



Treasury Management Strategy 2026-27

Cyngor Bwrdeistref Sirol



1.0 INTRODUCTION

The Council carries out its treasury management activities in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) *Treasury Management in the Public Services: Code of Practice (the 'Code')*. The Code requires the Council to set out the policies and objectives of its treasury management activities and to manage its treasury risks in accordance with the Code.

CIPFA has adopted the following as its definition of treasury management activities:

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

The definition of 'Investments' above includes:

- Treasury Management investments (held for the prudent management of financial affairs), and
- non-Treasury Investments, undertaken as part of a Capital Strategy either in the course of provision of services or held primarily for financial returns, such as commercial property portfolios. These are managed outside of normal treasury management activity.

The Treasury Management Strategy (TMS) has also been written in line with the Welsh Government (WG) Guidance on Local Authority Investments. It requires the Authority to approve an investment strategy before the start of each financial year. This TMS fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the Code and the WG Guidance. In accordance with the WG Guidance, Council would be asked to approve a revised TMS should the assumptions on which it is based change significantly. This might be for example, a large and unexpected change in interest rates, the level of its investment balances, or a material loss in the fair value of a non-financial investment identified as part of the year end accounts preparation and audit process, or a change in Accounting Standards.

Local authorities are required to separately approve a Capital Strategy for capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy includes the Prudential Indicators along with details regarding the Council's non-treasury investments. The Code requires the Council to set a number of Treasury Management Indicators, which are forward looking parameters and enable the Council to measure and manage its exposure to treasury management risks, which are integral to the TMS. The Capital Strategy and TMS should be read in conjunction with each other as borrowing and investments are directly impacted upon by capital plans.

The Council has an integrated TMS where borrowing and investments are managed in accordance with best professional practice, which is assessed either from internal expertise or consultation with our external advisers. The Council will look to borrow

money if needed to either meet short-term cash flow needs or to fund expenditure within the approved capital programme. Any actual loans taken are not generally associated with particular items of expenditure or assets. The Council is exposed to financial risks including the potential loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risks are therefore central to the Council's TMS. Should any of these factors change significantly, a revised TMS will be presented to Council for approval. A half year review of treasury management performance will also be presented to Council for approval as will an annual report for the financial year.

The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the organisation's TMS, Treasury Management Practices (TMPs) and CIPFA's *Standard of Professional Practice on Treasury Management*. Quarterly reports will be presented to Cabinet. The Council nominates the Governance and Audit Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies and regular reports will be presented to the committee for their consideration.

2.0 ECONOMIC CONTEXT

Economic background:

The impact on the UK from the government's Autumn Budget is likely to be one of the major influences on the Council's Treasury Management Strategy for 2026-27. Other influences will include lower short-term interest rates alongside higher medium and longer term rates, modest economic growth, together with ongoing uncertainties around the global economy, stock market sentiment, and ongoing geopolitical issues.

The Bank of England's Monetary Policy Committee (MPC) maintained Bank Rate at 4.00% in November 2025, following a 0.25% cut in August. At the November meeting, five members, including the Governor's deciding vote, supported holding rates steady, while four favoured a further reduction to 3.75%.

The accompanying Monetary Policy Report projected modest economic growth, with Gross Domestic Product (GDP) – a measure of the size and health of the UK's economy - expected to rise by 0.2% in the final calendar quarter of 2025. Annual growth is forecast to ease from 1.4% before improving again later, reflecting the delayed effects of lower interest rates, looser monetary conditions, stronger global activity, and higher consumer spending.

Consumer Price Index (CPI) for the 12 months to November 2025 rose by 3.2%, down from 3.6% for the 12 months to October. Core CPI (excluding energy, food and alcohol) rose by 3.2% in the 12 months to November, down from 3.4% in the 12 months to October.

The Bank of England's November Monetary Policy Report projects inflation to fall from this level to 3.2% by March 2026, before steadily returning to the 2% target by late 2026 or early 2027.

The labour market continues to ease with rising unemployment, falling vacancies and flat inactivity. In the three months to September 2025, the unemployment rate increased to 4.8%, while the employment rate slipped to 75.0% and the inactivity rate held at 21.0%. Pay growth for the same period eased modestly, with total earnings (including bonuses) rising by 4.8% and regular pay up 4.6%. Going forward, the Bank predicts the unemployment rate will increase modestly to around 5.0% by around the end of 2025 before trending downwards at a gradual pace over the rest of the time horizon.

Credit outlook:

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

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

Interest rate forecast:

Arlingclose currently forecasts that the Bank of England's Monetary Policy Committee will continue to reduce Bank Rate through 2025 and 2026, and forecasts a reduction in December to 3.75% and further reductions to 3.25% by mid-2026.

Medium and long-term gilt yields continue to incorporate premia for UK government credibility and global uncertainty. These issues may not be resolved quickly and it is expected that yields will remain higher than would normally be consistent with Bank Rate expectations.

A more detailed economic and interest rate forecast provided by Arlingclose is in Appendix A.

3.0 EXTERNAL DEBT AND INVESTMENT POSITION

At 30 September 2025, the Council held £95.82 million of Long Term Borrowing comprising Public Works Loan Board (central government) at fixed rates and duration, Lender's Option Borrower's Option which may be rescheduled ahead of their maturity of 22 January 2054, and £2.32 million of Salix interest-free loans on a repayment basis, although new Salix loans will no longer be interest free. In addition, the Council had £64.95 million of investments. The external debt and investment position is shown in Table 1 below and more detail is provided in sections 4.0 Borrowing Strategy and 5.0 Treasury Investment Strategy.

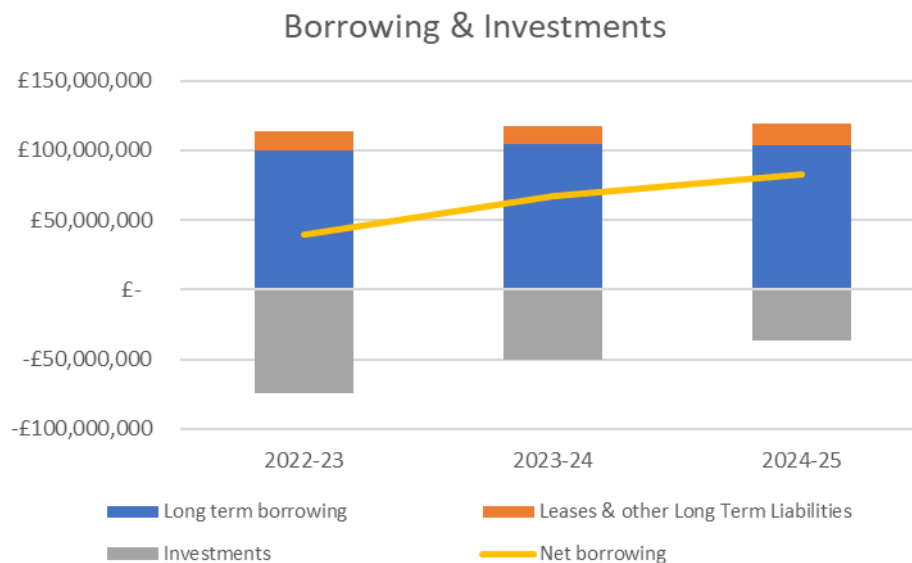
Table 1: Council's external debt and investment position as at 30 September 2025

	Principal as at 30 September 2025 £m	Average Rate 30 September 2025 %
External Long Term Borrowing		
Public Works Loan Board	74.25	4.75
Lender's Option Borrower's Option	19.25	4.65
Salix Loans	2.32	NIL
Total External Long Term Borrowing	95.82	4.73*
Other Long Term Liabilities		
Private Finance Initiative**	11.43	
Other Long Term Liabilities	3.69	
Total Other Long Term Liabilities	15.12	
Total Gross Debt	110.94	
Treasury Investments		
Debt Management Office	33.50	3.96
Money Market Funds (instant access)	23.50	4.06
Banks	7.95	2.72
Total Treasury Investments	64.95	3.77
Net Debt	45.99	

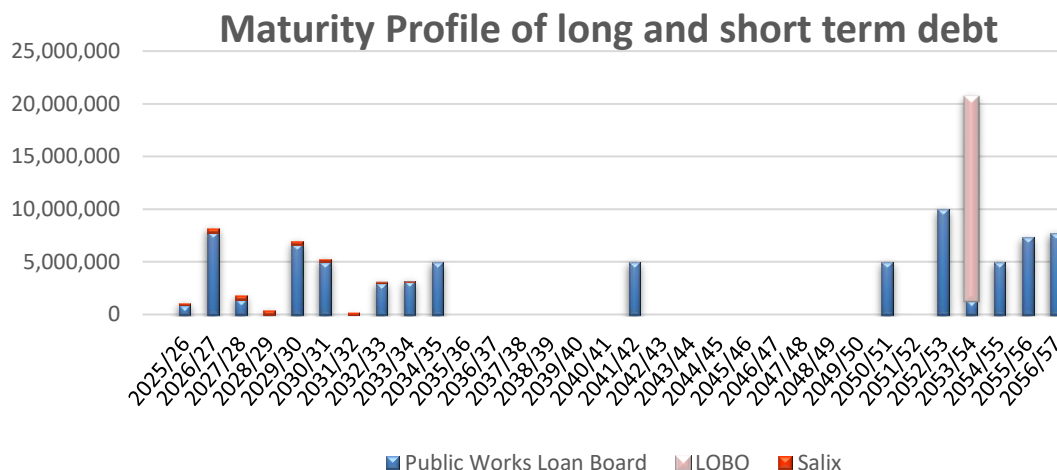
* Excludes Salix loans which are interest free

** the provision of a Secondary School in Maesteg with a remaining term to 30 September 2033

Chart 1 shows debt, investments and net borrowing over the past 3 years. This shows that the level of borrowing has remained relatively stable but investments are falling. This trend is expected to continue as reserves committed against the capital programme and other expenditure are used, and the need to borrow increases.

Chart 1: Borrowing & Investments

The current profile of repayment for the Council's long-term debt is set out in Chart 2 below. The table assumes that the Public Works Loan Board and Lender's Option Borrower's Option loans will be repayable on their maturity date. However, although shown as maturing in 2054 the £19.25 million of Lender's Option Borrower's Option loans may be rescheduled ahead of their maturity date of 22 January 2054.

Chart 2: Maturity Profile of debt

This chart shows that the Council has a good spread of maturing loan dates so that there is no single year where the Council would need to repay or refinance a high loan value.

Table 2 below shows forecast changes in borrowing and investments and has been produced using estimates as at 30 September 2025 of capital spend and forecasts on usable reserves for the current and next three financial years. The Table shows that

the Loans Capital Financing Requirement (CFR), which is the Council's need to borrow to fund capital expenditure, is anticipated to increase from current levels moving forward.

Table 2: Balance sheet summary and forecast

	31 March 2025 Actual £m	31 March 2026 Estimate £m	31 March 2027 Estimate £m	31 March 2028 Estimate £m	31 March 2029 Estimate £m
Capital Financing Requirement	181.11	190.71	206.97	206.20	203.22
Less: Other Debt Liabilities	(15.67)	(14.66)	(13.19)	(11.64)	(9.99)
Loans Capital Finance Requirement	165.44	176.05	193.78	194.56	193.23
Less: External Borrowing	(103.71)	(97.49)	(89.31)	(87.50)	(87.11)
Internal Borrowing	61.73	78.56	104.47	107.06	106.12
Less: Balance Sheet Resources	(108.44)	(81.67)	(61.97)	(48.13)	(44.41)
Add: Liquidity allowance	10.00	10.00	10.00	10.00	10.00
(Investments)/New Borrowing Requirement	(36.71)	6.89	52.50	68.93	71.71
Total forecast borrowing	-	104.38	141.81	156.43	158.82

Other Debt Liabilities include the PFI Maesteg School scheme and other leases required to be recognised as a liability. International Financial Reporting Standard 16 (IFRS16) became effective on 1 April 2024 and requires that leases previously charged to the revenue budget are now recognised as a right of use asset with an equal value liability, where the lease is longer than 12 months and not insignificant. The balance as at 31 March 2026 includes £3.68 million of leases included as a result of the impact of IFRS16. The (Investments)/New Borrowing Requirement line above shows cumulative investments/new borrowing.

The accounting practice followed by the Council requires financial instruments in the accounts (debt and investments) to be measured in a method compliant with International Financial Reporting Standards (IFRS) so these figures will differ from other figures in the TMS which are based on the actual amounts borrowed and invested.

Any surplus borrowing will be invested in line with the investment strategy.

Where a Council finances capital expenditure by borrowing it must put aside revenue resources to repay that debt in later years, known as 'Minimum Revenue Provision' or MRP. The *Local Authority (Capital Finance and Accounting) (Amendment) (Wales) Regulations 2008* requires the Council to produce and approve an Annual Minimum Revenue Provision (MRP) Statement before the start of the financial year that details the methodology for the charge as detailed in the Council's Capital Strategy. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). This is the amount of capital expenditure which is not funded via grants, capital receipts or contributions from revenue and earmarked reserves, so represents the need to borrow. Usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. Short term interest rates have fallen over the last year and are expected to

further reduce in the coming year and it may therefore be more cost effective over the short to medium term to either use internal resources, or to borrow short term, however, the Council may consider long term borrowing over the next year to support the Capital Programme. This strategy is prudent as the Council has resources in the short term it can use and delay borrowing until necessary. It is anticipated that the Council will need to take out new borrowing during 2026-27 both to replace borrowing repaid during the year but also further borrowing to support capital expenditure, however, this is based on the current forecast expenditure within the Capital Programme and the use of capital receipts and earmarked reserves set aside to fund significant schemes. Current forecasts for financing the capital programme estimate the use of £13.281 million of earmarked reserves and £11.994 million of capital receipts during 2025-26, and a further £10.178 million earmarked reserves and £8.469 million for 2026-27. As internal resources are used borrowing will become necessary. Accurate forecasting of capital schemes within the Capital Programme is essential to provide robust information on which to base borrowing decisions. A number of schemes within the capital programme are still in development stages and therefore expenditure is likely to slip. Furthermore, due to significant cost increases in many capital programmes at tender stages there is likely to be a significant impact on the delivery of schemes within the Capital Programme. The need to borrow will also be affected by the addition of any new capital schemes to the Capital Programme that are not fully funded by grant or revenue contributions and requiring debt financing

If the forecasts change and long-term borrowing is not required during 2026-27, it may still be necessary to borrow short term to manage the Council's day-to-day cash flow requirements.

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Authority's total debt should be lower than its highest forecast Capital Financing Requirement (CFR) over the next three years. Table 2 above shows that the Authority expects to comply with this recommendation over this period.

Liability Benchmark

The liability benchmark is a measure of how well the existing loans portfolio matches the Council's planned borrowing needs. The Council's liability benchmark is shown at Chart 3 below. The purpose of the liability benchmark is to compare the Council's existing loans outstanding (the sum of the blue- and orange-coloured sections) against its future need for loan debt – the liability benchmark, which is the brown line on the chart. Where the line is above the blue and orange-coloured sections, this identifies a need for the Council to borrow to fund its capital expenditure, and where the brown line falls below the blue and orange sections, the Council holds more debt than it needs and will be able to invest surplus funds. This assumes the same forecasts as Table 2 above, but that cash and investment balances are kept at a minimum level of £10 million at each year-end to maintain sufficient liquidity but minimise credit risk. CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 3 and Chart 3 below shows that based on current borrowing levels, the Council's future borrowing will be below the liability benchmark, indicating a future

need to borrow to fund capital expenditure. Currently the Council is using internal reserves in the short-term to fund capital expenditure, known as internal borrowing. It should be noted that the use of reserves is a short-term position and as reserves are used for the purpose they were set aside, the need to borrow will become necessary. More detail is provided in the Capital Strategy.

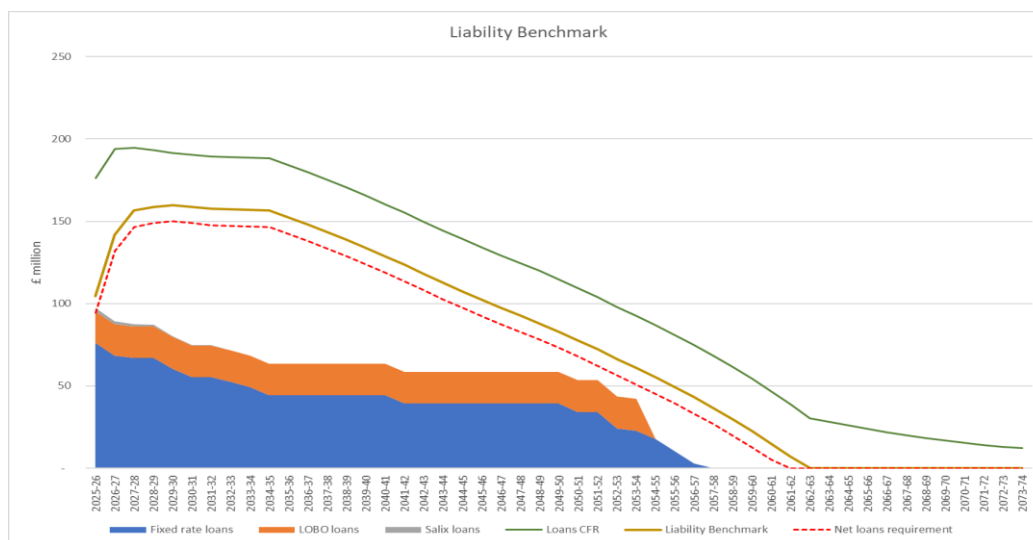
Table 3: Liability benchmark

	31 March 2025 Actual £m	31 March 2026 Estimate £m	31 March 2027 Estimate £m	31 March 2028 Estimate £m	31 March 2029 Estimate £m
Loans Capital Financing Requirement	165.44	176.05	193.78	194.56	193.22
Less: Balance Sheet resources	(108.44)	(81.67)	(61.97)	(48.13)	(44.41)
Net Loans Requirement	57.01	94.38	131.81	146.44	148.81
Add: Liquidity allowance	10.00	10.00	10.00	10.00	10.00
<u>Liability Benchmark</u>	67.01	104.73	142.16	156.79	159.17
<u>Current Borrowing</u>	103.80	92.58	86.53	84.74	84.34

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

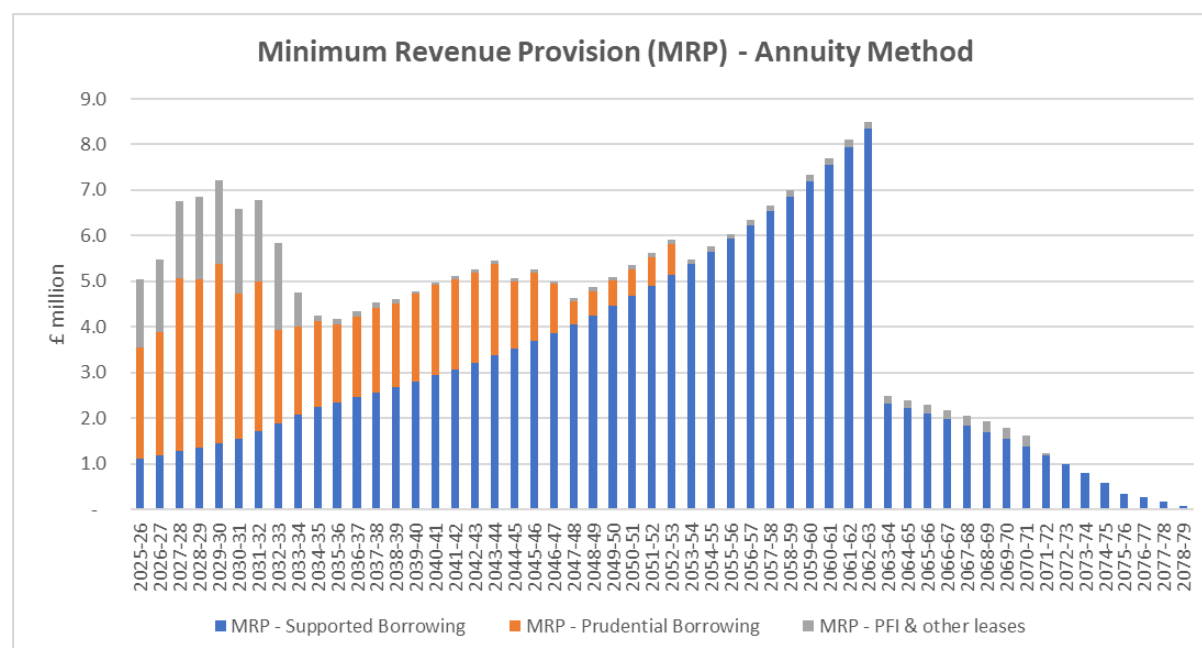
The forecasts in Table 3 above are on the basis that the long-term liability benchmark assumes capital expenditure funded by existing borrowing of £95.82 million and minimum revenue provision on new capital expenditure over a 45-year basis using an annuity method.

The information shown in Table 3 is shown in chart format below over the period of the current debt maturity.

Chart 3: Liability Benchmark

The liability benchmark above is based on current known borrowing as set out in the latest Capital Programme. Adding any new debt-financed schemes will result in **increasing** the loans Capital Financing Requirement, and therefore the net loans requirement and so the need to borrow. This will have the effect of moving the curves in the above graph to the right, and increasing their height, the result of which would be to increase borrowing and therefore increasing the cost of borrowing, which has to be funded via revenue budgets.

Revenue resources are set aside to fund the repayment of debt, known as Minimum Revenue Provision (MRP). Council approved a change to the method for calculating MRP at its October 2024 meeting, from a straight-line basis to an annuity basis. The impact of this is to reduce the amount of MRP set aside in earlier years, increasing annually. This can be considered more prudent as it takes into account the effect of the time value of money, in that £1 today is worth more than £1 in a year's time. Based on existing schemes within the Capital Programme cumulative MRP is forecast to increase on average each year until 2029-30. This includes the repayment of debt on the Maesteg School PFI scheme, which finishes in 2033-34, and other leases under IFRS16. Any new capital schemes funded by debt added during the year will result in additional MRP. The current forecast MRP, PFI and other leases provision is shown in Chart 4 below. Further information can be found in the Capital Strategy.

Chart 4: Minimum Revenue Provision

4.0 BORROWING STRATEGY

As noted in the introduction a key element of Treasury Management is the management of borrowing and the effective control of risks, including those associated with borrowing. The Capital Strategy sets out the Council's intention to fund capital expenditure through borrowing. Any decisions in relation to the Capital Strategy have to properly take account of stewardship, value for money, prudence, sustainability and affordability. The CIPFA Prudential Code for Capital Finance sets out clearly that it is not prudent for authorities to borrow primarily for financial return, and the Public Works Loan Board requires that an authority's Section 151 Officer must confirm when seeking borrowing from them that there is no planned capital expenditure on investment assets primarily for financial return in the current and following 2 financial years. It is not considered prudent for authorities to invest in commercial activities and any borrowing must only be for the purposes of service investment.

Borrowing may be taken in advance of need for cash if it is to reduce financing costs as a result of lower interest rates. Based on the liability benchmark it is likely that the Council will consider more medium-term borrowing if needed for periods up to 10 years rather than much longer term borrowing during 2026-27, however if it is beneficial to borrow long to secure advantageous rates then this will be considered carefully. Any borrowing decisions will be taken in consultation with the Council's treasury advisors.

At 30 September 2025 the Council held £95.82 million of Long-Term Borrowing, £93.50 million of which is fixed long term loans as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in Table 2 above shows that the Council is **currently** forecasting a new borrowing requirement in 2026-27 of £52.50 million with a further requirement in the next two years as detailed in Table 4, however this should be considered in light of the balance sheet forecast

narrative in the section above. It should be noted that the borrowing in Table 4 is borrowing need compared to current borrowing, not incremental need. The incremental borrowing in 2026-27 is £45.61 million to bring the total borrowing need compared to current level to £52.50 million.

Table 4: New Borrowing

	31 March 25 Actual £m	31 March 26 Estimate £m	31 March 27 Estimate £m	31 March 28 Actual £m	31 March 29 Actual £m
New Borrowing	5.00	6.89	52.50	68.93	71.70

The requirement to borrow will need to be monitored on an on-going basis and any new borrowing will be considered alongside any changes in the Capital Programme that may affect the level of borrowing required, and the impact on revenue budgets in line with the Medium Term Financial Strategy, as any new borrowing will have a revenue impact. There is a lot of uncertainty around the requirement for new borrowing, mainly due to the volatility surrounding financial reserves and working capital.

The Section 151 officer will monitor and update the liability benchmark assumptions on an on-going basis and report any significant changes within the treasury management monitoring reports to Cabinet, Governance and Audit Committee and Council as appropriate. This could be as a result of changes in the level of usable reserves at year end, slippage within the Capital Programme or changes within the working capital assumptions.

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

Therefore, the **major objectives** to be followed in 2026-27 are:

- to minimise the revenue costs of debt
- to manage the Council's debt maturity profile i.e. to leave no one future year with a high level of repayments that could cause problems in re-borrowing
- to secure funding, if required, in any one year at the cheapest cost commensurate with future risk
- to monitor and review the level of variable interest rate loans in order to take greater advantage of interest rate movement
- to reschedule debt if appropriate, in order to take advantage of potential savings as interest rates change
- to optimise the use of all capital resources including borrowing, both supported and unsupported, usable capital receipts, revenue contributions to capital and grants and contributions

The **strategy** that will be adopted in 2026-27 will give regard to the key issues below.

Given the significant challenges to public sector budgets and in particular to local government funding to meet service expectations, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term interest rates have fallen over the past year and are expected to fall a little more in the coming year, and it is therefore likely to be more cost effective over the medium-term to either use internal resources, or to borrow short-term instead. However, as noted above, the Council is anticipating a longer term need for borrowing so will consider borrowing over a more medium term duration of up to 10 years. Arlingclose will assist the Council with the cost of carry and breakeven point of borrowing for a longer term to secure rates versus borrowing short term. The Council may borrow additional sums at long-term fixed rates during 2026-27 with a view to keeping future interest costs low, even if this causes additional cost in the short term.

By doing so, the Council is able to reduce net borrowing costs (despite foregoing investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with any assessment of the need to borrow.

The Council has previously raised the majority of its long-term borrowing from the Public Works Loan Board (PWLB). This was the source used the last time the Council took long term borrowing (longer than 364 days) of £5 million in February 2025 for a duration of 18 months. The Council will however consider long term loans from other sources including banks, pension funds and other local authorities if appropriate. The Council will also investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

The Council has loans from PWLB maturing within the next 3 years that it will need to repay. It is anticipated that the Council will need to replace these loans. The value of the loans repayable over the next 3 years are:

Table 5: Value of maturing debt

	2026-27 £ million	2027-28 £ million	2028-29 £ million
Value of maturing debt	7.790	1.395	0.00

The Council can arrange forward starting loans during 2026-27 where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. In addition, the Council may borrow short-term (which can be up to 12 months) to cover unexpected cash flow shortages.

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

- HM Treasury PWLB lending facility (formerly the Public Works Loan Board)
- National Wealth Fund Ltd (formerly UK Infrastructure Bank Ltd)
- any institution approved for investments (see Investment Strategy below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except the Council's Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency and other special purpose companies created to enable local authority bond issues
- retail investors via a regulated peer-to-peer platform

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

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback
- similar asset based finance

The Council has previously raised the majority of its long-term borrowing from the PWLB (currently representing 79.41% of long term debt excluding Salix Loans) but will consider long-term loans from other sources such as Welsh Government and local authority loans and bank loans, which may be available at more favourable rates.

LOBOs: The £19.25 million (currently representing 20.59%) shown in Table 1 above, relates to Lender's Option Borrower's Option (LOBO) loans which have a maturity date of 2054, however, these may be re-scheduled in advance of this maturity date. The LOBO rate and term may vary in the future depending upon the prevailing market rates, the lender exercising their option to increase rates at one of the bi-annual trigger points and therefore the Council being given the option to accept the increase or to repay the loan without incurring a penalty. The current interest rate of these loans is 4.65%. There are two trigger points each year being in July and January. With interest rates falling there is a reducing chance that lenders will exercise their options, however this does not preclude them doing so and therefore an element of refinancing risk remains. In this case the Council would take the option to repay these loans at no cost if it has the opportunity to do so in the future. Total borrowing via LOBO loans will be limited to the £19.25 million.

Short-term and variable rate loans: These loans expose the Council to the risk of short-term interest rate rises should interest rates change.

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption

terms. The Council may take advantage of this and replace some older, higher rate loans with new loans at lower interest rates, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk. Rises in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

Treasury Management Prudential Indicators: The local authority measures and manages its exposures to treasury management risks using the following indicators:

- Maturity Structure of Borrowing (Table 6)
- Principal sums invested for periods longer than a year (Table 8)
- Interest Rate exposures (Table 10)

Maturity structure of borrowing indicator: This indicator is set for the forthcoming financial year to control the Council's exposure to refinancing risk with respect to the maturity of the Council's external borrowing and has been set to allow for the possible restructuring of long-term debt where this is expected to lead to an overall saving or reduction in risk. The indicator is the amount of projected borrowing maturing in each period as a percentage of total projected borrowing. The upper and lower limits on the maturity structure of borrowing are:

Table 6: Treasury Management Indicator Maturity Structure of Borrowing 2026-27

Refinancing rate risk indicator Maturity structure of borrowing 2025-26	Upper limit	Lower limit	Forecast amount at 1 April 2026 £'M	Forecast at 1 April 2026 %
Under 12 months	50%	0%	27.44	29.0%
12 months and within 24 months	25%	0%	1.79	1.9%
24 months and within 5 years	25%	0%	12.62	13.3%
5 years and within 10 years	40%	0%	11.48	12.1%
10 years and within 20 years	50%	0%	5.00	5.3%
20 years and above	60%	25%	36.39	38.4%

The Council seeks to manage its borrowing to ensure that there is not a disproportionate level of repayment in any one year so as to ensure the Council can reasonably manage its annual cash flows. When considering new borrowing the Council will look at duration both in terms of cash need and in relation to the maturity structure of existing borrowing.

5.0 TREASURY INVESTMENT STRATEGY

The preparation each year of a Treasury Investment Strategy is central to the Welsh Government Statutory Guidance on Local Authority Investments and the CIPFA code. It encourages the formulation of policies for the prudent investment of the surplus funds that authorities hold on behalf of their communities. In addition, the need for the Strategy to be approved by full Council ensures that these policies are subject to the scrutiny of elected Members.

The Council holds surplus funds representing income received in advance of expenditure plus balances and reserves as shown in Table 1 . Surplus funds are invested in order to achieve a return whilst ensuring the security of the invested amounts. During 2025-26 the Council's investment balances were £36.75 million at the start of the year and were £64.95 million at 30 September 2025, although they will reduce by 31 March 2026. This is based on an assumption regarding the use of earmarked reserves and capital receipts in the final quarter of 2025-26 and does not make any provision for any additional funding received from Welsh Government to 31 March 2026. It is anticipated that the Council's investment balances in 2026-27 will range between £15 million to £30 million with an average investment rate of between 3.0% and 4.0%, depending on the Bank Rate and investment types, based on Arlingclose's interest rate forecast at **Appendix 1**, which will be reviewed at the half year stage and reported to Council as part of the half-year review report. The actual balance varies because of the cash flow during the year in respect of when income is received (such as specific grant income, housing benefits subsidy and Revenue Support Grant) and when payments are made (such as salaries and wages, major capital expenditure and loan repayments).

The Council holds investment properties with a view to securing a financial return, such as rental income. The Council has held these for a number of years. In line with the CIPFA Prudential Code and recent changes to the rules for accessing PWLB borrowing, the Council will not consider any further investment opportunities purely for financial reward. As at 30 September 2025, the Council held investment properties valued at £4.890 million, with an expected return of £0.458 million per annum excluding any vacant or rent-free periods, providing a return of approximately 9.37%. This is a slightly higher percentage than that for 2025-26 which was 9.18%, and is due to the total property fair value - or the estimated current market value of the assets - having decreased from £4.990 to £4.890 million (see Table 11). This return is favourable and, in reviewing these assets, given the low proportion of their value as compared to total assets the Council holds, is not considered unreasonable. The lessees are responsible for maintenance of these assets.

Both the CIPFA Treasury Management in the Public Services: Code of Practice and the Welsh Government Guidance require the Council to invest its funds prudently, have regard to the security and liquidity of its investments whilst also seeking the highest rate of return, or yield. The Council's main objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal to or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. However, this may not always be possible.

The objectives of the Council in order of priority are:

- to maintain capital **security**
- to maintain portfolio **liquidity** so funds are available when expenditure is needed

- to achieve the **yield** on investments commensurate with the proper levels of security and liquidity

Strategy: The Council's investments have historically been placed in mainly short-term bank unsecured deposits and with local and central government. Investments can also be made with any building society or public or private sector organisations that meet the credit criteria detailed below.

Whilst the Council will need to repay some of its long-term debt during 2026-27, there may be a need to take out new debt for the longer term to support the expenditure within the Capital Programme. However, this is very much dependent on the forecast spend therein. Short-term borrowing may be appropriate to manage day-to-day cash flow until such time as longer-term borrowing is needed to finance capital expenditure. In the short-term, should the Council have available cash resources, these will be invested primarily to manage day-to-day cash flow.

Given the increasing risk and relatively low returns of short-term unsecured bank investments, the Council will consider further diversifying into more secure and/or higher yielding asset classes as appropriate, in consultation with the Council's treasury management advisers. The majority of the Council's surplus cash invested as at 30 September 2025 was with the UK Government's Debt Management Office (DMO), Money Market Funds (MMF) and Banks. The Council will continue to look at investment options in line with the limits detailed below.

There has been a slow and gradual reduction to interest rates since they reached their peak of 5.25% in July 2024, with 5 reductions of 0.25% each since then, bringing the current rate to 4.00%. The Council will continue to take a cautious approach to investing to ensure as its primary concern the security of any investments made. The risk of default for investments held is considered negligible. Due consideration will be given to using surplus funds to make early repayments of long-term borrowing if appropriate opportunities become available as referred to in section 4.0 Borrowing Strategy.

ESG Policy: ESG stands for Environmental, Social and Governance. In investing terms, it means the consideration of ESG factors alongside financial factors in the investment decision-making process. An organisation with a high carbon footprint would not score well on environmental impact; one that negatively affects people's health would not score well for social impact; and one without appropriate structures and processes to ensure good corporate decision-making behaviour would not rate highly for governance.

When considering investing its available resources (short-term cash flows), the Council needs to consider the Environmental, Social and Governance implications of decisions to invest. Treasury Management Practice note 1 in the CIPFA Code sets out the following:

'The organisation's credit and counterparty policies should set out its policy and practices relating to environmental, social and governance (ESG) investment considerations. This is a developing area, and it is not implied that the organisation's ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level.'

Many local authorities have declared a climate emergency and Councils are taking steps to reduce their own carbon emissions within their area. The target for the UK is to achieve net-zero by 2050. Some Councils consider 2050 too long and are working towards achieving zero net carbon well ahead of 2050. The Welsh Government published its [Net Zero Strategic Plan](#) back in September 2022 setting out the Welsh Ministers' ambition for the public sector to be collectively net zero by 2030. Local authorities have a huge role to play in terms of alleviating the climate crisis by encouraging greener infrastructure, increased cycle to work schemes, more flexible working and home working to reduce home to work commuting and implementing a range of energy efficiency measures such as solar panels and low carbon heating.

Local authorities are significant providers of social value in their services. The provision of social housing and social care to those in need are key services. Councils are also providers of recreational services such as parks, playgrounds, community land and provide opportunities for healthy living and exercise.

Local Authorities, as public bodies, are accountable for the actions they take and, being in the public eye, look very much to uphold the highest standards of conduct and behaviour, therefore demonstrating strong governance. Decisions must be lawful and based on objectivity and reliable advice where needed. Meeting agendas and minutes are posted to websites and meetings of Council, Cabinet Governance and Audit and Scrutiny are now webcast, increasing transparency and scrutiny of their decision making.

The Council's Treasury Advisors, Arlingclose, provide some information as regards organisations that have signed up to some major ESG-related initiatives, their latest update being October 2025. The Council will consider these organisations when lending monies, though would not limit its decisions to solely these organisations. Local authorities are included as appropriate organisations for ESG purposes. The Council's current bankers, Barclays Group, have signed up to UN Principles for Responsible Banking. The UN Principles support banks to take action to align their core strategy, decision-making, lending and investment within the UN Sustainable Development Goals, and international agreements such as the Paris Climate Agreement. Other banks also signed up that the Council use include: Handelsbanken (through Svenska Handelsbanken) and Lloyds Banking Group (including Bank of Scotland).

Arlingclose have also provided information regarding investment bodies. The Council uses Money Market Funds and the four funds it uses have signed up to the UN Principles for Responsible Investment and UK Stewardship Code 2020. The UN Principles for Responsible Investment provides possible actions for incorporating ESG issues into investment practice. In implementing the principles, organisations contribute to developing a more sustainable global financial system.

The UK Stewardship Code sets high stewardship standards for those investing money on behalf of UK savers and pensioners. Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. The Code applies to asset managers who manage assets on behalf of UK clients or invest in UK assets.

The Council is committed to being a responsible investor. This means recognising the importance of long-term financial health and stability of the financial markets, and to understand that external non-financial factors, such as the environment, social stability and strong governance are key factors to consider. The council is also actively seeking to include an additional Money Market Fund to their portfolio which, although not having a specific sustainable investment objective, shall seek to identify issuers that are better at addressing ESG risks as well as other ESG investment opportunities.

The Council has recognised climate change as a long-term and material risk. The Council declared a climate emergency in June 2020 and set up its Climate Emergency Response programme, which has a commitment to achieve Net Zero carbon emissions by 2030 across its operations. The Council developed its 2030 Net Zero Carbon Strategy, approved by Council on 13 December 2022. It is recognised that the resource challenge faced by all public bodies in Wales to achieve net zero carbon by 2030 is significant.

In terms of its Treasury Management activities, the Council adopts the following commitments:

- Ensure, as far as possible, that its investment parties are committed to the principles of ESG,
- The Council will seek to act with integrity,
- The Council will seek to encourage positive ESG behaviour,
- The Council will comply with any industry standard ESG guidelines that may arise and always seek to ensure best practice in managing its treasury investments.

As noted above, local authorities will, by their very nature, meet ESG requirements. The Council **does not invest in any specific schemes** of any other local authority to which it lends money but lends purely for cash flow purposes. As such it is not intended that any further checking of other local authorities will be undertaken (other than if the advice from our Treasury Advisors is to not invest due to specific financial concerns).

The Money Market Funds that the Council use have also signed up to relevant ESG commitments and so no further checks will be undertaken when using these funds.

The Council will continue to review any updated guidance received from the Council's Treasury Advisors in relation to ESG considerations. This is a developing area for Treasury Management and the Council will continue to monitor progress and develop its policies in line with guidance from both CIPFA and the Council's Treasury Management Advisors.

Business Models: Under IFRS 9 (Financial Instruments), the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore these investments will continue to be accounted for at amortised cost.

Approved counterparties: The Council may invest its surplus funds with any of the counterparty types shown in Table 6 below, subject to the cash limits and the time limits shown. These cash/time limits are per counterparty and relate to principal only and exclude any accrued interest.

Table 6: Approved investment counterparties and limits

These limits must be read in conjunction with the notes immediately below the Table. The combined secured and unsecured investments in any one bank must not exceed the cash limit for secured investments:

Sector	Time limit*	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Other government entities	25 years	£12,000,000	Unlimited
Local Authorities	2 years	£10,000,000	Unlimited
Secured investments - government collateral *	25 years	£6,000,000	Unlimited
Secured investments - other collateral *	10 years	£6,000,000	Unlimited
Banks (unsecured) *	13 months	£3,000,000	Unlimited
Building societies (unsecured) *	13 months	£3,000,000	£6,000,000
Registered providers (unsecured) *	5 years	£5,000,000	£5,000,000
Money market funds *	n/a	£6,000,000	Unlimited
Strategic pooled funds	n/a	£6,000,000	£6,000,000
Real estate investment trusts	n/a	£3,000,000	£6,000,000
Other investments *	5 years	£3,000,000	£6,000,000

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

***Minimum Credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than (A-). Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account. **Schedule A** shows the equivalence Table for credit ratings for three of the main rating agencies Fitch, Moody's and Standard & Poor's and explains the different investment grades.

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

✦ **Time limits:** these start on the earlier of date that the Council is committed to make the investment and the date that cash is transferred to the counterparty.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Where additional amounts received into our accounts with our own bankers are received too late in the day to make an investment the same day, the limit in Table 6 will not apply as this does not count as an investment.

Secured Investments: These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds, secured deposits and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Government: Loans to, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, a method which rescues a failing financial institution by cancelling some of its deposits and bonds, the impact of which could result in a reduction in the amount of the deposit and a loss to the investor. Investors may suffer a reduction in their investment but may be given shares in the bank as part compensation. There is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Local Authority to Local Authority: These are loans made to other Local Authorities throughout the UK normally for a duration of less than a year, although they can be for longer. Despite concern over the volatility of funding such organisations receive, the level of risk associated with default is thought to be extremely low. However, where an authority issues a section 114 notice, or our Treasury Advisors advise against a loan to a particular local authority, the Council will comply with that advice. Any existing loans will continue to maturity with the expectation of repayment on the due date. Town and Community Councils have the ability to borrow from PWLB subject to Welsh Government borrowing approval and further guidance is available for Town and Community Councils here:

<https://www.gov.wales/borrowing-approvals-guidance-community-and-town-councils.html#:~:text=A%20borrowing%20approval%20is%20issued,amount%20which%20may%20be%20borrowed>

Other Investments: These are loans, bonds and commercial paper issued by companies that are not covered above, for example unsecured corporate bonds and unsecured loans. These investments cannot be bailed-in but are exposed to the risk of the company going insolvent, placing any investment in them at risk. Loans to unrated companies will only be made following an external credit assessment and consultation with the Council's treasury management advisers.

Registered providers (Unsecured): Loans to and bonds issued or guaranteed by registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Welsh Government and as providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. These funds have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds: Bond, equity and property funds offer enhanced returns over the longer term but are more volatile in the short-term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. As these funds have no defined maturity date but can be either withdrawn after a notice period or sold on an exchange, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

Operational bank accounts: The Council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept to a minimum. As set out in Table 6 - Approved investment counterparties and limits - the maximum we would hold in our operational bank account is £3 million. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify the Council of changes as they occur.

Long-term ratings are expressed on a scale from AAA (the highest quality) through to D (indicating default). Ratings of BBB- and above are described as investment grade, while ratings of BB+ and below are described as speculative grade. The Council's credit rating criteria are set to ensure that it is very unlikely the Council will hold speculative grade investments, despite the possibility of repeated downgrades.

Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

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

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

Bank of England UK Money Markets Code: The UK Money Markets Code’s fundamental purpose is to ensure trust exists in the UK money markets. The Code establishes high-level principles of appropriate standards in the UK Markets. The overriding principle is always to act in a manner to promote the integrity and effective functioning of the markets. The Code is intended to promote an open, fair, effective and transparent market. One of the practical aspects of this code is in relation to concluding a deal. The Code notes that principles (those agreeing an investment) are bound to a deal once the price and any other key commercial terms have been agreed, barring any breach of other contractual provisions. All form of agreement, including both oral and via electronic messaging, are considered binding. However, holding UK Market Participants unreasonably to an erroneous price is viewed as unprofessional and against the over-arching principle of the Code.

Reputational aspects: The Council is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.

Other information on the security of investments: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council’s treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations as happened in 2008, 2020 and 2022, it is not generally reflected in credit ratings but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council’s cash balances, then the surplus will

be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will likely cause a reduction in the level of investment income earned but will protect the principal sum invested.

Specified investments: The *Welsh Government Statutory Guidance on Local Government Investments* defines specified investments as those:

- denominated in pound sterling
- due to be repaid within 12 months of arrangement, unless the counterparty is a local authority,
- not defined as capital expenditure by legislation, and
- invested with one of:
 - the UK Government
 - a UK local authority
 - a district, town or community council, or
 - body or investment scheme of “high credit quality”

The Council defines “**high credit quality**” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

Non-specified investments: Any investment that does not meet the definition of a specified investment or a loan. Given the wide definition of a loan, this category only applies to units in pooled funds and shares in companies. The Council does not intend to make any investments denominated in foreign currencies.

The *Welsh Government Statutory Guidance on Local Government Investments* requires the Council’s Investment Strategy to set an overall limit for non-specified investments. Table 7 below shows the limits on non-specified categories.

Table 7: Non-specified investment limits

	Category Cash limit
Total units in pooled funds without credit ratings or rated below the Council’s definition of “high credit quality” (A-) (Except the UK Government and UK local authorities)	£10m
Total other investments	£3m
Total Non-Specified Investments Outstanding	£15m

Principal sums invested for periods longer than a year: All investments longer than 365 days (non-specified) will be made with a cautious approach to cash flow requirements and advice from the Council’s treasury management advisers will be sought as necessary.

Where the Council invests, or plans to invest, for periods longer than a year, an upper limit is set for each forward financial year period for the maturing of such investments. The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of long-term investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be as shown in Table 8 below.

Table 8: Treasury Management Indicator Principal sums invested for periods longer than a year

Price risk indicator	2026-27 £m	2027-28 £m	2028-29 £m	No fixed date £m
Limit on principal invested beyond financial year end	10	10	10	NIL

Investment Limits: In addition to the above limits, the combined values of specified and non-specified investments with any one organisation are subject to the approved investment limits detailed in Table 9 below.

Table 9: Investments limits

	Category Cash limit
Any single organisation, except the UK Central and Local Government	£6m
UK Central Government	unlimited
UK Local Authorities (per Authority)	£10m
Any group of organisations under the same ownership	£6m per group
Any group of pooled funds under the same management	£6m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£6m per country
Registered providers and registered social landlords	£5m in total
Unsecured investments with Building Societies	£6m in total
Money market funds (MMF)	Unlimited

A group of banks under the same ownership will be treated as a single organisation for limit purposes. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country since the risk is diversified over many countries.

The combined secured and unsecured investments in any one bank must not exceed the cash limit for secured investments.

Liquidity Management: The Council forecasts on a prudent basis the maximum period for which funds may be committed therefore minimising the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. A limit of £10 million has been set for long term investments and this has been set with reference to the Medium Term Financial Strategy and cash flow forecast as shown in

the principal sums invested for periods longer than a year indicator in Table 8 above. This represents 25% of the maximum average amount of investments that the Council anticipates having at any one point in time in 2025-26 of £40 million. However, if it was in line with the lowest average amount of investments it expects would be held, it would be 50%.

The Council will seek to spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

6.0 INTEREST RATE EXPOSURES BORROWING AND INVESTMENTS

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- borrowings at variable rates – the interest charged to revenue within the Comprehensive Income and Expenditure Statement will rise;
- borrowings at fixed rates – the fixed rate protects the Council from increased interest charges as an equivalent loan would now cost more. The fair value of the borrowing (liability) will fall;
- investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise;
- investments at fixed rates – the fixed rate prevents the Council from receiving higher investment income from the same principal invested. The fair value of the investment (asset) will fall.

An indicator has been set in Table 10 below to measure the net impact over one year on the revenue account of both a 1% rise and a 1% fall in all interest rates for borrowing net of treasury investments. This is calculated on the assumption that maturing loans and investments will be replaced at rates 1% higher or lower than they would otherwise have been on their maturity dates and that the treasury investment and borrowing portfolios remain unchanged over the coming year. Interest rates can move by more than 1% over the course of a year.

The Council has to set out its strategy for managing interest rate risk with such indicators as are appropriate. As at 30 September 2025, the Council held £89.50 million borrowing at fixed interest rates, including Salix loans which are mostly interest free but are a small proportion of the Council's total debt, and £6.32 million of loans repayable within 1 year, and so are considered variable interest rate debt although the interest rate on the loan is fixed. The remainder is PWLB loans due after 1 year at fixed rates, with a weighted average rate of 4.75%. As these are fixed rates any change in rate will not affect the level of interest payable. Fixed borrowing accounts for 93.40% of the Council's borrowing (excluding other long-term liabilities) as at 30 September 2025.

The Council's variable rate borrowing is the LOBO's, at a current rate of 4.65%. Should interest rates rise above this rate then it is likely the lender will increase rates on these loans. The Council may have the opportunity to repay the loans without penalty, however it would also need to replace the loans with other finance, which would likely also be at a higher interest rate. It is anticipated that the lender will not 'call' these loans during 2026-27 and therefore there will not be a change in the interest rate applied.

The Council generally invests any surplus funds for less than 1 year. Whilst the interest rates of investments with other local authorities and PWLB (DMO) are fixed for the duration of the investment, any investment for less than 1 year is considered as variable rate as they would likely be replaced with an investment at a different rate. Money Market Funds and some bank account holdings are variable interest.

The following Table sets out the potential impact of a 1% rise or fall in interest rates based on investments at 30 September 2025 and assumes a full year impact.

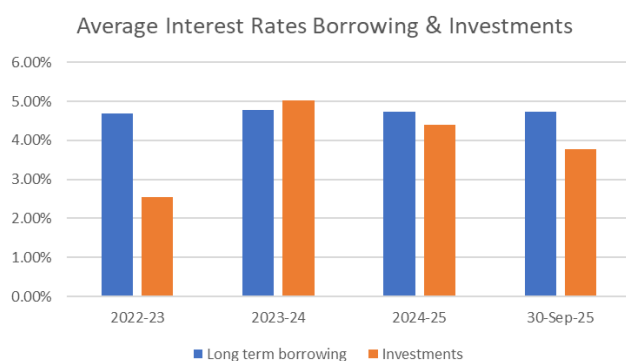
Table 10: Treasury Management Indicator Interest Rate Exposures

Interest rate risk indicator	£'000
One year revenue impact of a 1% rise in interest rates	(0.429)
One year revenue impact of a 1% fall in interest rates	0.621

The figure for the 1% fall in interest rates indicator is not the same figure as the 1% increase (but reversed) as the borrowing relates to variable LOBO loans where it is assumed that the lender would only exercise their option if there was an increase in interest rates. All other borrowing does not have a rate reset in the next year and is at fixed rates.

The following Chart shows the average interest rates on borrowing and investments over the past 3 years.

Chart 5: Average Interest Rates



Bank base rate remained low until December 2021 when from a low of 1% they steadily climbed to a peak of 5.25% in August 2023 and again began falling more slowly to a current rate of 4%. Investment returns tend to lag behind due to them generally being of up to 1 year duration and it takes a while for the average rate to follow bank base rate. This can be seen by the average higher return in 2023-24 and the steady decline to

date. Average borrowing rate has remained relatively static.

The Council will seek to minimise any borrowing costs and maximise investment income and the impact of any interest rate changes as far as resources and capacity allow. However, where investments are short duration of less than 1 year, the Council will be unlikely to be able to limit the impact of any rate changes. When seeking borrowing the Council will explore the most cost-effective options for the duration needed.

7.0 NON-TREASURY INVESTMENTS

The Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activities include investments in subsidiaries and investments in property.

A schedule of the Council's existing non-treasury investments (currently limited to owned property) is set out in Table 11 below:

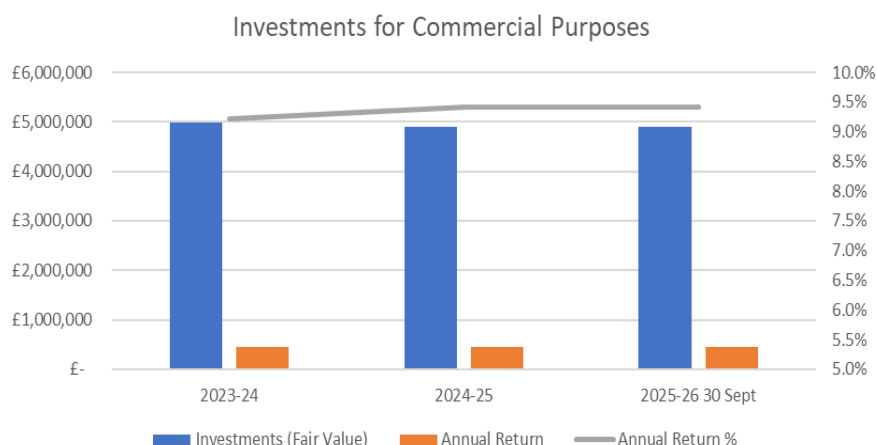
Table 11: Non-treasury investments

This category covers non-financial assets held primarily or partially to generate a profit, primarily investment property. These assets are valued on an annual basis, which provides security of their value and continued benefit to the Council.

Non-treasury investments	Fair Value £'000
Bridgend Science Park - Units 1 & 2	3,070
Waterton Cross Land	560
Brynmenyn Industrial Estate Plot 53	675
Village Farm Plots 32,119 & 120	385
Tyrewise Bridgend	200
Total	4,890

Over the past 3 years the returns have remained relatively static as shown in the chart below. This shows that the returns over the past 3 years have remained relatively static, with a slight increase in the rate of return as a result of a downwards revaluation of the assets in 2024-25. These valuations are reviewed annually and a downwards move in the valuation would result in an increase in the return rate where the cash value of the return remains the same.

Chart 6: Investments for Commercial Purposes



The Council considers that the scale of its investment properties is proportionate to the resources of the Council, since such investment represents less than 1% of its total long-term assets. The value of these investments has decreased from £4.990 million at 31 March 2024 to £4.890 million as at 31 March 2025. In accordance with Welsh Government Investment Guidance, these will be classified as non-treasury investments.

8.0 LOANS TO THIRD PARTIES

The Council may borrow to make grants or loans to third parties for the purpose of capital expenditure. Welsh Government Guidance defines a loan as a written or oral agreement where the Council temporarily transfers cash to a third party, joint venture, subsidiary or associate who agrees a return according to the terms and conditions of receiving the loan, except where the third party is another local authority. Loans are only made after the Council's formal decision-making process has been followed. This includes formal approval by Council following advice from the Chief Finance Officer. As part of the formal decision to make the loan, the security for the loan will be assessed as to its adequacy in the event of the third party defaulting on repayment. The Council can demonstrate that its financial exposure to loans is proportionate by setting the limit as set out in Table 12 below.

Table 12: Loan Limits

Borrower	£'000
Wholly owned companies	3,000
Joint ventures	3,000
Treasury management investments meeting the definition of a loan	Unlimited

9.0 IFRS9 – LOCAL AUTHORITY OVERRIDE

The Welsh Government legislated in the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2020 for a statutory override for fair value gains and losses on most pooled investment funds not to be funded via the Comprehensive Income and Expenditure Statement. This was originally due to end 31 March 2025 but has now been extended to 31 March 2029 at which time any unrealised capital gains or losses arising from qualifying investments held will be charged to the Comprehensive Income and Expenditure. The Council does not currently hold any pooled funds.

10.0 REPORTING ARRANGEMENTS

Council will receive the following reports for 2026-27 as standard in line with the requirements of the Code of Practice:

- Annual Treasury Management Strategy
- Mid-Year Treasury Monitoring Report, including Mid-year Treasury Indicator performance
- Annual Treasury Outturn Report

Responsibility for the implementation and regular monitoring the implementation of the Treasury Management function is delegated to the Cabinet, who will receive the following reports:

- Annual Treasury Management Strategy
- Quarterly Treasury Monitoring Report, including Quarterly Treasury Indicator performance
- Annual Treasury Outturn Report

The Chief Officer – Finance, Housing and Change (the Council's Section 151 Officer) will inform the Cabinet Member with responsibility for finance of any long-term borrowing or repayment undertaken or any significant events that may affect the Council's treasury management activities. They will maintain a list of staff authorised to undertake treasury management transactions on behalf of the Council.

The Chief Officer – Finance, Housing and Change is authorised to approve any movement between borrowing and other long-term liabilities within the Authorised Limit. Any such change will be reported to the next meeting of the Council.

11.0 OTHER ITEMS

In line with the CIPFA Code and Welsh Government guidance the following also forms part of the Council's TMS.

Financial Derivatives: Derivatives embedded into loans and investments including pooled funds and forward starting transactions may be used both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The

general power of competence in section 24 of the Local Government and Elections (Wales) Act 2021 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

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

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

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

Climate Change: The Council is working to reduce its impact on the climate and to reduce its carbon footprint.

Markets in Financial Instruments Directive II (MIFID II): From January 2018, MIFID II changed the classification of local authority investors. It reclassified local and public authorities as retail investors. The Council has opted up to professional client status with its providers of financial services, including treasury management advisers, banks, building societies and brokers, allowing it access to a greater range of services but without the greater regulatory protection afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Chief Officer – Finance, Housing and Change believes this to be the most appropriate status.

Investment training: The needs of the Council's treasury management staff for training in investment management are assessed every six months as part of the staff appraisal process and also if the responsibilities of individual members of staff change. Training is received from the Council's treasury management advisers, CIPFA and other bodies in the form of training courses and seminars. The Council also supports personal development so individuals enhance their own knowledge through reading CIPFA guidance, publications and research on the internet.

Investment advisers: The Council's current treasury management advisors are Arlingclose Ltd who provide advice and information relating to the Council's borrowing and investment activities and capital finance issues. The contract is reviewed annually and either party may at any time terminate this agreement on 3 months prior written

notice. The council has recently re-tendered its contract and has remained with Arlingclose for a period of 4 years commencing 1 September 2024. The quality of this service is controlled by having regular meetings with the advisers and regularly reviewing the service provided. Arlingclose was incorporated in 1993 and is regulated by the Financial Conduct Authority, reference number 417722.

Investment of money borrowed in advance of need: CIPFA's Prudential Code sets out that authorities should never borrow for the explicit purpose of making an investment return. Therefore, borrowing in advance of need purely to profit from the investment of the extra sums borrowed is against the principles, however, the Council could potentially borrow in advance of need where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks. As the Council has an integrated TMS, borrowing is not linked to the financing of specific items of expenditure. The Council's forecast Capital Financing Requirement (CFR) projected as at 31 March 2026, is in excess of the actual debt of the Council as shown in Table 2 above indicating there is no borrowing in advance of need. More detail is provided in the Prudential Indicators in the Council's Capital Strategy 2026-27.

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Officer – Finance, Housing and Change, having consulted the Cabinet Member with responsibility for finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

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

11.0 FINANCIAL IMPLICATIONS

The current net financing budget for interest receivable and payable is £3.70 million net cost. Forecast interest receivable for 2026-27 based on an average investment level of £55m at an average 3-month rate of 4.2% is £2.31 million. Forecast interest payable on debt at an assumed average level of £131.88 million and average rate of 4.8% is £6.33m. Overall forecast net interest cost of £4.02m.

Schedule A

Credit Rating Equivalence Table

	Description	Fitch		Moody's		Standard & Poor's	
		Long	Short	Long	Short	Long	Short
INVESTMENT GRADE	Extremely strong	AAA	F1+	Aaa	P-1	AAA	A-1+
	Very strong	AA+		Aa1		AA+	
		AA		Aa2		AA	
		AA-		Aa3		AA-	
	Strong	A+	F1	A1	P-2	A+	A-1
		A		A2		A	
		A-	F2	A3		A-	A-2
	Adequate	BBB+		Baa1		BBB+	
		BBB		Baa2	BBB	A-3	
	BBB-	F3	Baa3	P-3	BBB-		
SPECULATIVE GRADE	Speculative	BB+	B	Ba1	Not Prime (NP)	BB+	B
		BB		Ba2		BB	
		BB-		Ba3		BB-	
	Very speculative	B+		B1		B+	
		B		B2		B	C
		B-		B3		B-	
	Vulnerable	CCC+	C	Caa1		CCC+	
		CCC		Caa2		CCC	
		CCC-		Caa3		CCC-	
		CC		Ca		CC	
	C		C				
	Defaulting	D	D	C		D	D

GLOSSARY

Amortised Cost	Amortised cost is the amount at which some financial assets or liabilities are measured and consists of: initial recognition amount, subsequent recognition of interest income/expense using the effective interest method, repayments and credit losses.
Annuity	A method of repaying a loan where the cash payment remains constant over the life of the loan, but the proportion of interest reduces and the proportion of principal repayment increases over time. Repayment mortgages and personal loans tend to be repaid by the annuity method.
Asset Management	The stewardship of capital assets, including decisions around on-going maintenance and eventual disposal.
Authorised limit	The maximum amount of debt that a local authority may legally hold, set annually in advance by the Council itself. One of the <i>Prudential Indicators</i> .
BACS	Bankers' automated payment system. UK bulk payments system allowing transfers between bank accounts with two days' notice, for a small charge.
Bail-in	A method of rescuing a failing <i>financial institution</i> by cancelling some of its <i>deposits</i> and <i>bonds</i> . Investors may suffer a reduction in their investment but may be given shares in the bank as part compensation.
Bail-out	A method of rescuing a failing <i>financial institution</i> by the injection of public money. This protects investors at the expense of taxpayers.
Bank	Regulated firm that provides financial services to customers.
Bank of England	The <i>central bank</i> of the UK, based in London, sometimes just called 'the bank'.
Bank Rate	The official interest rate set by the <i>Monetary Policy Committee</i> , and the rate of interest paid by the <i>Bank of England</i> on commercial bank deposits. Colloquially termed the 'base rate'.
Bond	A certificate of <i>long-term</i> debt issued by a company, government, or other institution, which is tradable on financial markets.
Borrowing	Usually refers to the outstanding loans owed and <i>bonds</i> issued.
Broker	Regulated firm that matches either borrowers and lenders (a money broker) or buyers and sellers of <i>securities</i> (a stockbroker) with each other in order to facilitate transactions.
Brokerage	Fee charged by a <i>broker</i> , normally paid by the borrower.

Building Society	A mutual organisation that performs similar functions to a <i>retail bank</i> but is owned by its customers.
Capital	(1) Long-term, as in capital expenditure and capital receipts, (2) Principal, as in capital gain and capital value, (3) Investments in financial institutions that will absorb losses, before senior unsecured creditors.
Capital Expenditure	Expenditure on the acquisition, creation or enhancement of fixed asset that are expected to provide value for longer than one year, such as property and equipment, plus expenditure defined as capital in legislation such as the purchase of certain investments.
Capital Finance	Arranging and managing the cash required to finance <i>capital expenditure</i> , and the associated accounting.
Capital Financing Requirement (CFR)	A local authority's underlying need to hold debt for capital purposes, representing the cumulative capital expenditure that has been incurred but not yet financed. The CFR increases with capital expenditure and decreases with capital finance and MRP.
Capital Receipt	Cash obtained from the sale of an item whose purchase would be capital expenditure. The law only allows local authorities to spend capital receipts on certain items, such as new capital expenditure. They are therefore held in a capital receipts reserve until spent.
Capital strategy	An annual policy document required by the Prudential Code that sets out a local authorities' high-level plans for capital expenditure, debt and investments and its Prudential Indicators for the forthcoming financial year.
CIPFA	The Chartered Institute of Public Finance and Accountancy – the professional body for accountants working in the public sector. CIPFA also sets various standards for local government – e.g. Treasury Management Code and Prudential Code.
Cost of Carry	When a loan is borrowed in advance of need, the difference between the interest payable on the loan and the income earned from investing the cash in the interim.
Counterparty	The other party to a loan, investment or other contract.
Counterparty limit	The maximum amount an investor is willing to lend to a counterparty, in order to manage credit risk.
Credit Default Swap	A credit default swap (CDS) is a financial derivative or contract that allows an investor to "swap" or offset his or her credit risk with that of another investor.

Credit rating	Formal opinion by a credit rating agency of a counterparty's future ability to meet its financial obligations. As it is only an opinion, there is no guarantee that a highly rated organisation will not default.
Credit rating agency	An organisation that publishes credit ratings. The three largest agencies are Fitch, Moody's and Standard & Poor's but there are many smaller ones.
Credit risk	The risk that a counterparty will default on its financial obligations.
Debt	(1) A contract where one party owes money to another party, such as a loan, deposit, or bond. (2) In the Prudential Code, the total outstanding borrowing plus other long-term liabilities.
Default	Failure to meet an obligation under a debt contract, including the repayment of cash, usually as a result of being in financial difficulty.
Deposit	A regulated placing of cash with a financial institution. Deposits are not tradable on financial markets.
DMO	Debt Management Office – an executive agency of HM Treasury that deals with central government's debt and investments.
Fair value	IFRS term for the price that would be obtained by selling an investment, or paid to transfer debt, in a market transaction.
FCA	Financial Conduct Authority – UK agency responsible for regulating financial markets and the conduct of financial institutions, brokers, custodians, fund managers and treasury management advisors.
Financial institution	A bank, building society or credit union. Sometimes the term also includes insurance companies.
Financial instrument	IFRS term for investments, borrowing and other cash payable and receivable.
Financing costs	In the Prudential Code, interest payable on debt less investment income plus premiums less discounts plus MRP.
Forward deal	An arrangement where a loan or deposit is made in advance of the cash being transferred, with the advance period being longer than the standard period (if any) for such a transaction.
GDP	Gross domestic product – the value of the national aggregate production of goods and services in the economy. Increasing GDP is known as economic growth.
General Fund	A local authority reserve that holds the accumulated surplus or deficit on revenue income and expenditure, except on council housing.

Gilt	Bond issued by the UK Government, taking its name from the gilt-edged paper they were originally printed on.
IFRS	International Financial Reporting Standards, the set of accounting rules in use by UK local authorities since 2010.
Impairment	A reduction in the value of an investment caused by the counterparty being in financial difficulty.
Inflation risk	The risk that unexpected changes in inflation rates cause an unplanned loss, for example by costs rising faster than income.
Interest	Compensation for the use of cash paid by borrowers to lenders on debt instruments.
Interest rate risk	The risk that unexpected changes in interest rates cause an unplanned loss, for example by increased payments on borrowing or lower income on investments.
Internal borrowing	A local government term for when actual “external” debt is below the capital financing requirement, indicating that difference has been borrowed from internal resources instead; in reality this is not a form of borrowing.
Investment property	Land and buildings that are held purely for rental income and/or capital growth. Investment properties are not owner-occupied and provide no direct service benefit.
Investment strategy	A document required by investment guidance that sets out a local authority’s investment plans and parameters for the coming year. Sometimes forms part of the authority’s treasury management strategy.
Lease	A contract where one party permits another to make use of an asset in return for a series of payments. It is economically similar to buying the asset and borrowing a loan, and therefore leases are often counted as a type of debt.
Lessee	Party to a lease contract that uses an asset owned by the lessor.
Lessor	Party to a lease contract that own an asset but permits another (the lessee) to use it.
Liability benchmark	Term in CIPFA’s Risk Management Toolkit which refers to the minimum amount of borrowing required to keep investments at a minimum liquidity level. Used to compare against the actual and forecast level of borrowing.
Liquidity risk	The risk that cash will not be available to meet financial obligations, for example when investments cannot be recalled and new loans cannot be borrowed.

Loan	Contract where the lender provides a sum of money (the principal) to a borrower, who agrees to repay it in the future together with interest. Loans are not normally tradable on financial markets. There are specific definitions in government investment guidance.
Loans CFR	The capital financing requirement less the amount met by other long-term liabilities, i.e. the amount to be met by borrowing.
LOBO	Lender's option borrower's option – a long-term loan where the lender has the option to propose an increase in the interest rate on pre-determined dates. The borrower then has the option to either accept the new rate or repay the loan without penalty. LOBOs increase the borrower's interest rate risk and the loan should therefore attract a lower rate of interest initially.
Long-term	Usually means longer than one year.
Market risk	The risk that movements in market variables will have an unexpected impact. Usually split into interest rate risk, price risk and foreign exchange risk.
Maturity	(1) The date when an investment or borrowing is scheduled to be repaid. (2) A type of loan where the principal is only repaid on the maturity date.
MiFID II	The second Markets in Financial Instruments Directive - a legislative framework instituted by the European Union to regulate financial markets in the bloc and improve protections for investors.
Monetary policy	Measures taken by central banks to boost or slow the economy, usually via changes in interest rates. Monetary easing refers to cuts in interest rates, making it cheaper for households and businesses to borrow and hence spend more, boosting the economy, while monetary tightening refers to the opposite. See also fiscal policy and quantitative easing.
Monetary Policy Committee (MPC)	Committee of the Bank of England responsible for implementing monetary policy in the UK by changing Bank Rate and quantitative easing with the aim of keeping CPI inflation at around 2%.
Money market fund (MMF)	A collective investment scheme which invests in a range of short-term assets providing high credit quality and high liquidity. Usually refers to CNAV and LVNAV funds with a WAM under 60 days which offer instant access, but the European Union definition extends to include cash plus funds.

Money markets	The markets for short-term finance, including deposits and T-bills. See also capital markets.
MRP	Minimum revenue provision - an annual amount that local authorities are required to set aside and charge to revenue for the repayment of debt associated with capital expenditure. Local authorities are required by law to have regard to government guidance on MRP.
Net borrowing	Borrowing minus treasury investments.
Net revenue stream	In the Prudential Code, income from general government grants, Council Tax and rates.
Non-specified investments	Government term for investments not meeting the definition of a specified investment or a loan upon which limits must be set. Since 2018, the term does not apply to treasury investments in England. Not applicable in Scotland.
Other long-term liabilities	Prudential Code term for credit arrangements.
Operational boundary	A prudential indicator showing the most likely, prudent, estimated level of external debt, but not the worst-case scenario. Regular breaches of the operational boundary should prompt management action.
Operational risk	The risk that fraud, error or system failure leads to an unexpected loss.
Pension Fund	Ringfenced account for the income, expenditure and investments of the local government pension scheme. Pension fund investments are not considered to be part of treasury management.
Private Finance Initiative (PFI)	A government scheme where a private company designs, builds, finances and operates assets on behalf of the public sector, in exchange for a series of payments, typically over 30 years. Counts as a credit arrangement and debt.
Property fund	A collective investment scheme that mainly invests in property. Due to the costs of buying and selling property, including stamp duty land tax, there is usually a significant fee charged on initial investment, or a significant difference between the bid and offer price.
Prudential borrowing	Another term for unsupported borrowing.
Prudential Code	Developed by CIPFA and introduced in April 2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice. Local authorities are required by law to have regard to the Prudential Code.

Prudential indicators	Indicators required by the Prudential Code and determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable.
PWLB	Public Works Loans Board - a statutory body operating within the DMO that lends money from the National Loans Fund to local authorities and other prescribed bodies and collects the repayments.
Refinancing risk	The risk that maturing loans cannot, be refinanced, or only at higher than expected interest rates leading to an unplanned loss. Managed by maintaining a smooth maturity profile.
SONIA	Sterling Overnight Index Average – SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.
Supported borrowing	Borrowing for which the repayment costs are supported by government grant.
T-bill	Treasury bill - a bill issued by a government.
TMS	(1) Treasury management strategy. (2) Treasury management system.
Treasury bill	See T-bill.
Treasury investments	Investments made for treasury management purposes, as opposed to commercial investments and service investments.
Treasury management	The management of an organisation's cash flows, investment and borrowing, with a particular focus on the identification, control and management of risk. Specifically excludes the management of pension fund investments.
Treasury management advisor	Regulated firm providing advice on treasury management, capital finance and related issues.
Treasury Management Code (TM Code)	CIPFA's Code of Practice for Treasury Management in the Public Services and Cross-Sectoral Guidance Notes, to which local authorities are required by law to have regard.
Treasury management indicators	Indicators required by the Treasury Management Code to assist in the management of credit risk, interest rate risk, refinancing risk and price risk.
Treasury management policy statement	Document required by the Treasury Management Code setting out a local authority's definition of and objectives for treasury management.

Treasury management practices (TMPs)	Document required by the Treasury Management Code setting out a local authority's detailed processes and procedures for treasury management.
Treasury management strategy	Annual report required by the Treasury Management Code covering the local authority's treasury management plans for the forthcoming year.
Unsupported borrowing	Borrowing where the cost is self-financed by the local authority. Sometimes called prudential borrowing since it was not permitted until the introduction of the Prudential Code in 2004. See also supported borrowing.
Working capital	The cash surplus or deficit arising from the timing differences between income/expenditure in accounting terms and receipts/payments in cash terms.

APPENDIX 1

Arlingclose Economic & Interest Rate Forecast – (as per November 2025)

- The economic data, monetary and fiscal commentary have heightened the downside risks to our Bank Rate forecast, making rate cuts beyond 3.75% increasingly likely. As noted in the September forecast, however, we expect the Budget on 26th November 2025 to be the deciding factor for the path for interest rates. We will therefore review our interest rate forecast after this event.
- The MPC maintained Bank Rate at 4.0% in a dovish 5-4 vote, but a cut to 3.75% looks increasingly likely as the Governor teeters precariously on the divide between the hold and cut camps. While denying the Budget was an influence on his decision, it surely played into his desire to have more information before easing policy.
- Inflation surprised by holding at 3.8% in September and is forecast to fall to 3.5% by year end. However, household inflation expectations have picked up, likely largely the result of the noticeable rise in food prices, feeding caution among some policymakers.
- While services inflation remains somewhat elevated, spare capacity has opened up in the labour market and wage growth is moderating, which should place further downward pressure on inflation. Continuation of the rapid growth in administered prices is also unlikely to occur to the same extent.
- Underlying GDP growth remains subdued. While H1 2025 has been relatively strong, Q3 GDP growth has slowed, with July/August's figures suggesting a lack of momentum. Business investment is lackluster and private sector output constrained by weaker domestic demand and spending. Ongoing uncertainty over the global outlook is still discouraging capital investment, particularly in the manufacturing sector. Downside risks persist, most notably the high probability of a tighter fiscal environment after the Budget, which may place downward pressure on consumption and growth.
- A more hawkish fiscal stance and easing inflation expectations have delivered lower gilt yields for the government. Given the outlook for growth and inflation, the key risk for yields appears to be Labour getting its own party on side with broad-based tax rises. Failure to do so could once again undermine credibility and lift gilt yields. Other factors continue to influence yields and boost term premia, the persistence of which is difficult to estimate.

Forecast:

- Bank Rate was retained at 4.0% in November. We continue to forecast a 0.25% rate cut in December to 3.75%.
- The UK Budget is an inflection point that may materially change the interest rate outlook. We will further review our interest rate forecast after this event; if in line with our expectations, our central forecast for Bank Rate will likely decrease below 3.75%.
- Short yields have declined to reflect a lower path for Bank Rate.
- Medium and long-term gilt yields have also declined but remain elevated for various reasons, both domestic and international. These issues may not be resolved quickly, but the UK Budget will be a key market driver.

	Current	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28
Official Bank Rate													
Upside risk	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50
Central Case	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50
Central Case	3.90	3.80	3.75	3.80	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	3.94	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Downside risk	0.00	-0.55	-0.60	-0.70	-0.80	-0.90	-0.95	-1.00	-1.05	-1.10	-1.10	-1.10	-1.10
10yr gilt yield													
Upside risk	0.00	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.47	4.45	4.45	4.40	4.40	4.40	4.40	4.40	4.40	4.40	4.40	4.40	4.40
Downside risk	0.00	-0.55	-0.60	-0.70	-0.80	-0.90	-0.95	-1.00	-1.05	-1.10	-1.10	-1.10	-1.10
20yr gilt yield													
Upside risk	0.00	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	5.13	5.10	5.10	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Downside risk	0.00	-0.55	-0.60	-0.70	-0.80	-0.90	-0.95	-0.95	-0.95	-0.95	-0.95	-0.95	-0.95
50yr gilt yield													
Upside risk	0.00	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.73	4.70	4.75	4.65	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.70
Downside risk	0.00	-0.55	-0.60	-0.70	-0.80	-0.90	-0.95	-0.95	-0.95	-0.95	-0.95	-0.95	-0.95

