Appendix 1

Bolsover District Council

Treasury Management Strategy 2026/27 - 2029/30

1 Strategy Details

1.1 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires the Authority to approve a Treasury Management Strategy before the start of each financial year. This strategy fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

1.2 The strategy outlines the Authority's Treasury Management Strategy for the years 2026/27 to 2029/30 for consideration and approval by Council.

1.3 Investments held for service purposes or for commercial profit are considered in a different strategy, the Corporate Investment Strategy.

1.4 A further strategy, the Capital Strategy, sets out the Authority's Capital Expenditure programme and Minimum Revenue Provision policy (MRP).

Introduction

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

External Context

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

1.7 The Bank of England's Monetary Policy Committee (MPC) cut Bank Rate by 0.25% in December 2025 to 3.75%.

1.8 The November 2025 Monetary Policy Report projected modest economic growth, with GDP 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. The view of modest economic growth going forward was echoed by the Office for Budget Responsibility in its Economic and fiscal outlook published in line with the Autumn Statement which revised down its estimate of annual real GDP to around 1.5% on average between 2025 and 2030.

1.9 CPI inflation was 3.8% in September 2025, unchanged from the previous two months and below the 4.0% expected. Core CPI eased to 3.5% from 3.6%, contrary to forecasts of a rise to 3.7%. The Bank of England's November Monetary Policy Report projected inflation to fall from this level - expected to mark the peak - to 3.2% by March 2026, before steadily returning to the 2% target by late 2026 or early 2027.

1.10 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 5.0%, while the employment rate slipped to 75%. 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.

1.11 The US Federal Reserve also continued to cut rates, most recently reducing the target range for the Federal Funds Rate by 0.25% at its October 2025 meeting, to 3.75% - 4.00%, in line with expectations. Financial markets anticipate a further 0.25% cut in December, although Chair Jerome Powell has cautioned that this is not guaranteed, signalling the Fed may pause before any additional easing. A factor influencing a potential pause is the ongoing government shutdown, which has delayed the publication of several important data releases used to inform monetary policy decisions.

1.12 The European Central Bank (ECB) kept its key interest rates unchanged in October for a third consecutive month, maintaining the deposit rate at 2.0% and the main refinancing rate at 2.15%. The ECB reiterated that future policy decisions will remain data-dependent, noting that inflation is close to its 2% target and that the euro area economy continues to expand despite a challenging global environment, including heightened geopolitical risks and trade tensions.

1.13 **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.

1.14 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.

1.15 **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, reaching around 3.25%. This forecast reflects amendments made following the Autumn Budget and an assessment of the fiscal measures and their market implications.

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

1.17 A more detailed economic and interest rate forecast provided by Arlingclose is attached at **Appendix 1A**.

1.18 For the purpose of setting the budget, it has been assumed that new treasury management investments will be made at an average rate of 3.25%.

Local Context

1.19 On the 31st of December 2025, the Authority held £76.8m of borrowing and £29.7m of treasury investments. This is set out in further detail at **Appendix 1B**. Forecast changes in these sums are shown in the balance sheet analysis in **table 1** below.

Table 1: Balance sheet summary and forecast

	31.3.25 Actual £m	**31.3.26 Estimate £m**	**31.3.27 Forecast £m**	**31.3.28 Forecast £m**	**31.3.29 Forecast £m**	**31.3.30 Forecast £m**
General Fund CFR	11.8	17.9	17.4	16.9	16.4	16.0
HRA CFR	118.1	125.3	128.3	132.8	137.8	137.8
Total CFR	**129.9**	**143.2**	**145.7**	**149.7**	**154.2**	**153.8**
Less: Actual External borrowing	(86.0)	(76.8)	(73.8)	(66.0)	(62.0)	(58.0)
Internal borrowing	**43.9**	**66.4**	**71.9**	**83.7**	**92.2**	**95.8**
Less: Balance sheet resources	(61.9)	(61.9)	(61.9)	(61.9)	(61.9)	(61.9)
Treasury Investments (net of new borrowing)	**18.0**	**(4.5)**	**(10.0)**	**(21.8)**	**(30.3)**	**(33.9)**

1.20 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The Authority has an increasing CFR due to the capital programme and may therefore be required to borrow up to £33.9m over the forecast period. CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2026/27.

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

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

1.23 If the external loans are less than the liability benchmark, then this indicates that the Authority may need to borrow money to finance the capital programme. If the external loans are higher than the liability benchmark then the Authority will have more cash that could be invested.

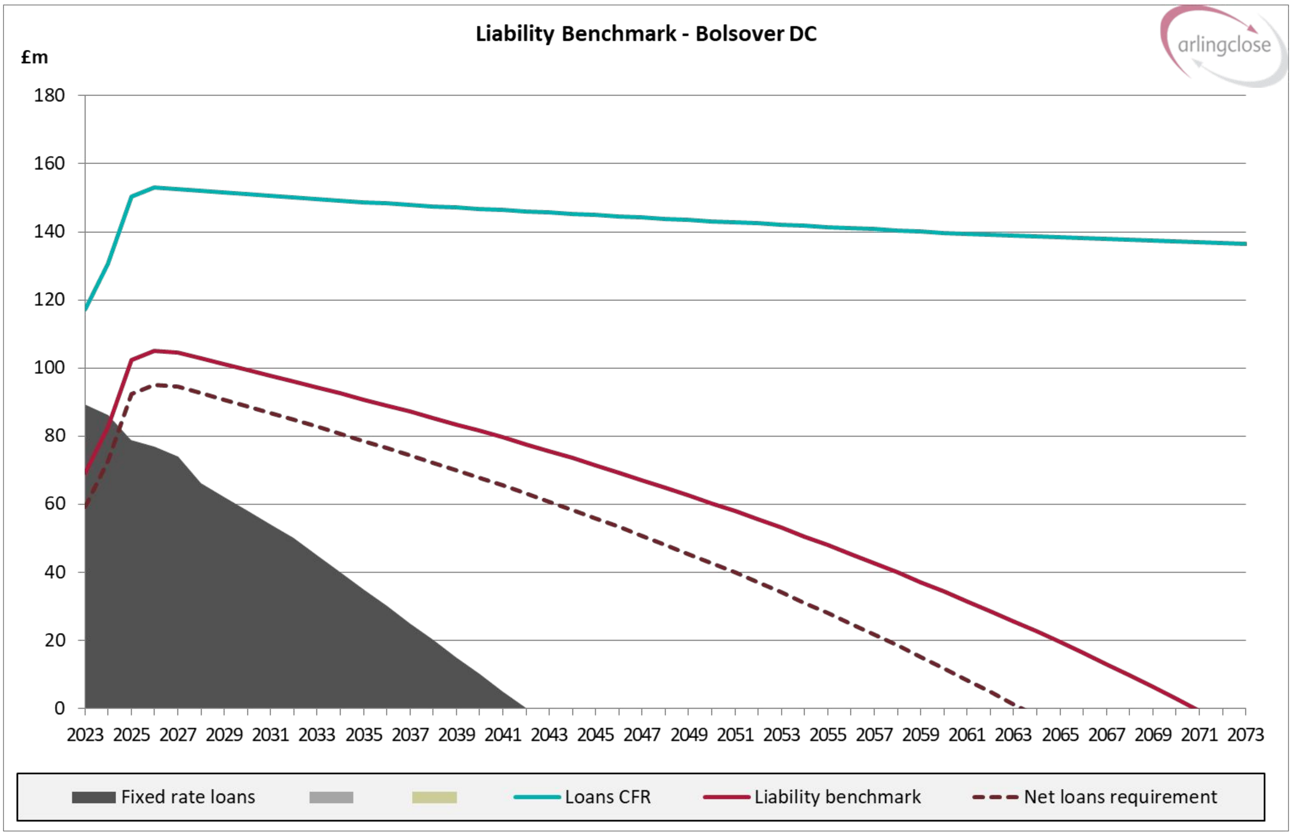
1.24 The information in table 1 and table 2 shows that for 2024/25 to 2029/30 the liability benchmark is higher than the external loans. This means that the Authority may need to borrow and the amount of cash available to invest may be less than in previous years. This corresponds to the capital programme borrowing to fund Bolsover Homes and the Crematorium at Shirebrook.

Table 2: Liability benchmark

	31.3.25 Actual £m	**31.3.26 Estimate £m**	**31.3.27 Forecast £m**	**31.3.28 Forecast £m**	**31.3.29 Forecast £m**	**31.3.30 Forecast £m**
CFR	**129.9**	**143.2**	**145.7**	**149.7**	**154.2**	**153.8**
Less: Balance sheet resources	(61.9)	(61.9)	(61.9)	(61.9)	(61.9)	(61.9)
Net loans requirement	**68.0**	**81.3**	**83.8**	**87.8**	**92.3**	**91.9**
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0	10.0
Liability Benchmark	**78.0**	**91.3**	**93.8**	**97.8**	**102.3**	**101.9**

1.25 Following on from the medium-term forecasts in table 2 above, the long-term liability benchmark assumes capital expenditure funded by borrowing of £13.6m 25/26; £3.0m 26/27; £4.5m 27/28; £5.0m 28/29; minimum revenue provision on new capital expenditure based on a 5-to-50-year asset life and income, expenditure, and reserves all increasing by inflation of 2.5% a year.

This is shown in the chart below together with the maturity profile of the Authority's existing borrowing:



-

Borrowing Strategy

1.26 As at the 31st of December 2025 the Authority holds £76.8m of loans, a decrease of £5.4m on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Authority may utilise the approval to undertake both General Fund and HRA borrowing during the period 2025/26 to 2029/30 to fund the Bolsover Homes programme, and the Crematorium at Shirebrook.

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

1.28 **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Authority'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 further, and it is therefore likely to be more cost effective over the medium-term to either use internal resources, or to borrow using short-term loans instead. The risk of this approach will be managed by keeping the Authority's interest rate exposure within the limit set in the treasury management prudential indicators, see below.

1.29 By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal or short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this ‘cost of carry’ and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2026/27 with a view to keeping future interest costs low, even if this causes an additional cost in the short-term.

1.30 The Authority has previously raised all of its long-term borrowing from the finds but will consider long-term loans from other sources including banks, pension and local authorities, and may investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.

1.31 Alternatively, the Authority may arrange forward starting loans, 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 Authority may borrow short-term loans to cover unplanned cash flow shortages.

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

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

1.33 **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

1.34 The Authority has previously raised all of its long-term borrowing from the PWLB, but it continues to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

1.35 **LOBOs:** The Authority doesn’t hold or intend to hold any LOBO (Lender’s Option Borrower’s Option) loans.

1.36 **Short-term and variable rate loans**: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

1.37 **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. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Treasury Management Investment Strategy

1.38 The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £32.5m and £17.0m, and slightly lower levels are expected to be maintained in the forthcoming year.

1.39 **Objectives:** The CIPFA Code requires the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

1.40 Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

1.41 **Strategy:** Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority may wish to diversify into more secure and higher yielding asset classes during 2026/27. This is especially the case for the estimated £10m that is available for longer-term investment. The majority of the Authority's surplus cash is currently invested in short-term unsecured bank deposits, short-term fixed deposits with local authorities and money market funds. This diversification would represent a substantial change in strategy.

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

1.43 **Business models:** Under IFRS 9, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

1.44 **Approved counterparties:** The Authority may invest its surplus funds with any of the counterparty types in **table 3** below, subject to the cash limits (per counterparty) and the time limits shown.

Table 3: Approved investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£5m	Unlimited
Secured investments *	25 years	£5m	Unlimited
Banks (unsecured) *	13 months	£5m	Unlimited
Building societies (unsecured) *	13 months	£5m	£5m per society
Registered providers (unsecured) *	5 years	£5m	£10m
Money market funds *	n/a	£5m	Unlimited
Strategic pooled funds	n/a	£5m	£10m per manager
Real estate investment trusts	n/a	£5m	£5m
Other investments *	5 years	£5m	£5m

1.45 **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.

1.46 **Government:** Loans to, and bonds and bills issued or guaranteed by, other national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Sterling-denominated investments with or explicitly guaranteed by the UK Government, including the Debt Management Account Deposit Facility, treasury bills and gilts. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

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

1.48 **Banks and building societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

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

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

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

1.52 **Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

1.53 **Other investments:** This category covers treasury investments not listed above, for example unsecured corporate bonds, company or university loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

1.54 **Operational bank accounts:** The Authority 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 below £5m per bank. 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 Authority maintaining operational continuity.

1.55 **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. 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.

1.56 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation 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.

1.57 **Other information on the security of investments**: The Authority 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 Authority'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.

1.58 **Reputational aspects:** The Authority 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.

1.59 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority 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 Authority'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 cause investment returns to fall but will protect the principal sum invested.

1.60 **Investment limits**: In order to minimise investments that will be put at risk in the case of a single default, the maximum that will be lent unsecured to any one organisation (other than the UK Government) will be £5m. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country since the risk is diversified over many countries.

Table 4: Additional Investment limits

	Cash limit
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per manager
Foreign countries (excluding MMF where there are no limits)	£10m per country
Lloyds Bank (as providers of operational banking services)	£5m overnight

1.61 **Liquidity management**: The Authority uses its own cash flow forecasting techniques to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium-term financial plan and cash flow forecast. The Authority will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) of which two will be UK domiciled, to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

Treasury Management Prudential Indicators

1.62 The Authority measures and manages its exposures to treasury management risks using the following indicators:

1.63 **Interest rate exposures**: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	**Limit each year**
Upper limit on one-year revenue impact of a 1% rise in interest rates	£643,473
Upper limit on one-year revenue impact of a 1% fall in interest rates	(£643,473)

1.64 The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

1.65 **Maturity structure of borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. This indicator used to be for fixed rate borrowing only but now includes all borrowing. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	**Upper limit**	**Lower limit**
Under 12 months	20%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	60%	0%

5 years and within 10 years	80%	0%
10 years and above	100%	0%

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

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

Price risk indicator	2026/27	2027/28	2028/29	2029/30
Limit on principal invested beyond year end	£5m	£4m	£3m	£2m

Related Matters

1.68 The CIPFA Code requires the Authority to include the following in its treasury management strategy.

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

1.70 The Authority 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 Authority 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.

1.71 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.

1.72 **Housing Revenue Account:** The Authority completed the HRA self-financing settlement in March 2012 which resulted in an increase in housing debt of £94.386m. Interest payable and other costs/income arising from long-term loans which existed prior to this settlement (e.g. Premiums and discounts on early redemption) will be charged / credited to the respective revenue account based on the average CFR of the General Fund and HRA. Where the value of the HRA loans pool is below the HRA capital financing requirement, interest on this “under-borrowing” will be charged to the HRA at the Authority’s average rate of short-term borrowing. Interest on any “over-borrowing” above the HRA capital financing requirement, and on balances in the HRA, its earmarked reserves and the major repairs reserve will be credited to the HRA at the Authority’s average interest rate on treasury investments excluding strategic pooled funds and real estate investment trusts, adjusted for credit risk.

1.73 **Markets in Financial Instruments Directive**: The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority’s treasury management activities, the Section 151 Officer believes this to be the most appropriate status.

1.74 **Financial Implications:** The budget for investment income in 2026/27 is £487,500, based on an average investment portfolio of £15 million at an interest rate of 3.25%. The budget for debt interest paid in 2026/27 is £2.655 million, based on an average debt portfolio of £76.8 million at an average interest rate of 3.41%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

1.75 **Other Options Considered:** The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Section 151 Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed 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 and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain

Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix 1A – Arlingclose Economic & Interest Rate Forecast – December 2025

Underlying assumptions:

- The Budget signaled further fiscal (tax/spend) tightening across this parliament. Most tax changes take effect from 2028, while welfare and spending start from April 2026. Taken together, the timing of these announcements means the fiscal stance is likely to be slightly looser than expected for the next two years (with increased government spending), before tightening sharply from 2028 (with large tax rises).
- Despite the near-term looser fiscal stance, the new policies add little support for activity in 2026. Even before the Budget, economic data pointed to a slower growth outlook. Meanwhile, disinflation has been evident and planned government actions on train fares and energy bills will also dampen inflation next year.
- Inflation fell to 3.6% in October. Business surveys point to weaker pricing power and household inflation expectations are easing, although they remain high. Wage growth is moderating amid rising unemployment, and overall activity is flat. Confidence has been hit by the run-up to the Budget, and a strong rebound seems improbable in the near term.
- Weak growth and softer inflation strengthen the case for dovish MPC members to push for further Bank Rate cuts, while undermining arguments of more hawkish members. There will still be questions over whether Government can deliver the fiscal tightening it set out, given a history of U-turns, and timing ahead of the next General Election.
- Risks to the growth and inflation outlook lie to the downside, which if crystallized may ultimately deliver lower Bank Rate than our central case.
- Lower inflation expectations and a tighter fiscal stance have helped bring down gilt yields, especially at the long end. Even so, sustained heavy borrowing across advanced economies, the DMO's move towards issuing more short-dated gilts and lingering doubts about the government's fiscal plans will keep short to medium yields above the levels implied by interest rate expectations alone.

Forecast:

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

	Current	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central Case	**4.00**	**3.75**	**3.50**	**3.25**	**3.25**	**3.25**	**3.25**	**3.25**	**3.25**	**3.25**	**3.25**	**3.25**	**3.25**
Downside risk	0.00	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central Case	**3.90**	**3.65**	**3.50**	**3.40**	**3.35**	**3.35**	**3.35**	**3.35**	**3.35**	**3.35**	**3.35**	**3.35**	**3.35**
Downside risk	0.00	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5yr gilt yield													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	**3.92**	**3.90**	**3.85**	**3.80**	**3.75**	**3.75**	**3.75**	**3.75**	**3.75**	**3.75**	**3.75**	**3.80**	**3.80**
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
10yr gilt yield													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	**4.48**	**4.40**	**4.35**	**4.30**	**4.25**	**4.25**	**4.25**	**4.25**	**4.25**	**4.25**	**4.25**	**4.30**	**4.30**
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
20yr gilt yield													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	**5.13**	**4.90**	**4.85**	**4.80**	**4.75**	**4.75**	**4.75**	**4.75**	**4.75**	**4.75**	**4.75**	**4.80**	**4.80**
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
50yr gilt yield													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	**4.73**	**4.50**	**4.50**	**4.45**	**4.45**	**4.45**	**4.45**	**4.45**	**4.45**	**4.45**	**4.45**	**4.50**	**4.50**
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85

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

Appendix 1B

Existing Investment & Debt Portfolio Position

	31.12.25 Actual Portfolio £m	31.12.25 Average Rate %
External borrowing:		
Public Works Loan Board	76.8	3.38%
Total external borrowing	**76.8**	**3.38%**
Other long-term liabilities:		
Finance Leases	0	0
Total other long-term liabilities	**0**	**0**
Total gross external debt	**76.8**	**3.38%**
Treasury investments:		
Banks & building societies (unsecured)	0	0
Government (incl. local authorities)	0	0
Money Market Funds	29.7	4.20%
Total treasury investments	**29.7**	
Net debt	**47.1**	