed date
Limit on principal invested beyond year end	£20m	£15m	£10m	£5m

17.6 Long-term investments with no fixed maturity date include strategic pooled funds but exclude money market funds and bank accounts with no fixed maturity date as these are considered short term.

17.7 In effect, the annual limit and the no fixed date limit would be added together to reach the total limit on principal invested beyond year end, meaning that during 2026/27, for example, the council could invest up to £25m for the long-term, subject to investment balances and cash flow requirements.

18 Prudential Indicators – Borrowing

Gross Debt and the Capital Financing Requirement

18.1 In order to ensure that over the medium-term debt will only be for a capital purpose, the council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Table 8: Debt

	31/03/26 Revised £m	31/03/27 Estimate £m	31/03/28 Estimate £m	31/03/29 Estimate £m
Borrowing	154.3	143.5	132.8	132.1
New borrowing	5.4	15.6	64.2	88.9
Finance Leases	2.7	2.1	1.4	1.0
Total Debt	**162.4**	**161.2**	**198.4**	**222.0**

18.2 Total debt is expected to remain below the CFR during the forecast period.

Operational Boundary for External Debt

18.3 The operational boundary is based on the council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the council's debt.

Table 9: Operational Boundary

	31/03/26 Revised £m	31/03/27 Estimate £m	31/03/28 Estimate £m	31/03/29 Estimate £m
Borrowing	294.4	296.5	314.2	326.4
Finance Leases	2.7	2.1	1.4	1.0
Total Debt	**297.1**	**298.6**	**315.6**	**327.4**

Authorised Limit for External Debt

18.4 The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Table 10: Authorised Limit

	2025/26 Limit £m	2026/27 Limit £m	2027/28 Limit £m	2028/29 Limit £m
Borrowing	301.5	303.9	321.9	334.3
Finance Leases	3.4	2.6	1.8	1.2
Total Debt	**304.9**	**306.5**	**323.7**	**335.5**

19 Related Matters

19.1 The CIPFA Code requires the council to include the following in its treasury management strategy.

Financial derivatives

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

19.3 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.

19.4 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.

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

Housing Revenue Account

19.6 The council has adopted the "two pool approach" whereby each of its long-term loans are split into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA applying the following rates:

- The PWLB 3-month variable loan rate is applied to a deficit balance
- The risk-free Debt Management Office rate is applied to a surplus balance.

Investment of money borrowed in advance of need

19.7 The council may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the council's overall management of its treasury risks.

Markets in Financial Instruments Directive

19.8 The council has opted up to professional client status with its providers of financial services, including advisers, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the council's treasury management activities, the S151 Officer believes this to be the most appropriate status.

20 OTHER OPTIONS CONSIDERED AND REJECTED

20.1 The council could elect to bring all treasury management activity back in-house. This option has been rejected as the arrangement with Hampshire County Council's Investments and Borrowing team provides significant resilience and economies of scale.

20.2 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Section 151 Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed in Table 11.

Table 11: Alternative strategies and their implications

Alternative	**Impact on income and expenditure**	**Impact on risk management**
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

AUD119: Treasury Management Practices, 22 June 2015

CAB3496 Treasury Management Strategy 2025-26.pdf

AG166 Treasury Management Outturn Report 2024-25.pdf

AG179 Treasury Management Mid-year report 25-26.pdf

Other Background Documents:

None

APPENDICES:

Appendix A – Arlingclose Economic & Interest Rate Forecasts December 2025

Appendix B – Existing Investment & Debt Portfolio Position at 31 December 2025

Appendix C – Q3 2025/26 Treasury Management Indicators at 31 December 2025

Appendix D – 50 year Liability Benchmark graph

<u>Appendix A – Arlingclose Economic & Interest Rate Forecast December 2025</u>

Underlying assumptions:

- The Budget signalled further fiscal (tax/spend) tightening across this parliament. Most tax changes take effect from 2028, while welfare and spending start from April 2026. Taken together, the timing of these announcements means the fiscal stance is likely to be slightly looser than expected for the next two years (with increased government spending), before tightening sharply from 2028 (with large tax rises).
- Despite the near-term looser fiscal stance, the new policies add little support for activity in 2026. Even before the Budget, economic data was pointing to a slower growth outlook. Meanwhile, disinflation has been evident and planned government actions on train fares and energy bills will also dampen inflation next year.
- The close vote in November to keep Bank Rate at 4% reflected pre-Budget uncertainty. With no major growth or inflation boosts in the Budget, a cut to 3.75% in December took place.
- Inflation fell to 3.6% in October. Business surveys point to weaker pricing power and household inflation expectations are easing, although they remain high. Wage growth is moderating amid rising unemployment and overall activity is flat. Confidence has been hit by the run-up to the Budget and a strong rebound seems improbable in the near term.
- Weak growth and softer inflation strengthen the case for dovish MPC members to push for further Bank Rate cuts, while undermining arguments of more hawkish members. There will still be questions over whether Government can deliver the fiscal tightening it set out, given a history of U-turns, and timing ahead of the next General Election. The December meeting will offer a clearer view of how divided the MPC really is.
- Risks to the growth and inflation outlook lie to the downside, which if crystallised may ultimately deliver lower Bank Rate than our central case.
- Lower inflation expectations and a tighter fiscal stance have helped bring down gilt yields, especially at the long end. Even so, sustained heavy borrowing across advanced economies, the DMO’s move towards issuing

more short-dated gilts and lingering doubts about the government's fiscal plans will keep short to medium yields above the levels implied by interest rate expectations alone.

Forecast:

- Bank Rate was cut by 0.25% in December to 3.75%.
- Continuing disinflation, rising unemployment, softening wage growth and low confidence suggests that monetary policy will be eased to stimulate activity ahead of incoming fiscal tightening post-2028.
- Arlingclose now expects Bank Rate to be cut to 3.25% by Q2 2026, with risks weighted to the downside.
- Medium and long-term gilt yields continue to incorporate premia for UK government credibility and global uncertainty. These issues may not be resolved quickly and we expect yields to remain higher than would normally be consistent with Bank Rate expectations.
- However, the lower path for Bank Rate maintains the downside risks to Arlingclose's gilt yield forecasts.

	Current	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-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	4.00	3.75	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	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	3.90	3.65	3.50	3.40	3.35	3.35	3.35	3.35	3.35	3.35	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	3.92	3.90	3.85	3.80	3.75	3.75	3.75	3.75	3.75	3.75	3.75	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	4.48	4.40	4.35	4.30	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.30	4.30
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	5.13	4.90	4.85	4.80	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.80	4.80
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
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	4.73	4.50	4.50	4.45	4.45	4.45	4.45	4.45	4.45	4.45	4.45	4.50	4.50
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 = Gilt yield + 1.00%
- PWLB Certainty Rate = Gilt yield + 0.80%
- PWLB HRA Rate = Gilt yield + 0.40%
- National Wealth Fund (NWF) Rate = Gilt yield + 0.40%

Appendix B - Existing Investment & Debt Portfolio Position at 31 December 2025

Treasury investment position

Investments	30/09/2025 Balance £m	Net movement £m	31/12/2025 Balance £m	31/12/2025 Income return %	31/12/2025 Weighted average maturity years
Short term investments					
Banks and building societies:					
- Unsecured	4.9	0.6	5.5	4.05	0.06
Money Market Funds	13.5	4.0	17.5	3.91	0.00
Government:					
- Debt Management Office	3.0	2.0	5.0	3.71	0.14
- UK Treasury bills	4.5	(2.5)	2.0	3.82	0.10
Cash plus funds	1.0	0.0	1.0	4.02	0.00
	26.9	**4.1**	**31.0**	**3.36**	**0.04**
Long term investments					
Pooled property fund*	5.0	0.0	5.0	4.65	N/A
	5.0	**0.0**	**5.0**	**4.65**	**N/A**
TOTAL INVESTMENTS	**31.9**	**4.1**	**36.0**	**4.00**	**0.04**

* The rate provided for the pooled property fund investment is reflective of annualised income returns over the year to 31 December 2025 based on the market value of investments 12 months earlier.

Treasury management position

	31/12/2025 Balance £m	31/12/2025 Rate %
External borrowing:		
- PWLB	(159.4)	3.33
Investments		
- Total investments	36.0	4.00
Net (Debt) / Investments	**(123.4)**	

Appendix C - Q3 2025/26 Treasury Management Indicators at 31 December 2025

Debt limits	**2025/26 Maximum £m**	**31/12/25 Actual £m**	**2025/26 Operational Boundary £m**	**2025/26 Authorised Limit £m**	**Complied?**
External borrowing	(159.4)	(159.4)	(295.5)	(309.1)	✓
Leases and other debt liabilities	(3.3)	(3.3)	(4.5)	(5.0)	✓
Total debt	**(161.9)**	**(161.8)**	**(300.0)**	**(314.1)**	✓

Refinancing rate risk indicator	**31/12/25 Actual**	**Upper Limit**	**Lower Limit**	**Complied**
Under 12 months	4%	25%	0%	✓
12 months and within 24 months	7%	25%	0%	✓
24 months and within 5 years	8%	25%	0%	✓
5 years and within 10 years	27%	30%	0%	✓
10 years and within 20 years	13%	50%	0%	✓
20 years and within 30 years	13%	50%	0%	✓
30 years and within 40 years	23%	75%	0%	✓
40 years and within 50 years	6%	100%	0%	✓

Long term investments	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**	**No fixed date £m**
Actual principal invested beyond year end	-	-	-	£5m
Limit on principal invested beyond year end	£20m	£20m	£20m	£5m
Complied	✓	✓	✓	✓

Appendix D – 50 year Liability Benchmark graph