

## ISLE OF ANGLESEY COUNTY COUNCIL

<b>REPORT TO:</b>	<b>GOVERNANCE AND AUDIT COMMITTEE</b>
<b>DATE:</b>	<b>3 FEBRUARY 2026</b>
<b>SUBJECT:</b>	<b>TREASURY MANAGEMENT STRATEGY STATEMENT 2026/27</b>
<b>PORTFOLIO HOLDER(S):</b>	<b>CLLR ROBIN WILLIAMS – DEPUTY LEADER &amp; PORTFOLIO HOLDER – FINANCE &amp; CORPORATE BUSINESS AND CUSTOMER EXPERIENCE</b>
<b>LEAD OFFICER(S):</b>	<b>R MARC JONES, DIRECTOR OF FUNCTION (RESOURCES) / SECTION 151 OFFICER</b>
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### **Nature and reason for reporting**

To comply with regulations issued under the Local Government Act 2003, CIPFA's Prudential and Treasury Management Codes, the Council is required to produce and publish an annual Treasury Management Strategy Statement (TMSS) before the start of each financial year.

The TMSS sets out all the requirements which must be followed in how the Isle of Anglesey County Council treasury management activities are conducted. This helps to ensure that the Council's investments are secure and sufficiently accessible so that there is enough cash for day-to-day payments as they fall due. The TMSS, as required by the codes, also provides a framework to ensure that the Council's borrowing levels remain prudent and affordable.

Under the Terms of Reference of the Governance and Audit Committee, the Committee has been nominated by the full Council to be responsible for ensuring effective scrutiny of the treasury management strategy and policies. The TMSS will then be considered by the Executive, prior to its approval by the full Council in March 2026.

The Governance & Audit Committee is requested to:-

1. Review the draft TMSS for 2026/27.
2. To forward any comments in respect of the report to the Executive meeting on 24 February 2026, where the report will be discussed.

## TREASURY MANAGEMENT STRATEGY STATEMENT

### ANNUAL INVESTMENT STRATEGY, MINIMUM REVENUE PROVISION POLICY STATEMENT AND TREASURY MANAGEMENT POLICY STATEMENT 2026/27

#### 1. INTRODUCTION

- 1.1 The Treasury Management Strategy Statement (TMSS) 2026/27 provides the framework for day-to-day and medium-term treasury management. It is completed with regard to the CIPFA Prudential Code 2021 and the CIPFA Treasury Code 2021.
- 1.2 The TMSS is a key part of the Council's strategic planning processes to help ensure that the Council is able to achieve its strategic objectives and vision. The Council's strategic circle, below, shows the Council Plan is central to the work of the Council. All the Council's strategic and operational plans must align with the Council Plan to deliver the services and priorities needed to achieve the strategic objectives of the Plan. The circle shows that the Treasury Management Strategy Statement, alongside the Capital Strategy and Medium Term Financial Plan, are the key financial strategies to ensure that the Council's financial resources are managed in line with key legislation and CIPFA requirements and are focused on meeting the priorities of the Council. This helps ensure that the Council's finances are targeted at the right functions and services to achieve the Council's goals.



## **2. BACKGROUND**

### **2.1. CIPFA defines treasury management as:-**

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

- 2.2.** Treasury management involves tasks which ensure that there is enough cash in the Council general account to pay day-to-day bills and the investment of surplus cash, over what is needed in the general account. These investments must be in highly secure accounts, such as UK banks with high credit ratings. The Council prioritises security of its funds, in line with the Codes, and ensures that enough cash is instantly accessible so that the Council is able to pay suppliers, staff and benefits, at the required payment dates. The last consideration is yield, the Council invests to get the highest interest rate possible within the pool of organisations that are secure and meet the criteria in this strategy. The final element of Treasury Management is managing the Council’s loan portfolio, to ensure that the Council’s borrowing is not too high and that the revenue costs of borrowing are affordable.
- 2.3.** The contribution the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will, in effect, result in a loss to the Council’s cash reserves.

## **3. ISLE OF ANGLESEY TREASURY MANAGEMENT POLICY STATEMENT**

- 3.1** In addition to the corporate risk policies, register, actions and monitoring, the Council takes its responsibility for good stewardship of public funds seriously, and all treasury management practices will have protection of public funds engrained. It is impossible to eliminate all risk, but all treasury management activities will be managed to reduce the risk Council funds are exposed to, as follows:-
- 3.1.1** Investment decisions will always prioritise security of the investment first. Liquidity is the second consideration, as the Council needs instant access to enough funds to pay day-to-day payments as they fall due. Finally, the Council will seek to maximise income earned on investments only if the investments are highly secure and if there is sufficient instant access to funds.
- 3.1.2** Bank deposits, or investments in banks or building societies, will only be placed in highly secure banks and building societies with high credit ratings, in line with the criteria included in Appendix 7.
- 3.1.3** Loans to local authorities will be considered after due diligence checks have been completed.
- 3.1.4** Investments in AAA rated money market funds are permitted.
- 3.1.5** The Council will aim to keep a minimum of £10m in instant access accounts, if Council balances are sufficient.
- 3.1.6** The Council is committed to ensuring value for money in its treasury management activities, though within the context of protection of public funds.
- 3.1.7** The Council will internally borrow if there is sufficient cash balances, particularly when interest rates are rising, to reduce or delay interest payable.
- 3.1.8** If there is a borrowing need for eligible purposes, any borrowing should take into account whether rates are likely to rise or reduce in the medium term. Short-term loans should mitigate interest payable if rates are likely to reduce in the short or medium-term, and longer-term loans should be considered if interest rates are forecast to increase in the medium to long-term.

**3.1.9** Treasury management activity supports the achievement of the Council’s key priorities and will be aligned with the Capital Strategy and the Medium Term Financial Plan to ensure that investments are secure, accessible and interest receivable is optimised within secure investments. Borrowing will be based on the requirements of the Capital Strategy 2026/30 and annual programmes, but only if affordable, taking into account the financial scenario at the time and information in the Medium Term Financial Plan, which is updated regularly.

**3.1.10** Setting the Treasury Management Strategy cannot be undertaken in isolation, and consideration must be given to the economic situation as this has an impact on investment interest rates, the cost of borrowing and the financial strength of counterparties.

#### 4. EXTERNAL CONTEXT

**4.1** A full summary of the economic outlook is set out in Appendix 2. Table 1, below, shows the recent Bank of England (BofE) base rate forecasts, inflation and PWLB rates provided by MUFG Corporate Markets:-

**Table 1 – Forecast Bank Base Rate, Inflation and PWLB Rates  
March 2026 to December 2027**

	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
	2026	2026	2026	2026	2027	2027	2027	2027
Bank Rate (%)	3.75%	3.50%	3.50%	3.25%	3.25%	3.25%	3.25%	3.25%
Inflation (BofE – Feb 2026)	3.10%	3.00%	2.70%	2.50%	2.20%	2.00%	2.00%	2.00%
5yr PWLB rate (%)	4.60%	4.50%	4.30%	4.20%	4.10%	4.10%	4.10%	4.10%
10yr PWLB rate (%)	5.20%	5.00%	4.90%	4.80%	4.80%	4.70%	4.70%	4.70%
25yr PWLB rate (%)	5.80%	5.70%	5.60%	5.50%	5.50%	5.40%	5.30%	5.30%
50yr PWLB rate (%)	5.60%	5.50%	5.40%	5.30%	5.30%	5.20%	5.10%	5.10%

**4.2** The BofE’s target inflation, set by the Government, is 2%. During 2025, Consumer Price Index (CPI) rose from its lowest point of 2.7% in September 2024, reaching a peak of 3.8% in September 2025, before falling back to 3.2% in November 2025. The fall in inflation is expected to continue to fall during 2026, reaching the BofE’s target level of 2% by late 2026.

**4.3** At the start of the pandemic, the base rate was reduced to its lowest point at 0.1% in support of the economy. In December 2021, the BofE increased the rate to 0.25%, and then increased the base rate at each meeting of the Monetary Policy Committee (MPC) between 0.25% to 0.75% at its highest increase. In August 2023, the MPC increased the base rate to 5.25%. The rate of 5.25% remained unchanged until 1 August 2024, when the base rate was reduced for the first time since 2020, to 5%, which was also the rate at 30 September 2024. The base rate has since reduced to 3.75%, with further cuts expected during 2026.

**4.4** The Council benefits from a higher base rate for investment of surplus cash, and is forecast to generate around £900k in investment income in 2025/26. However, loans to the Council are more expensive, and the Council has followed a strategy of delaying external borrowing for as long as possible and using Council balances to fund capital expenditure (internal borrowing). However, as the Council has used its reserves to balance the revenue budget and to fund capital expenditure on the Housing Revenue Account (HRA), the level of surplus cash is now reaching a point where internal borrowing can no longer be maintained, and borrowing will need to be externalised.

## 5. THE COUNCIL'S CURRENT BORROWING POSITION

- 5.1 The current position in respect of Public Works Loans Board (PWLB) loans is shown in Table 2 below:-

**Table 2  
PWLB Loans Outstanding**

	<b>Maturity Loans</b>	<b>EIP / Annuity Loans</b>	<b>Total</b>
Balance as at 1 April 2025	£117.546m	£0.144m	£117.690m
Balance as at 31 December 2025	£117.546m	£0.128m	£117.674m
Estimated Loan Balance at 31 March 2026	£117.546m	£0.118m	£117.664m
Average Time to Repayment as at 31 March 2026	18.2 years	4.4 years	14.4 years
Average Interest Rate	5.1%	9.4%	6.3%

- 5.3 Borrowing Salix – Salix is a Welsh Government (WG) organisation which provides interest free loans and, more recently, grants for projects which support the environment and to help public sector bodies in Wales to work towards achieving their net zero target by 2030. The Council had £4.393m of interest free loans outstanding with Salix at 31 December 2024. These loans are repaid over a period of 8 or 10 years, depending on the agreement, with 2 repayments made per year, per loan. These loans have funded LED street lighting, LED lighting in schools and leisure centres and various other sustainable projects.

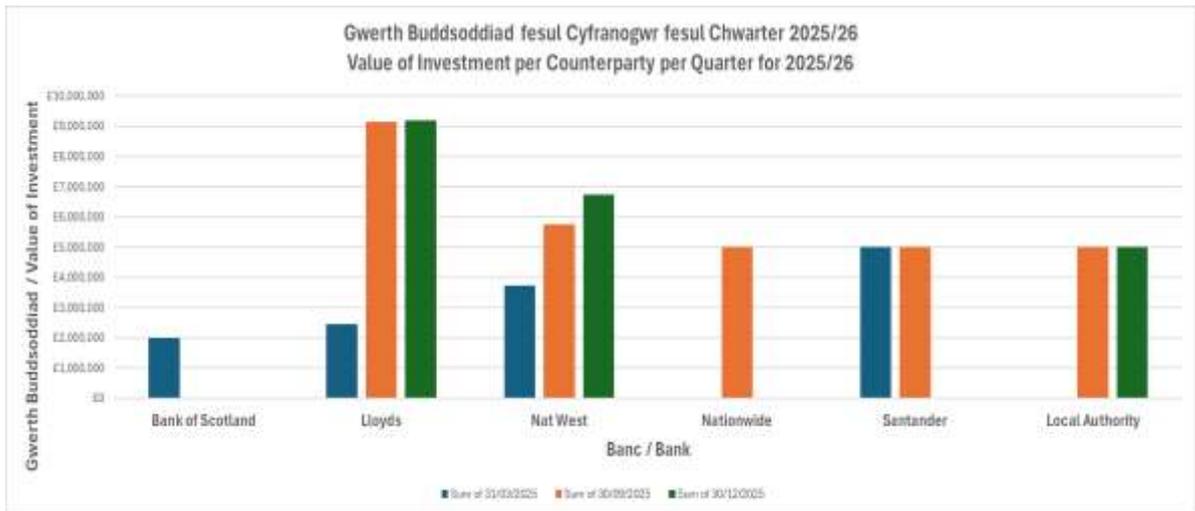
**Table 3 – Salix Loans Outstanding**

	<b>Salix Loans</b>
Balance as at 1 April 2025	£4.393m
Balance as at 31 December 2025	£4.037m
Estimated Loan Balance at 31 March 2026	£3.702m
Average Time to Repayment as at 31 March 2026	4.6 years
Average Interest Rate	0.00%

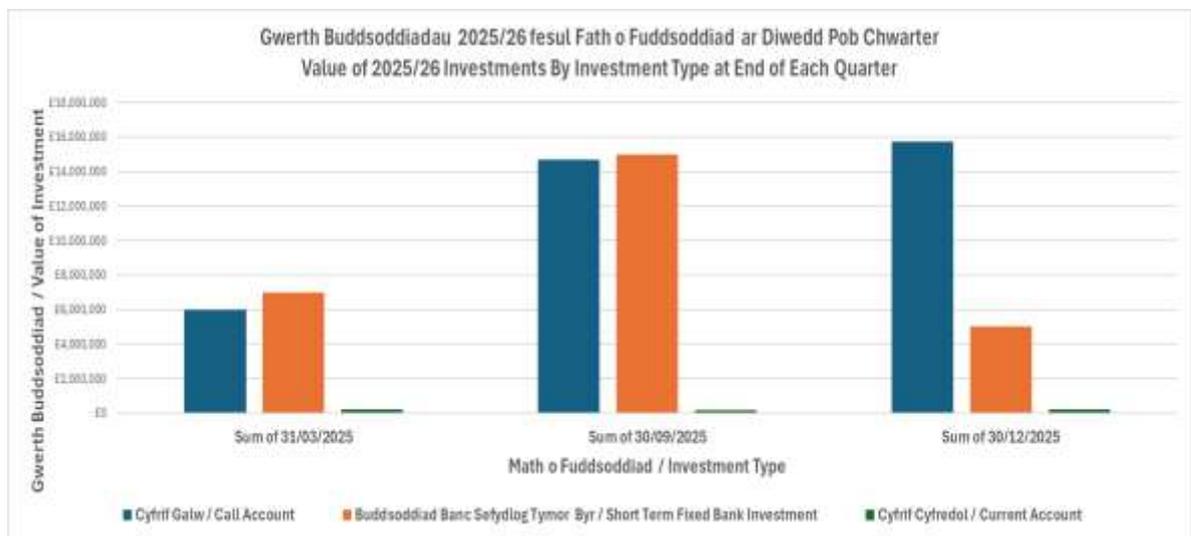
## 6. THE COUNCIL'S INVESTMENT BALANCES AS AT 31 DECEMBER 2025

- 6.1 The total balance of investments at 31 December 2025 was £20.993m, as shown in Chart 1 and 2 below. The yield from these investments from 1 April 2025 to 31 December 2025 was £0.770m, with the total interest receivable on the below listed investments expected to be £0.893m for 2025/26. The interest receivable will be shared on the appropriate basis between the Council Fund, the HRA, schools and external bodies the Council holds funds for, including the Trusts.

**Chart 1 – Investments by Counterparty**



**Chart 2 – Investment by Type**



**7. IMPACT OF FUTURE PLANS ON BORROWING**

**7.1** Capital expenditure is partly funded from borrowing, therefore, the Capital Strategy and this strategy are closely linked. The capital expenditure summary 2025/26 to 2027/28 presents three options for capital expenditure. All three scenarios take into account the work needed on the Council’s assets, or whether replacement assets will be needed. The three options are presented as the:-

**Base case** – this is based on the funding that is currently secured and requires little or no unsupported borrowing, apart from that required for committed schemes.

**Ambitious** – this is a sum based on the base case plus an element of unsupported borrowing, which is considered reasonable and affordable, and allows existing assets to be maintained to an acceptable level to guarantee ongoing future use and to allow the Council’s Plan to be implemented.

**Ideal** - this the sum required to upgrade the Council’s assets to the highest standard and allows all elements of the Council Plan to be implemented. This requires a substantial increase in borrowing, which may not be affordable to the Council.

**7.2** Tables 4a – 4ch, below, shows estimated expenditure and funding for the period 2024/25 to 2029/30 for the 3 scenarios:-

**Table 4a – Actual Capital Expenditure and Funding 2024/25 & Estimated 2025/26**

	Actual 2024/25 £'m	Estimated 2025/26 £'m
Council Fund - excluding Investment Properties	37.258	24.171
HRA	27.468	22.056
Investment Properties	0.000	8.940
<b>Total Expenditure</b>	<b>64.726</b>	<b>55.167</b>
Capital Grants	45.883	34.692
Capital Receipts	1.173	0.497
Reserves & Revenue Contributions	10.817	13.876
Supported Borrowing	4.243	3.797
Unsupported Borrowing	2.491	1.445
Salix Loans	0.119	0.860
<b>Total funding</b>	<b>64.726</b>	<b>55.167</b>

**Table 4b Base Case Expenditure and Funding 2026/27 to 2030/31**

	2026/27 £'m	2027/28 £'m	2028/29 £'m	2029/30 £'m	2030/31 £'m
Council Fund - excluding Investment Properties	14.122	8.845	7.965	7.920	6.547
HRA	41.555	30.337	10.259	9.328	9.792
Investment Properties	10.652	2.000	0.000	0.000	0.000
<b>Total Expenditure</b>	<b>66.329</b>	<b>41.182</b>	<b>18.224</b>	<b>17.248</b>	<b>16.339</b>
Capital Grants	34.839	14.847	5.481	5.481	5.481
Capital Receipts	0.000	0.000	0.000	0.000	0.000
Reserves & Revenue Contributions	15.268	10.121	9.588	9.416	8.404
Supported Borrowing	3.603	2.151	2.151	2.151	2.151
Unsupported Borrowing	12.619	14.063	1.004	0.200	0.303
Salix Loans	0.000	0.000	0.000	0.000	0.000
<b>Total funding</b>	<b>66.329</b>	<b>41.182</b>	<b>18.224</b>	<b>17.248</b>	<b>16.339</b>

**Table 4c – Ambitious Case Expenditure and Funding 2026/27 to 2030/31**

	2026/27 £'m	2027/28 £'m	2028/29 £'m	2029/30 £'m	2030/31 £'m
Council Fund - excluding Investment Properties	16.689	16.351	52.016	55.102	41.431
HRA	45.950	35.819	27.569	26.893	23.294
Investment Properties	10.652	2.200	0.200	0.200	0.200
<b>Total Expenditure</b>	<b>73.291</b>	<b>54.370</b>	<b>79.785</b>	<b>82.195</b>	<b>64.925</b>
Capital Grants	34.865	18.178	22.413	20.271	16.239
Capital Receipts	0.000	0.200	0.200	0.200	0.200
Reserves & Revenue Contributions	14.107	8.929	34.696	34.404	31.222
Supported Borrowing	3.603	3.372	4.764	4.329	4.329
Unsupported Borrowing	20.716	23.691	17.712	22.992	12.936
Salix Loans	0.000	0.000	0.000	0.000	0.000
<b>Total funding</b>	<b>73.291</b>	<b>54.370</b>	<b>79.785</b>	<b>82.195</b>	<b>64.925</b>

**Table 4ch – Ideal Case Expenditure and Funding 2026/27 to 2030/31**

	2026/27 £'m	2027/28 £'m	2028/29 £'m	2029/30 £'m	2030/31 £'m
Council Fund - excluding Investment Properties	22.357	34.470	62.904	77.873	44.776
HRA	45.369	40.040	28.173	27.363	23.647
Investment Properties	10.882	2.330	2.330	2.330	2.330
<b>Total Expenditure</b>	<b>78.608</b>	<b>76.840</b>	<b>93.407</b>	<b>107.567</b>	<b>70.753</b>
Capital Grants	38.665	31.490	28.507	35.878	16.189
Capital Receipts	0.000	0.200	0.200	0.200	0.200
Reserves & Revenue Contributions	14.015	9.406	34.704	34.985	30.890
Supported Borrowing	3.603	3.372	4.764	4.329	4.329
Unsupported Borrowing	22.325	32.372	25.232	32.176	19.145
Salix Loans	0.000	0.000	0.000	0.000	0.000
<b>Total funding</b>	<b>78.608</b>	<b>76.840</b>	<b>93.407</b>	<b>107.567</b>	<b>70.753</b>

**7.3** An important factor to consider is the impact of borrowing on the Council's Capital Financing Requirement (CFR). The CFR is the measure of the Council's underlying borrowing need. Borrowing is not limited to external borrowing from PWLB but also the use of the Council's own cash balances (internal borrowing) which have been used to fund capital expenditure. While internal borrowing saves the Council in interest payable costs, the Minimum Revenue Provision (MRP) is charged on the basis of the underlying borrowing need (the CFR), not the actual borrowing. Table 5, below, shows the CFR for both the Council Fund and the HRA under the 3 scenarios:-

**Table 5 – Capital Financing Requirement**

Base Case	Actual 2024/25 £'m	Estimated 2025/26 £'m	Estimated 2026/27 £'m	Estimated 2027/28 £'m	Estimated 2028/29 £'m	Estimated 2029/30 £'m	Estimated 2030/31 £'m
CFR - Council Fund	114.391	119.486	125.567	127.905	128.727	128.613	129.573
CFR - HRA	37.998	36.895	35.744	47.116	59.834	59.332	57.863
<b>Total CFR</b>	<b>152.389</b>	<b>156.381</b>	<b>161.311</b>	<b>175.021</b>	<b>188.561</b>	<b>187.945</b>	<b>187.436</b>
<b>Net movement in CFR</b>		<b>+ 5.992</b>	<b>+ 4.930</b>	<b>+ 13.710</b>	<b>+ 13.540</b>	<b>-0.616</b>	<b>-0.509</b>
Ambitious Case	Actual 2024/25 £'m	Estimated 2025/26 £'m	Estimated 2026/27 £'m	Estimated 2027/28 £'m	Estimated 2028/29 £'m	Estimated 2029/30 £'m	Estimated 2030/31 £'m
CFR - Council Fund	114.391	119.486	125.567	130.114	134.741	142.620	155.016
CFR - HRA	37.998	36.895	35.744	52.784	72.145	82.313	93.340
<b>Total CFR</b>	<b>152.389</b>	<b>156.381</b>	<b>161.311</b>	<b>182.898</b>	<b>206.886</b>	<b>224.934</b>	<b>248.356</b>
<b>Net movement in CFR</b>		<b>+ 5.992</b>	<b>+ 4.930</b>	<b>+ 21.587</b>	<b>+ 23.988</b>	<b>+18.048</b>	<b>+23.422</b>
Ideal Case	Actual 2024/25 £'000	Estimated 2025/26 £'000	Estimated 2026/27 £'000	Estimated 2027/28 £'000	Estimated 2028/29 £'000	Estimated 2029/30 £'000	Estimated 2030/31 £'000
CFR - Council Fund	114.391	119.486	125.567	132.033	142.649	157.143	177.766
CFR - HRA	37.998	36.895	35.744	52.441	74.331	85.096	96.583
<b>Total CFR</b>	<b>152.389</b>	<b>156.381</b>	<b>161.311</b>	<b>184.473</b>	<b>216.980</b>	<b>242.239</b>	<b>274.349</b>
<b>Net movement in CFR</b>		<b>+ 5.992</b>	<b>+ 4.930</b>	<b>+23.162</b>	<b>+32.507</b>	<b>+25.259</b>	<b>+32.110</b>

7.4 The 3 scenarios detailed above will increase the Council's borrowing with a level of internal borrowing continuing, but the majority of the additional borrowing will be externalised, through the PWLB. The estimated borrowing requirement is shown in Table 6, below:-

**Table 6**  
**External Borrowing 2024/25 to 2030/31**

	Base Case £'m	Ambitious Case £'m	Ideal Case £'m
2024/25 Actual	122.082	122.082	122.082
2025/26 Estimated	131.710	131.710	131.710
2026/27 Estimated	134.235	134.235	134.235
2027/28 Estimated	149.075	157.173	158.781
2028/29 Estimated	163.125	182.070	192.360
2029/30 Estimated	166.003	204.268	222.078
2030/31 Estimated	166.785	230.019	257.013

7.5 Additional borrowing results in additional expenditure charged to the revenue account in the form of additional Minimum Revenue Provision (MRP) charges and additional interest cost. It is, therefore, important to assess the impact of additional borrowing on the revenue account to ensure that the revenue costs remain affordable. The best measure of affordability is to express the capital financing costs as a percentage of the net revenue budget. These are shown in Tables 7a and 7b, below:-

**Table 7a**  
**Revenue Implications of Capital Expenditure and Borrowing – General Fund**

	Net Revenue Expenditure (NRE) £'m	Base Case		Ambitious Case		Ideal Case	
		Estimated MRP & Interest £'m	MRP & Interest to NRE %	Estimated MRP & Interest £'m	MRP & Interest to NRE %	Estimated MRP & Interest £'m	MRP & Interest to NRE %
2026/27	207.02	6.55	3.17	6.55	3.17	6.55	3.17
2027/28	212.20	6.74	3.18	6.90	3.25	7.04	3.32
2028/29	216.44	6.89	3.18	7.30	3.37	7.85	3.63
2029/30	220.77	6.95	3.15	7.87	3.56	8.87	4.02
2030/31	225.19	7.09	3.15	8.69	3.86	10.23	4.54

**Table 7b**  
**Revenue Implications of Capital Expenditure and Borrowing – HRA**

	Net Rental Income (NRI) £'m	Base Case		Ambitious Case		Ideal Case	
		Estimated MRP & Interest £'m	MRP & Interest to NRI %	Estimated MRP & Interest £'m	MRP & Interest to NRI %	Estimated MRP & Interest £'m	MRP & Interest to NRI %
2026/27	24.06	2.38	9.88	2.38	9.88	2.38	9.88
2027/28	25.22	3.10	12.28	3.58	14.17	3.55	14.04
2028/29	26.75	3.85	14.40	4.78	17.68	4.88	18.00
2029/30	27.31	3.94	14.42	5.49	19.70	5.63	20.12
2030/31	28.41	3.99	14.03	6.23	21.28	6.38	21.74

## 8. BORROWING STRATEGY

8.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the CFR) has not been fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent, as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy.

Against this background and the risks within the economic forecast, caution will be adopted with the 2026/27 treasury operations. The Section 151 Officer will monitor interest rates in financial markets and will adopt a pragmatic approach to changing circumstances:-

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.
- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.
- MUFG's long-term (beyond 10 years) forecast is 3%. All PWLB certainty rates are currently significantly above this rate. Therefore, better value can be gained from short-term investments until the bank rates reduce.

## **8.2 External v Internal Borrowing**

**8.2.1** Current conditions indicate a need for a flexible approach to the choice between internal and external borrowing. However, it remains the case that there are certain limitations to externalised borrowing. Careful on-going consideration needs to be given to the difference between borrowing rates and investment rates to ensure the Council obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments.

**8.2.2** In favour of internalisation, over the medium term, investment rates are expected to continue to be below long-term borrowing rates. This means that value for money considerations would indicate that value could best be obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure, or to replace maturing external debt (this is referred to as internal borrowing). This would maximise short term savings.

**8.2.3** However, short term savings, by avoiding new long term external borrowing in 2026/27, must also be weighed against the potential for incurring additional long term extra costs, by delaying unavoidable new external borrowing, as PWLB long term rates are now higher.

**8.2.4** Additionally, the cash flow implications of internalising borrowing require regular review and will limit the potential extent of internalising borrowing. The level of the Council's reserves have fallen during 2025/26, as general fund reserves and school balances have been used to fund revenue budgets, and the HRA reserve has been used to fund capital expenditure. The scope to continue to maintain a high level of internalised borrowing is reducing and is likely to reduce in future years.

## **8.3 Borrowing in Advance of Need**

**8.3.1** The Council will not borrow more than, or in advance of, its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved CFR estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

## **8.4 Debt Rescheduling**

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

**8.4.2** All rescheduling will be reported to the Governance & Audit Committee at the earliest practicable meeting following its action.

## 8.5 Borrowing from other Financial Institutions

The PWLB is the Council's main source of borrowing, with some loans from the WG owned organisation, Salix, for funding of energy efficiency and low carbon projects. The PWLB certainty rate is gilts & 80 basis points (0.8%). Consideration may be given to borrowing from the below:-

- Local authorities;
- UK Municipal Bond Agency – pooled loans;
- Corporate Bonds;
- Money Market Funds.

## 9. DEBT PROFILE

9.1 Appendix 4 shows the maturity information of the Council's borrowing, the existing borrowing is due to be repaid in various years up to 2068/69. The Council aims to ensure that the repayment date is arranged so as to smooth out repayments as far as possible, but priority will be given to the interest rate payable when determining the type of loan (maturity or annuity) and the length of the loan.

9.2 Table 8, below, shows the present value of the future loan repayments discounted at the value of future long term interest rates of 3%:-

**Table 8 – Maturity Profile of PWLB Loans, 31 December 2025**

Number of Years until Loan Matures	Principal £'m	Present Value of Principal £'m	Cumulative %
<1	0.00	0.00	0.00
1 to 3	4.01	3.81	3.29
4 to 6	5.41	4.66	7.74
7 to 10	4.67	3.60	11.58
11 to 14	6.41	4.30	16.84
15 to 22	17.99	10.37	31.62
23 to 33	50.25	21.69	72.91
34 to 50	32.96	9.86	100.00
<b>TOTAL</b>	<b>121.71</b>	<b>58.29</b>	

## 10. INVESTMENT STRATEGY AND CREDITWORTHINESS POLICY

10.1 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The Council aims to have an agile investment strategy appropriate to optimise returns. Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

### 10.2 Management of Risk

The Isle of Anglesey County Council is one of the smallest local authorities in Wales. The Council does not have the large council balances some of the larger authorities hold, though there are larger councils with similar balances or less. Management of risk is the primary consideration for all of the Council's investments.

10.2.1 The Council's investment priorities will be security first, portfolio liquidity second and then yield (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, with the Council's risk appetite being for low-risk investments only.

- 10.2.2** Minimum acceptable **credit criteria** (Appendix 7) are applied to generate a list of highly creditworthy counterparties. This also enables diversification and, thus, avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
- 10.2.3 Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate.
- 10.2.4** Investments can be specified or non-specified (Appendix 7 defines these and provides further information). The Council, in line with its requirement for investing in low risk investments, will only invest in specified investments:-
- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year, or have less than a year left to run to maturity, if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.
  - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year and / or are more complex instruments which require greater consideration by Members and officers before being authorised for use.
- 10.2.5** Lending limits (amounts and maturity) for each counterparty will be set through applying the matrix table, as set out in the Creditworthiness section of this strategy.
- 10.2.6** This Council will set a limit for the amount of its investments which are invested for longer than 365 days (see Appendix 10).
- 10.2.7** The Council will only invest in counterparties outside the UK if the credit ratings are AAA or above and if there are exceptional circumstances, such as the creditworthiness of UK investments are compromised. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** (see Appendix 9).
- 10.2.8** This Council has engaged **external consultants** to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Council in the context of the expected level of cash balances and need for liquidity throughout the year.
- 10.2.9** All investments will be denominated in **sterling**.

### **10.3 Creditworthiness Policy**

- 10.3.1** The primary principle governing the Council's investment criteria is the security of its investments. After this main principle, the Council will ensure that:-
- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.
  - It will only invest in counterparties which have credit ratings as outlined in Appendix 7.
- 10.3.2** As an additional layer to the minimum credit rating criteria described above, this Council also employs the creditworthiness service provided by MUFU.
- 10.3.3** The MUFU creditworthiness service uses a wider array of information than just primary ratings and, by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

- All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the MUFG creditworthiness service. If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

**10.3.4** Significant levels of downgrades to short and long-term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. Accordingly, when setting minimum sovereign debt ratings, the Council will not set a minimum rating for the UK.

## **10.4 Country Limits**

The Council has determined that, with the exception of the UK, it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria, as at the date of this report, are shown in Appendix 8. This list will be added to or deducted from by officers should ratings change, in accordance with this policy. In practice, investments tend to be placed in UK banks for security reasons. The list is included for the unlikely event of there being an exceptional need to invest in highly secure counterparties in other countries. For example, in the event of UK banks losing their creditworthiness and failing the specific Council's counterparties criteria.

## **11. GOVERNANCE AND CONTROL**

**11.1** The Prudential Code reflects a move towards self-regulation for local authorities, and effective corporate governance is one of the key elements to the successful implementation of the Code.

**11.2** Corporate Governance includes the following elements:-

- A formal role for the Section 151 Officer;
- Setting and monitoring of Prudential and Treasury Indicators;
- A scheme of delegation and a process of formal approval;
- Reporting on Treasury Management matters to Members.

### **11.3 Role of the Section 151 Officer and Members**

**11.3.1** The Section 151 Officer is responsible for ensuring that matters relating to Treasury Management and Capital Financing are taken into account and reported to the Executive / full Council for consideration, and that procedures are established to monitor performance.

**11.3.2** The Section 151 Officer must ensure that prudential indicators are set and monitored in order to demonstrate the legislative requirement that the Council's financial plans are affordable.

**11.3.3** Members also play an important role in not just authorising the relevant decisions but also in scrutinising treasury management processes, decisions and performance. In order to undertake this role, the CIPFA Treasury Management Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. In order to support the scrutiny role of the members of the Governance & Audit Committee, the Committee's members received training in treasury management, delivered by the appointed treasury management consultants on 14 September 2022. Further training will be arranged when required. The training needs of treasury management officers are regularly reviewed and addressed.

- 11.3.4** The Council officers involved in treasury management activities have comprehensive knowledge and skills for managing the treasury management function. The Section 151 Officer plays a key role in Treasury Management and approves or rejects any investments proposed by the team. The Council also provides training to increase the knowledge and skills for those responsible for management, delivery, governance and decision making.
- 11.3.5** A formal record of the training received by officers central to the Treasury function will be maintained by the Human Resources Team. Similarly, a formal record of the treasury management / capital finance training received by Members will also be maintained by the Head of Democratic Services.
- 11.3.6** The Treasury Management Scheme of Delegation and a fuller explanation of the role of the Section 151 Officer is set out in Appendix 9.

## **12. TREASURY MANAGEMENT ADVICE**

- 12.1** The Council uses MUFG Corporate Markets (formerly called Link Group) as its external treasury management advisors. In accordance with procurement regulations, the Council retendered this service during early 2021, for the period 1 April 2021 to 31 March 2025, with an option to extend for a further two years.
- 12.2** The Council recognises that responsibility for treasury management decisions remains with the organisation at all times, and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers. Final responsibility for treasury management decisions remains with the Council.

## **13. PRUDENTIAL AND TREASURY INDICATORS**

- 13.1** The Prudential and Treasury Indicators set out in Appendix 10 cover affordability, prudence and sets out limits for capital expenditure, external debt, the liability benchmark and the maturity structure of borrowing. It is for the Council to set the Prudential Indicators and it is important to not just consider the indicators for each individual year in isolation but, also, to consider the past performance and the future forecasts. A fuller explanation of the purpose of each indicator is set out in Appendix 10.

## **14. REPORTING**

- 14.1** The Council is required to receive and approve, as a minimum, five main reports each year, which incorporate a variety of policies, estimates and actuals:-
- 1.** Treasury Management Strategy Statement - the first and most important report (this report) is forward looking and covers:-
    - the Treasury Management Strategy (how the investments and borrowings are to be organised), including treasury management indicators;
    - an Investment Strategy (the parameters on how investments are to be managed);
    - a Minimum Revenue Provision (MRP) Policy (how residual capital expenditure is charged to revenue over time);
    - a Treasury Management Policy Statement (definition of the policies and objectives of the treasury management function); and
    - the capital plans (including the associated prudential indicators).
  - 2.** Capital Strategy – this sets out the planned strategy for capital investment for the forthcoming 5 years and highlights the planned outputs, the planned expenditure and how the expenditure is to be funded.

3. Quarter 1 and 3 treasury management monitoring reports - these will update Members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting its objectives or whether any policies require revision. These reports are accepted by the Portfolio Holder for Finance under delegated authority from the Executive.
4. A mid-year treasury management monitoring report – this is similar to the two quarterly reports but is considered by the Governance & Audit Committee and the Executive, prior to being accepted by the full Council.
5. An annual treasury year end report - this is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy. This report is also considered by the Governance & Audit Committee and the Executive, prior to being accepted by the full Council

## **15. CONCLUSION**

- 15.1 In summary, the Treasury Management Strategy Statement for 2026/27 continues the strategy of prudent approach to borrowing in order to limit the revenue implications, and using internal borrowing where cash balances allow. The investment strategy continues the policy of ensuring the security and liquidity of deposits over yield.
- 15.2 It is envisaged that, over the lifetime of the strategy, the continued use of reserves to contribute to fund the revenue budget and the use of the HRA to fund capital expenditure will reduce cash balances significantly. An increased level of borrowing will have to be undertaken in order to fund the Council's capital programme, whilst still maintaining sufficient cash balances to fund liabilities as they fall due.

## The CIPFA Treasury Management in the Public Services: Code of Practice – provided by MUFG Corporate Markets (formerly Link Group)

The key principles of CIPFA's *Treasury Management in the Public Services: Code of Practice (2021 Edition)*, as described in Section 4 of that Code are as follows:-

### Key Principle 1:

Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

### Key Principle 2:

Their policies and practices should make clear that the effective management and control of risks are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds.

### Key Principle 3:

They should acknowledge that the pursuit of value for money in treasury management and the use of suitable performance measures are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that, within the context of effective risk management, their treasury management policies and practices should reflect this.

The Code then goes on to say that:-

“In framing these recommendations, CIPFA acknowledges the difficulties of striving for effective risk management and control, whilst at the same time pursuing value for money. This Code does not seek to be prescriptive about how this issue should be handled, particularly since it covers such a wide variety of organisations. However, where appropriate, the sector specific guidance notes give suitable advice. CIPFA recognises that no two organisations in the public services are likely to tackle this issue in precisely the same manner, but success in this area of treasury management is likely to be viewed, especially in value for money terms, as an indicator of a strongly performing treasury management function.”

“It is CIPFA's view that throughout the public services, the priority is to protect capital rather than to maximise return. The avoidance of all risk is neither appropriate nor possible. However, a balance must be struck with a keen responsibility for public money.”

Accordingly, the Authority will adopt, as part of the standing orders, the following four clauses:-

1. The Authority will create and maintain, as the cornerstones for effective treasury management:-
  - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities; and
  - suitable treasury management practices (TMPs) setting out the manner in which the Authority will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the Policy Statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the Authority. Such amendments will not result in the Authority materially deviating from the Code's key principles.

2. The County Council, Executive Committee and the Governance & Audit Committee will receive reports on the Authority's treasury management policies, practices and activities, including: an annual strategy and plan in advance of the year, a mid-year review report and an annual report after its close, in the form prescribed in the TMPs.

3. The County Council / Executive Committee are responsible for the implementation of the Authority's treasury management policies and practices, in accordance with the Treasury Management Scheme of Delegation. The Section 151 Officer is responsible for the execution and administration of treasury management decisions, who will act in accordance with the Authority's policy statement and TMPs and, if they are a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.
4. The Authority nominates the Governance & Audit Committee to be responsible for ensuring effective scrutiny of treasury management strategy and policies.

## Economics and Interest Rate update -produced by MUFG Corporate Markets (formerly Link Group)

### 1. Economics update

- The third quarter of 2025/26 saw:-
  - A -0.1% m/m change in real Gross Domestic Produce (GDP) in October, leaving the economy no bigger than at the start of April.
  - The 3myr rate of average earnings growth excluding bonuses fall to 4.6% in October, having been as high as 5.5% earlier in the financial year.
  - Consumer Price Index (CPI) inflation fall sharply from 3.6% to 3.2% in November, with core CPI inflation easing to 3.2%.
  - The Bank of England cut interest rates from 4.00% to 3.75% in December, after holding in November.
  - The 10-year gilt yield fluctuate between 4.4% and 4.7%, ending the quarter at 4.5%.
- From a GDP perspective, the financial year got off to a bumpy start, with the 0.3% m/m fall in real GDP in April, as front-running of US tariffs in Q1 (when GDP grew 0.7% on the quarter) weighed on activity. Despite the underlying reasons for the drop, it was still the first fall since October 2024 and the largest fall since October 2023. However, the economy surprised to the upside in May and June so that quarterly growth ended up 0.3% q/q (subsequently revised down to 0.2% q/q). Nonetheless, the 0.0% m/m change in real GDP in July, followed by a 0.1% m/m increase in August and a 0.1% decrease in September will have caused some concern (0.1% q/q). October's disappointing -0.1% m/m change in real GDP suggests that growth slowed to around 1.4% in 2025 as a whole.
- Sticking with future economic sentiment, the composite Purchasing Manager Index (PMI) for the UK rose from 51.2 in November to 52.1 in December, suggesting the economy may be benefitting somewhat from pre-Budget uncertainty fading. This may also reflect a diminishing drag from weak overseas demand. While the services PMI rose from 51.3 to 52.1, the improvement in the manufacturing output balance from 50.3 to 51.8 was larger. Indeed, the manufacturing sector has been more exposed to the recent weakness of external demand and has lagged the services sector since the end of last year.
- Turning to retail sales volumes, and the 1.5% year-on-year rise in September, accelerating from a 0.7% increase in August, marked the highest gain since April. Nonetheless, the 0.1% m/m fall in retail sales volumes in November built on the 0.9% m/m drop in October, suggesting the longer-lasting effects of weak employment and slowing wage growth are impacting. Moreover, the decline in the GfK measure of consumer confidence from -17 in October to -19 in November suggests that consumers are not that optimistic at present.
- Prior to the November Budget, the public finances position looked weak. The £20.2 billion borrowed in September was slightly above the £20.1 billion forecast by the Office for Budget Responsibility (OBR). For the year to date, the £99.8 billion borrowed is the second highest for the April to September period since records began in 1993, surpassed only by borrowing during the COVID-19 pandemic. The main drivers of the increased borrowing were higher debt interest costs, rising government running costs, and increased inflation-linked benefit payments, which outweighed the rise in tax and National Insurance contributions.
- Following the 26 November Budget, the OBR calculated the net tightening in fiscal policy as £11.7bn (0.3% of GDP) in 2029/30, smaller than the consensus forecast of £25bn. It did downgrade productivity growth by 0.3%, from 1.3% to 1.0%, but a lot of that influence was offset by upgrades to its near-term wage and inflation forecasts. Accordingly, the OBR judged the Chancellor was going to achieve her objectives, with £4.2bn to spare. The Chancellor then chose to expand that headroom to £21.7bn, up from £9.9bn previously.
- Moreover, the Chancellor also chose to raise spending by a net £11.3bn in 2029/30. To pay for that and the increase in her headroom, she raised taxes by £26.1bn in 2029/30. The biggest revenue-raisers were the freeze in income tax thresholds from 2028/29 (+£7.8bn) and the rise in National Insurance contributions (NICs) on salary-sacrifice pension contributions (+£4.8bn). The increase in council tax for properties worth more than £2.0m will generate £0.4bn.

- After the Budget, public net sector borrowing of £11.7bn in November was comfortably below last November's figure of £13.6bn, and was the lowest November borrowing figure since 2021, mainly due to tax receipts being £5.4bn higher, largely because of the hike in employer NICs in April 2025. Cumulative borrowing in the first eight months of 2025/26 was still £10bn above last year's total. However, lower inflation and a disposal of assets ahead of the Budget should mean borrowing in 2025/26 comes in below last year's total.
- The weakening in the jobs market looked clear in the spring. May's 109,000 m/m fall in the PAYE measure of employment was the largest decline (barring the pandemic) since the data began, and the seventh in as many months. The monthly change was revised lower in five of the previous seven months too, with April's 33,000 fall revised down to a 55,000 drop. More recently, the 38,000 fall in payroll employment in November was the tenth monthly decline in the past 13 months, causing the annual growth rate to slow further, from -0.5% to -0.6%. The number of job vacancies in the three months to November 2025 stood at 729,000 (the peak was 1.3 million in spring 2022) but the less reliable Labour Force Survey data showed that employment fell by 16,000 in the three months to October, with the unemployment rate rising further, from 5.0% to 5.1%. All this suggests the labour market continues to loosen, albeit at a slow pace.
- A looser labour market is driving softer wage pressures. The 3myy growth rate of average earnings, including bonuses, eased from 4.9% in September to 4.7% in October. And excluding bonuses, the 3myy rate slowed from 4.7% to 4.6%. Regular private sector pay growth continued to slow from 4.2% to 3.9%. That left it broadly on track to meet the Bank's end of December prediction of 3.5%.
- CPI inflation fell sharply in November, easing from 3.6% in October to 3.2%. This was the third consecutive softer-than-expected inflation outturn and suggests that disinflation is well underway. There was a widespread easing in price pressures, with inflation slowing in 10 of the 12 main categories. Core inflation fell from 3.4% to 3.2% and services inflation dipped from 4.5% to 4.4%. However, a great deal will depend on the adjustments to regulated and indexed prices scheduled for next April. Capital Economics forecast CPI inflation to drop from 3.2% in March to 2.0% in April, thereby leaving inflation on track to settle at the 2.0% target, or below, by the end of 2026.
- An ever-present issue throughout recent months has been the pressure being exerted on medium and longer dated gilt yields. The yield on the 10-year gilt moved sideways in the second quarter of 2025, rising from 4.4% in early April to a high of c4.8%, before ending June at 4.50%.
- More recently, the yield on the 10-year gilt rose from 4.46% to 4.60% in early July, as rolled-back spending cuts and uncertainty over Chancellor Reeves' future raised fiscal concerns. Although the spike proved short lived, it highlighted the UK's fragile fiscal position. In an era of high debt, high interest rates and low GDP growth, the markets are now more sensitive to fiscal risks than before the pandemic. During August, long-dated gilts underwent a particularly pronounced sell-off, climbing 22 basis points (bps) and reaching a 27-year high of 5.6% by the end of the month. While yields have since eased back, the market sell-off was driven by investor concerns over growing supply-demand imbalances, stemming from unease over the lack of fiscal consolidation and reduced demand from traditional long-dated bond purchasers like pension funds. For 10-year gilts, by late September, sticky inflation, resilient activity data and a hawkish Bank of England kept yields elevated over 4.70% although, subsequently, gilt yields fell back after the Budget, supported by a tighter fiscal plan, fewer tax hikes required following a smaller-than-expected downgrade to the OBR's fiscal forecast, and a favourable shift in bond issuance away from long-dated debt. Gilt yields hovered around 4.5% at the end of the quarter.
- The FTSE 100 fell sharply following the "Liberation Day" tariff announcement, dropping by more than 10% in the first week of April - from 8,634 on 1 April to 7,702 on 7 April. However, the de-escalation of the trade war coupled with strong corporate earnings led to a rapid rebound starting in late April. As a result, the FTSE 100 ended June at 8,761, around 2% higher than its value at the end of March, and more than 7% above its level at the start of 2025. Since then, the FTSE 100 has enjoyed a further significant jump in value. The stock market hit new record highs above 9,900 in mid November, driven by a global rebound on hopes of a US government-shutdown resolution, expectations of a December rate-cut, and strong corporate earnings. Despite some jitters around Budget time, the FTSE 100 closed Q4 at 9,931, 5% higher than at the end of September and 22% higher since the start of 2025.

## Monetary Policy Committee (MPC) meetings: 8 May, 19 June, 7 August, 18 September, 6 November, 18 December 2025

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

## 2. Interest rate forecasts

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

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

- *Our last interest rate forecast update was undertaken on 11 August. Since then, a combination of tepid growth (0.2% q/q GDP for Q2 and 0.1% q/q GDP for Q3), falling inflation (currently CPI is 3.2%), and a November Budget that will place more pressure on the majority of households' income, has provided an opportunity for the Bank of England's Monetary Policy Committee to further reduce Bank Rate from 4% to 3.75% on 18 December.*
- *Surprisingly to most market commentators, the recent steep fall in CPI inflation in one month, from 3.6% to 3.2%, did not persuade most "dissenters" from the November vote (Lombardelli, Greene, Mann and Pill) to switch to the rate-cutting side of the Committee. Instead, it was left to Bank Governor, Andrew Bailey, to use his deciding vote to force a rate cut through by the slimmest of margins, 5-4.*
- *Given the wafer-thin majority for a rate cut, it was not unexpected to hear that, although rates would continue on a "gradual downward path", suggesting a further rate cut or cuts in the offing, MPC members want to assess incoming*

evidence on labour market activity and wage growth. Indeed, with annual wage growth still over 4.5%, the MPC reiterated that the case for further rate cuts would be “a closer call”, and Governor Bailey observed there is “limited space as Bank Rate approaches a neutral level”.

- Accordingly, the MUFG Corporate Markets forecast has been revised to price in a rate cut in Q2 2026 to 3.5%, likely to take place in the wake of a significant fall in the CPI inflation reading from 3% in March to 2% in April (as forecast by Capital Economics), followed by a short lull through the summer whilst more data is garnered, and then a further rate cut to 3.25% in Q4.
- As in August, nonetheless, threats to that central scenario abound. What if wage increases remain stubbornly high? There are, after all, several sectors of the domestic economy, including social care provision and the building/construction industries, where staff shortages remain severe. Moreover, by May 2026, following the local elections, we will have a better handle on whether or not the Starmer / Reeves team is going to see out the current Parliament or whether they face a Leadership challenge from within their own party. If so, how will gilt markets react to these variables...and will there be additional geo-political factors to also bake in, particularly the Fed’s monetary policy decisions in 2026 and the ongoing battle to lower rates whilst inflation remains close to 3%.
- Accordingly, our updated central forecast is made with several hefty caveats. We are confident, as we have been for some time, that our forecast for Bank Rate and the 5-year PWLB Certainty Rate is robust, and we have marginally brought forward the timing of the next rate cut(s). But, for the 10-, 25- and 50-years part of the curve, the level of gilt issuance, and the timing of its placement, will be integral to achieving a benign trading environment. That is not a “given” and, additionally, the inflation outlook and political factors domestically and, crucially, in the US, are also likely to hold sway. Matters should be clearer by June in the UK, but the US mid-term elections are scheduled for November.
- Our revised PWLB rate forecasts are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012. Please note, the lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 for those authorities with an HRA (standard rate minus 60 bps) and is set to prevail until at least the end of March 2026. Hopefully, there will be a further extension to this discounted rate announced in January.
- Money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.

### Gilt yields and PWLB rates

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, but the risks to our forecasts are generally to the upsides. Our target borrowing rates are set **two years forward** (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below: -

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

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

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

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

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

Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

## PWLB Loans Repayment Dates at 31 December 2025

Financial Year	Maturity	Rate	Total
2026/27	01/04/2026	3.67	527,601
	30/09/2026	8.63	853,800
<b>2026/27 Total</b>			<b>1,381,401</b>
2027/28	01/04/2027	3.73	490,601
	19/08/2027	5.20	1,000,000
	30/09/2027	7.00	674,502
<b>2027/28 Total</b>			<b>2,165,103</b>
2028/29	01/03/2029	9.50	13,920
	01/04/2028	3.80	262,440
<b>2028/29 Total</b>			<b>276,360</b>
2029/30	01/04/2029	3.85	684,697
	01/09/2029	9.25	5,182
	06/06/2029	9.13	800
		9.25	4,087
		9.38	4,132
	06/12/2029	9.25	9,126
	09/05/2029	9.25	2,724
	30/09/2029	8.63	853,800
<b>2029/30 Total</b>			<b>1,564,547</b>
2030/31	01/03/2031	9.25	6,295
	01/04/2030	3.91	450,706
	01/09/2030	9.25	4,382
		9.75	6,838
	06/12/2030	9.63	1,675
		9.75	6,222
	09/05/2030	9.38	6,755
	09/11/2030	9.75	3,799
<b>2030/31 Total</b>			<b>486,672</b>
2031/32	01/04/2031	3.96	660,449
	30/09/2031	8.63	1,280,700
<b>2031/32 Total</b>			<b>1,941,149</b>
2032/33	01/03/2033	9.88	1,074
	01/04/2032	4.01	314,886
	06/06/2032	9.25	22,319
	06/12/2032	9.50	28,420
<b>2032/33 Total</b>			<b>366,700</b>
2033/34	01/04/2033	4.05	636,565
<b>2033/34 Total</b>			<b>636,565</b>
2034/35	01/04/2034	4.09	623,834
<b>2034/35 Total</b>			<b>623,834</b>
2035/36	01/04/2035	4.13	611,357
<b>2035/36 Total</b>			<b>611,357</b>
2036/37	01/04/2036	4.16	599,130
<b>2036/37 Total</b>			<b>599,130</b>

Financial Year	Maturity	Rate	Total
2037/38	01/04/2037	4.18	587,147
<b>2037/38 Total</b>			<b>587,147</b>
2038/39	01/04/2038	4.20	225,467
<b>2038/39 Total</b>			<b>225,467</b>
2039/40	15/04/2039	4.95	5,000,000
<b>2039/40 Total</b>			<b>5,000,000</b>
2040/41	15/04/2040	4.95	3,500,000
<b>2040/41 Total</b>			<b>3,500,000</b>
2042/43	01/04/2042	4.25	999,781
<b>2042/43 Total</b>			<b>999,781</b>
2043/44	01/04/2043	4.25	1,020,120
<b>2043/44 Total</b>			<b>1,020,120</b>
2044/45	01/04/2044	4.25	1,009,718
<b>2044/45 Total</b>			<b>1,009,718</b>
2045/46	01/04/2045	4.25	11,464,215
<b>2045/46 Total</b>			<b>11,464,215</b>
2050/51	16/01/2051	4.15	2,000,000
<b>2050/51 Total</b>			<b>2,000,000</b>
2052/53	09/11/2052	4.55	6,138,400
	11/12/2052	4.25	6,000,000
	12/10/2052	4.55	4,300,000
	19/05/2052	4.05	5,000,000
	20/11/2052	4.20	6,800,000
<b>2052/53 Total</b>			<b>28,238,400</b>
2054/55	06/05/2054	8.38	3,000,000
<b>2054/55 Total</b>			<b>3,000,000</b>
2055/56	15/11/2055	8.00	1,500,000
	15/12/2055	7.88	2,000,000
<b>2055/56 Total</b>			<b>3,500,000</b>
2056/57	10/10/2056	7.88	2,000,000
	15/04/2056	7.13	3,000,000
<b>2056/57 Total</b>			<b>5,000,000</b>
2057/58	15/04/2057	6.88	3,000,000
		7.13	3,000,000
	15/10/2057	6.50	2,512,854
<b>2057/58 Total</b>			<b>8,512,854</b>
2059/60	22/06/2059	4.25	1,763,308
<b>2059/60 Total</b>			<b>1,763,308</b>
2064/65	25/03/2065	2.24	10,000,000
<b>2064/65 Total</b>			<b>10,000,000</b>
2066/67	30/03/2067	2.20	6,200,000
<b>2066/67 Total</b>			<b>6,200,000</b>
2068/69	16/01/2069	2.49	15,000,000
<b>2068/69 Total</b>			<b>15,000,000</b>
<b>Grand Total</b>			<b>117,673,828</b>

**Salix Loans Repayment Dates**

<b>Financial year</b>	<b>Salix Loan Repayments £000</b>
2026/27	658
2027/28	658
2028/29	658
2029/30	580
2030/31	568
2031/32	568
2032/33	347
<b>Total</b>	<b>4,037</b>

**Minimum Revenue Provision (MRP) Policy Statement 2026/27**

The Council is required to pay off an element of the accumulated Council Fund and HRA capital spend funded by borrowing, each year (the Capital Financing Requirement - CFR) through a revenue charge (the Minimum Revenue Provision, MRP).

The Welsh Government (WG) statutory guidance requires the Council to approve a MRP Statement in advance of each year. The guidance also states "if it is ever proposed to vary the terms of the original statement during the year, a revised statement should be put to the Council at that time". A variety of options is provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Policy Statement:-

From 1st April 2022, for all Council Fund and HRA capital expenditure funded by supported and unsupported borrowing (CFR), MRP will be charged on the asset life - annuity method at the Council's average interest rate on all of its loans at the end of each relevant year-end.

Capital expenditure incurred each year will not be subject to a MRP charge until the following financial year or, in some cases, at the discretion of the Section 151 Officer, the year after the asset becomes operational, where the costs incurred on the asset are £5m or higher.

The estimated asset life of the asset would be determined in the year the MRP commences and would not change over the life of the asset. The estimated life periods will be set by the Section 151 Officer, based upon advice received from the relevant officers, and will have regard to statutory requirements and WG guidance in relation to MRP and asset life. Where land is purchased, the asset life will be based on the asset life of the asset placed on the land, which, in the majority of cases, will be 50 years, in line with the asset life for buildings.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. In addition, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

**MRP Overpayments** - Under the MRP guidance, any charges made in excess of the statutory MRP can be made, known as voluntary revenue provision (VRP).

The Council retains the right to make additional VRP to reduce debt if deemed prudent for the Council Fund and / or the HRA

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

Cumulative VRP overpayments made to date are £0.216m and £12.386m from the over-provision of MRP following the change in MRP policy in 2018, less £1.402m under-provision in 2025/26.

**Leased Assets into the Authority**

MRP in respect of right of use assets leased into the Council or private initiative finance (PFI) will, from 1 April 2024, be charged at an amount equal to the principal element of the annual repayment.

**Capitalisation Directive**

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

**Loans to Third Parties**

In the exceptionally rare event of the Council providing a loan to a third party. For capital expenditure on loans to third parties where the principal element of the loan is being repaid in annual instalments. The capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP. Where no principal repayment is made in a given year, MRP will be charged at a rate in line with the life of the assets funded by the loan.

## Specified and Non-Specified Investments

The Welsh Government 'Guidance on Local Government Investments' (the Guidance) (effective from 1 April 2010) provides the definition of specified and non-specified investments.

Paragraph 5.1 of the Guidance states that an investment is specified if all of the following apply:-

- (a) the investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling; and
- (b) the investment is not a long-term investment (\*); and
- (c) the making of the investment is not defined as capital expenditure by virtue of regulation 20(1)(d) of the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 [SI 3239 as amended]; and
- (ch) the investment is made with a body or in an investment scheme of high credit quality (\*\*); or with one of the following public-sector bodies:-
  - (i) the United Kingdom Government;
  - (ii) a local authority in England or Wales (as defined in Section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland;
  - (iii) a parish or community council.

The Guidance also states that any investment not meeting the definition of paragraph 5.1 is classified as a non-specified investment.

During 2025/26, the Council does not intend to make any investments in foreign currencies, nor any with low credit quality bodies, nor any that are defined as capital expenditure by legislation (such as company shares). Non-specified investments will, therefore, be limited to (i) long-term investments; and (ii) deposits with the Council's own banker for transactional purposes if it fails to meet the basic credit criteria; in this instance, balances will be minimised as far as is possible

The table in Appendix 7 sets out the investment criteria and limits for the categories of investments intended for use during 2025/26 and, therefore, form the basis for the approved lending list.

Any proposed revisions or amendments during the year to the categories of specified and non-specified investments to be used and / or to the associated credit rating criteria / investment limits will be subject to prior approval by the County Council.

\* Section 2.4 of the 'Guidance' defines a long term investment as "any investment other than (a) one which is due to be repaid within 12 months of the date on which the investment was made or (b) one which the local authority may require to be repaid within that period."

\*\* For the purposes of high credit quality the 'Guidance' states that "for the purposes of paragraph 5.1(d), Welsh ministers recommend that the Strategy should define high credit quality (and where this definition refers to credit ratings, paragraph 6.1 (\*\*\*) is relevant)."

\*\*\* Paragraph 6.1 of the 'Guidance' recommends that "the Strategy should set out the authority's approach to assessing the risk of loss of investments, making clear in particular: (a) to what extent, if any, risk assessment is based upon credit ratings issued by one or more credit rating agencies; (b) where credit ratings are used, how frequently credit ratings are monitored and what action is to be taken when ratings change; and (c) what other sources of information on credit risk are used, additional to or instead of credit ratings." The table in Appendix 8 of this strategy sets out what this Council defines as high credit quality and the associated investment criteria and limits and section 7.3 of this strategy sets out the Council's creditworthiness approach.

## Counterparty Criteria – Investments

Category	Short Term Credit Rating (Fitch)	Short Term Credit Rating (Moody's)	Short Term Credit Rating (Standard & Poor's)	Long Term Credit Rating (Fitch)	Long Term Credit Rating (Moody's)	Long Term Credit Rating (Standard & Poor's)	Cash Limit	Time Limit
Bank and Building Societies (not nationalised or part nationalised)	F1+	P-1	A-1+	AAA	Aaa	AAA	£10m	5 years
	F1+	P-1	A-1+	AA	Aa2	AA	£10m	3 years
	F1+	P-1	A-1+	AA-	Aa3	AA-	£10m	364 days
	F1	P-1	A-1	A	A2	A	£7.5m	6 months
Nationalised / Part Nationalised UK Banks	n/a	n/a	n/a	n/a	n/a	n/a	£10m	364 days
NatWest Bank business account and cash manager – when amounts are held in the NatWest as part of operational banking. The following amounts and limits will apply to ensure adequate cash is available to pay bills as they fall due.	n/a	n/a	n/a	n/a	n/a	n/a	£20m to £25m	5 working days
							£15m to £20m	2 months
							£10m to £15m	364 days
							Up to £10m	No limit
UK Central Government (irrespective of credit rating)	n/a	n/a	n/a	n/a	n/a	n/a	No maximum	No limit
UK Local Authorities*	n/a	n/a	n/a	n/a	n/a	n/a	£10m	364 days
Money Market Funds	n/a	n/a	n/a	AAA	AAA	AAA	£5m	6 months

\*as defined in the Local Government Act 2003

### **Notes and Clarifications**

#### **(1) Cash Limit**

- (i) The cash limits apply both to the individual counterparty and to the overall group to which it belongs (e.g. for the banks within the Lloyds Banking Group plc (being Bank of Scotland plc and Lloyds Bank plc), the investment limit applies to those banks individually and the banking group as a whole);
- (ii) The overall cash limit for deposits over 364 days is £15m.

#### **(2) Time Limit**

- (i) This up to and including the period indicated.

#### **(3) Foreign Countries**

- (i) Investments in foreign countries will be limited to those that hold a sovereign credit rating of (Fitch) AA- or equivalent (from the agencies referred to in section 4.3 of this strategy) (based upon the lowest common denominator), and to a maximum of £10m per foreign country.
- (ii) Investments in countries whose lowest sovereign rating is not AA or above, will not be permitted. No country limit will apply to investments in the UK, irrespective of the sovereign credit rating.
- (iii) Subsidiaries of foreign banking groups will normally be assessed according to the country of domicile of the parent organisation. However, Santander UK plc (a subsidiary of Spain's Banco Santander) will be classed as a UK bank due to its substantial UK franchises and the arms-length nature of the parent-subsidary relationships.

**(4) Credit Rating Downgrade**

Should a credit rating downgrade place a counterparty below the minimum credit rating criteria for investment, the counterparty will cease to be used as soon as practicable.

If the Section 151 Officer wishes to continue investing with that counterparty, approval will be sought from the Chair of the Governance & Audit Committee plus one other member of the Chair's choosing, who both must approve the action. This will then be reported as appropriate at the next available opportunity.

**Approved countries for investments [correct as at 25 November 2025]**

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

***Based on lowest available rating***

AAA

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

AA-

- **U.K.**

## Treasury management scheme of delegation

### (i) County Council

- budget approval;
- approval of the annual Treasury Management Strategy Statement, Annual Investment Strategy and MRP Policy, annual Treasury Management Policy Statement and amendments thereto;
- approval of amendments to the Council's adopted clauses;
- receiving and reviewing monitoring reports on treasury management policies, practices and activities; and
- acting on recommendations received from the Governance & Audit Committee and / or Executive Committee.

### (ii) Executive Committee

- budget consideration;
- approval of the division of responsibilities;
- approval of the selection of external service providers and agreeing terms of appointment;
- receiving and reviewing monitoring reports on treasury management policies, practices and activities and making recommendations to the County Council as appropriate; and
- acting on recommendations received from the Governance & Audit Committee.

### (iii) Governance & Audit Committee

- Scrutiny of Treasury Management matters, as required by CIPFA's Code of Practice on Treasury Management and the Council's Treasury Management Policy. This includes:-
  - scrutinising the annual Treasury Management Strategy Statement, Annual Investment Strategy, Annual MRP Policy, Annual Treasury Management Policy and Treasury Management Practices and making recommendations to the Executive Committee and County Council as appropriate;
  - scrutinising proposals for amendments to the annual Treasury Management Strategy Statement, Annual Investment Strategy, Annual MRP Policy, Annual Treasury Management Policy and Treasury Management Practices and to the adopted clauses and making recommendations to the Executive and County Council as appropriate;
  - receiving and scrutinising any other proposals relating to treasury management which require a decision by the Executive or County Council; and
  - receiving and scrutinising the Treasury Management mid-year report and Treasury Outturn report, monitoring reports on treasury management policies, practices and activities and make recommendations to the Executive and County Council as appropriate.

## The Treasury Management role of the Section 151 Officer

### The Section 151 (responsible) Officer's role includes:-

- recommending clauses, treasury management policy / practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;

- responsibility for the execution and administration of its treasury decisions, including decision on borrowing, investment and financing, have been delegated to the Section 151 Officer, who will act in accordance with the Council's policy statements and Treasury Management Practices (TMPs);
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe;
- ensuring that the capital strategy is prudent, sustainable and affordable in the long term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the Authority;
- ensure that the Authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the Authority does not undertake a level of investing which exposes the Authority to an excessive level of risk compared to its financial resources;
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities;
- provision to Members of a schedule of all non-treasury investments, including material investments in subsidiaries, joint ventures, loans and financial guarantees;
- ensuring that Members are adequately informed and understand the risk exposures taken on by the Authority;
- ensuring that the Authority has adequate expertise, either in house or externally provided, to carry out the above;
- creation of Treasury Management Practices (TMP) which specifically deal with how non-treasury investments will be carried out and managed, to include the following: -
  - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
  - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
  - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
  - Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;
  - Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

## PRUDENTIAL INDICATORS FOR 2026/27 – 2030/31

		2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
		Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
<b>Affordability – Based on the Ambitious Scenario</b>							
	Council Fund	1.52%	3.17%	3.25%	3.37%	3.56%	3.86%
	Housing Revenue Account (inclusive of settlement)	12.61%	9.88%	14.17%	17.68%	19.70%	21.28%
	<b>Total</b>	<b>2.70%</b>	<b>3.86%</b>	<b>4.41%</b>	<b>4.96%</b>	<b>5.37%</b>	<b>5.87%</b>
<b>Prudence</b>							
<b>3</b>	<b>Gross debt and the Capital Financing Requirement (CFR)</b>						
	<i>Is the gross external debt &lt; the CFR for the preceding year plus the estimates of any additional CFR for the current and the next two financial years?</i>	✓	✓	✓	✓	✓	✓
<b>Capital Expenditure – Based on the Ambitious Scenario</b>							
<b>4,5</b>	<b>Estimates of [or actual] capital expenditure</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
	Council Fund	35,268	27,341	18,551	52,216	55,302	41,631
	Housing Revenue Account	22,056	45,950	35,819	27,569	26,893	23,294
	<b>Total</b>	<b>57,324</b>	<b>73,291</b>	<b>54,370</b>	<b>79,785</b>	<b>82,195</b>	<b>64,925</b>
<b>6,7</b>	<b>Estimates of [or actual] Capital Financing Requirement</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
	Council Fund	119,486	125,567	130,114	134,741	142,620	155,016
	Housing Revenue Account	36,895	35,744	52,784	72,145	82,313	93,340
	<b>Total</b>	<b>156,381</b>	<b>161,311</b>	<b>182,898</b>	<b>206,886</b>	<b>224,934</b>	<b>248,356</b>
<b>8</b>	<b>Authorised Limit</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
	General Borrowing	141,710	144,235	167,173	192,070	214,268	240,019
	Other long term liabilities	5,000	5,000	5,000	5,000	5,000	5,000
	<b>Total</b>	<b>146,710</b>	<b>149,235</b>	<b>172,173</b>	<b>197,070</b>	<b>219,268</b>	<b>245,019</b>
<b>9</b>	<b>Operational Boundary</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
	General Borrowing	131,710	134,235	157,173	182,070	204,268	230,019
	Other long term liabilities	5,000	5,000	5,000	5,000	5,000	5,000
	<b>Total</b>	<b>136,710</b>	<b>139,235</b>	<b>162,173</b>	<b>187,070</b>	<b>209,268</b>	<b>235,019</b>



## Information on Prudential & Treasury Management Indicators

### PRUDENTIAL INDICATORS

#### A) Affordability

##### 1 & 2 Ratio of financing costs to net revenue stream

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

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

#### B) Prudence

##### 3 Gross Debt and the CFR

The Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2025/26 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

#### C) Capital expenditure

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

This provides a summary of the Council's capital expenditure. It reflects matters previously agreed and those proposed for the forthcoming financial periods, as set out in the Ambitious Scenario of the Capital Strategy

The extent to which such expenditure is to be financed will influence how the Council's Capital Financing Requirement Indicator will change.

##### 4 & 5 Estimates of Capital Expenditure

This is the forecast Capital Expenditure from 2026/27 to 2030/31, and is based on the Capital Programme for 2026/27 and the Capital Strategy for the subsequent years.

##### 6 & 7 The Council's borrowing need (the Capital Financing Requirement)

Another prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

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

## CH) External Debt

8. **The authorised limit for external debt.** A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under Section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

The Section 151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans and the proposals in the budget report.

9. **The operational boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.
10. **Actual external debt.** The Council has to disclose the closing balance for actual gross borrowing in respect of the financial period just ended, together with the level of other long-term liabilities, and so the actual aggregate level of external debt at the Balance Sheet date.

## TREASURY INDICATORS

11. **Limits for Long Term Treasury Management Investments.** This Indicator is seeking to support control of liquidity risk. The limits should be set with regard to the Council's liquidity needs and also reduce the potential need to have to make early exit from an investment in order to recover funds. The indicator relates solely to the Council's investments for treasury management purposes.
12. **Maturity Structure of Borrowing.** The Council is required to set gross limits on maturities for the periods shown and covers both fixed and variable rate borrowings. The reason being to try and control the Council's exposure to large sums falling due for refinancing.

## Glossary

### **CAPITAL EXPENDITURE**

Capital expenditure is expenditure on the purchase of a non-current asset, which will be used in providing services beyond the current financial year, or expenditure which adds to, and not merely maintains, the value of an existing non-current asset. Examples include: the building of a new school, the purchase of IT equipment, a major refurbishment of a care home.

### **CAPITAL FINANCING**

Funds that are available to pay for capital expenditure. There are various methods of financing capital expenditure, including borrowing, leasing, direct revenue financing, usable capital receipts, capital grants, capital contributions, revenue reserves and earmarked reserves.

### **CAPITAL FINANCING REQUIREMENT (CFR)**

The total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is, essentially, a measure of the Council's underlying borrowing need.

### **CAPITAL PROGRAMME**

The capital schemes the Council intends to carry out over a specific period of time.

### **CAPITAL RECEIPTS**

Capital receipts represent the proceeds from the disposal of land or other non-current assets. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by the Government, but they cannot be used to finance revenue expenditure.

### **CIPFA**

This is The Chartered Institute of Public Finance and Accountancy, the lead professional and regulatory body for local authority accounting.

### **HOUSING REVENUE ACCOUNT (HRA)**

The HRA is a separate account to the Council Fund, and includes the income and expenditure arising from the provision of housing accommodation by the Council.

### **INTEREST RECEIVABLE OR PAYABLE**

The effective interest rate method is used to measure the carrying value of a financial asset or liability measured at cost less accumulated amortisation, and to allocate associated interest income or expense to the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to equal the amount at initial recognition. The effective interest is adjusted to the actual interest payment or receipt through the Movement in Reserves Statement to ensure only actual interest is charged to Council Tax. For financial assets and liabilities carried at cost because the effective rate of interest is the same as the carrying rate of interest, the carrying value is adjusted for accrued interest.

### **MINIMUM REVENUE PROVISION (MRP)**

The minimum amount which must be charged to the revenue account each year in order to provide for the repayment of loans and other amounts borrowed by the Council.

### **NET DEBT**

The Net Debt is the Council's borrowings less cash and liquid resources.

**PUBLIC WORKS LOANS BOARD (PWLB)**

A Central Government Agency which provides loans for one year and / or more to authorities at interest rates only slightly higher than those at which the Government can borrow itself.

**REVENUE EXPENDITURE FUNDED BY CAPITAL UNDER STATUTE (REFCUS)**

Expenditure which can be properly deferred (i.e. treated as capital in nature), but which does not result in, or remain matched with, a tangible asset. Examples of deferred charges are grants of a capital nature to voluntary organisations.

**REVENUE SUPPORT GRANT (RSG)**

A grant paid by Central Government to authorities, contributing towards the general cost of their services.

**SUPPORTED BORROWING**

The Council borrows money to fund part of its capital programme. This borrowing is recognised by Central Government in its calculation of formula funding for the Council.

**TEMPORARY BORROWING**

Money borrowed for a period of less than one year.

**UNSUPPORTED BORROWING**

The Council can borrow additional money to the borrowing supported by Government to finance its capital expenditure as long as it is affordable and sustainable. This power is governed by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code, with which the Council fully complies.