

## **Treasury Management Strategy (East Sussex County Council)**

# Treasury Management Strategy Statement 2026/27 Including Minimum Revenue Provision Policy Statement and Annual Investment Strategy



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## 1. INTRODUCTION

### 1.1 *Background*

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Council's risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

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

As set out in the RPPR Budget report to Cabinet on 27 January 2026, due to the Council's overall challenging financial position, the Council has applied to government for Exceptional Finance Support (EFS) for 2026/27 in the form of a capitalisation direction. If approved by Government, this would allow the Council to treat certain types of revenue expenditure as capital expenditure, allowing them to be funded by borrowing or capital receipts as opposed to from the revenue budget. The impact of this on the Council's borrowing strategy and treasury management activity has been reflected in this TMSS, with specific implications separately reported where possible to explicitly demonstrate financial implications.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

### 1.2 *Reporting Requirements*

#### 1.2.1 *Capital Strategy*

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report, to provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of the capital strategy is to ensure that all elected members on the Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset.

### **1.2.2 Treasury Management reporting**

The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

- a. Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
  - the capital plans, (including prudential indicators);
  - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
  - the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
  - an investment strategy, (the parameters on how investments are to be managed).
- b. A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.
- c. An annual treasury report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

*This Council delegates responsibility for implementation and monitoring treasury management to Cabinet and responsibility for the execution and administration of treasury management decisions to the Section 151 Officer. Cabinet therefore receives the Mid-Year and Annual treasury reports in December each year.*

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee.

- d. Quarterly reports** – In addition to the three major reports detailed above, quarterly treasury reporting is incorporated into the quarterly Council Monitoring process.

### **1.3 Treasury Management Strategy for 2026/27**

The strategy for 2026/27 covers two main areas:

#### **Capital issues**

- the capital expenditure plans, including expenditure allowable under capitalisation direction, (section 2) and associated prudential indicators (Annex C);
- the minimum revenue provision (MRP) policy (Section 3).

#### Treasury management issues

- the current treasury portfolio position (section 1.5);
- the borrowing strategy (section 2);
- policy on borrowing in advance of need (section 2.4);
- debt rescheduling (section 2.5);
- the investment strategy (section 4);
- creditworthiness policy (section 4.4);
- the policy on use of external service provider (section 5.3).
- prospects for interest rates (Annex B); and
- treasury indicators which limit the treasury risk and activities of the Council (Annex C);

These elements cover the requirements of the Local Government Act 2003, MHCLG Investment Guidance, MHCLG MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

#### 1.4 Treasury Management Policy Statement

The policies and objectives of the Council’s treasury management activities are as follows:

- i) This Council defines its treasury management activities as:

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

- ii) This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council, and any financial instruments entered into to manage these risks.
- iii) This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance management techniques, within the context of effective risk management.

#### 1.5 Current Portfolio Position

A summary of the Council’s borrowing & investment portfolios as at 30 November 2025 and forecast at the end of the financial year is shown in **Table 1** below:

Table 1	Actual at 30 November 2025			Forecast to 31 March 2026		
	£’000	% of portfolio	Average Rate	£’000	% of portfolio	Average Rate
<b>Investments</b>						
Banks	11,000	15%	4.07%	10,000	20%	3.80%
Local Authorities	35,000	47%	4.35%	25,000	50%	4.25%
Money Market Funds	22,800	31%	4.05%	10,000	20%	3.75%

CCLA Pooled Property Fund*	5,000	7%	3.90%	5,000	10%	3.90%
<b>Total Investments</b>	<b>73,800</b>	<b>100%</b>	<b>4.20%</b>	<b>50,000</b>	<b>100%</b>	<b>4.03%</b>
<b>Borrowing</b>						
PWLB loans	200,142	100%	4.38%	200,142	100%	4.38%
Market loan	-	-	-	-	-	-
<b>Total external Borrowing</b>	<b>200,142</b>	<b>100%</b>	<b>4.38%</b>	<b>200,142</b>	<b>100%</b>	<b>4.38%</b>

\*£4,358,632 capital valuation 30 November 2025

## 2. BORROWING STRATEGY

The capital expenditure plans of the Council are set out in the Capital Strategy Report being considered by Full Council on 10 February 2026. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes so that sufficient cash is available to meet this service activity and Capital Strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions, and the Annual Investment Strategy.

Any capital investment, or expenditure allowable under capitalisation direction, that is not funded from these new and/or existing resources (e.g. capital grants, receipts from asset sales, revenue contributions or earmarked reserves) increases the Council's need to borrow, represented by the Capital Financing Requirement (CFR). However, external borrowing does not have to take place immediately to finance its related capital expenditure: the Council can utilise cash being held for other purposes (such as earmarked reserves and working capital balances) to temporarily defer the need for external borrowing. This is known as 'internal borrowing'.

The Council's primary objective is to strike an appropriate balance between securing cost certainty, securing low interest rates.

### 2.1 Capital Prudential Indicators

The Authority's capital expenditure plans are a key driver for Treasury Management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Tables 2 and 3 show the capital expenditure plans of the Authority, and the implications of these on the Capital Financing Requirement over the 3-year MTFP period to 2028/29.

The liability benchmark shown in section 2.3 measures the authority's external debt levels net of the external investments, with the inclusion of a liquidity buffer against the Authority's CFR projection. This measure assumes that the authority will internally borrow almost all its available cash balances held in reserves and balances, with an allowance ensure it is able to meet its cash obligations.

There are four components to the Liability Benchmark: -

1. **Existing loan debt outstanding:** the Authority's existing loans that are still outstanding in future years.
2. **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. **Net loans requirement:** this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and

based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

4. **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance.

The Liability Benchmark has been produced below in section 2.3 and notes included to explain each element and the Authority’s assumptions and forward view.

## 2.2 Borrowing Strategy for 2026/27

The Council has been carrying an internal borrowing position since 2019/20, which means that the capital borrowing need has not been fully funded with external borrowing as cash supporting the Council’s reserves, balances and cash flow has been used as a temporary measure. This policy reduces cost and reduces investment counterparty risk as the Council are using cash from its own reserves to fund its borrowing requirement as opposed to entering into external borrowing, and has been considered prudent as medium and longer dated borrowing rates are expected to fall from their current levels.

Modelling of the movement of reserves and the Council’s capital expenditure plans previously demonstrated that the Council’s long-term reserves could support a level of at least £75m of internal borrowing, mitigating the need to undertake new external borrowing. The borrowing strategy for 2026/27 will initially focus on meeting this borrowing need from internal borrowing; however, due to an increasing borrowing requirement, reducing reserves, and the recommendation to apply for Exceptional Financial support in the form of capitalisation direction, it is likely that the council will need to enter into new borrowing at some point during 2026/27.

Against this background and the risks within the economic forecast, caution will be adopted with the 2026/27 treasury operations. Interest rates in financial markets will be monitored and a pragmatic approach adopting to changing circumstances when considering the timing of undertaking any new borrowing.

**Table 2** below provides a summary of the Councils’ current borrowing portfolio and projected for future balances based on known maturity of existing debt. During the 2025/26 financial year, the last remaining market loan (with Barclays) was repaid early at a discount to the initial loan value. Therefore, all current borrowing is held with the PWLB.

<b>Table 2 – Current Borrowing Portfolio</b>				
<b>2025/26 Projected £m</b>		<b>2026/27 Projected £m</b>	<b>2027/28 Projected £m</b>	<b>2028/29 Projected £m</b>
212	External Debt at 1 April	200	195	190
(12)	In-Year Maturity	(5)	(5)	(6)
<b>200</b>	<b>External Debt at 31 March</b>	<b>195</b>	<b>190</b>	<b>184</b>
	Total Borrowing by Type:			
200	PWLB	195	190	184
-	Market Loans	-	-	-
<b>200</b>	<b>Total Borrowing at 31 March</b>	<b>195</b>	<b>190</b>	<b>184</b>

**Table 3** below provides the Council’s capital expenditure plans for 2025/26 and over the MTFP period to 2028/29 and how these plans are being financed, with any shortfall in resources resulting in a borrowing requirement. The Council’s Capital Programme 2026/27 to 2028/29 forecasts £234m of capital investment with £183m met from existing or new resources, therefore resulting in a

borrowing need of £51m over the next three years. There is £29m expected to be funded via borrowing in the 2025/26 Capital Programme, which is expected to be funded temporarily through cash balances.

The table also presents the additional borrowing requirement as part of the application for Exceptional Financial Support (EFS) in the form of a capitalisation direction. This allows local authorities to treat certain types of revenue expenditure as capital expenditure, allowing them to be funded by borrowing or capital receipts as opposed to from the revenue budget. The council intends to treat up to £70m of revenue spend as additional capital expenditure 2026/27 as part of the capitalisation direction.

<b>Table 3 – Capital Programme Borrowing Requirements</b>				
<b>2025/26 Projected £m</b>		<b>2026/27 Projected £m</b>	<b>2027/28 Projected £m</b>	<b>2028/29 Projected £m</b>
97	Capital Expenditure	102	72	60
(68)	Capital Programme Funding	(72)	(57)	(54)
<b>29</b>	<b>Capital Programme Borrowing</b>	<b>30</b>	<b>15</b>	<b>6</b>
-	<b>EFS Capitalisation Direction Borrowing</b>	<b>70</b>	<b>0</b>	<b>0</b>
<b>29</b>	<b>Total Borrowing Requirement</b>	<b>100</b>	<b>15</b>	<b>6</b>

**Table 4** below shows the impacts of the borrowing requirement identified above against the Capital Financing Requirement (CFR). The CFR represents the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. Any capital expenditure which has not immediately been paid for through an identified funding, will increase the CFR. The CFR is reduced over time in the form of a Minimum Revenue Provision (MRP) charge, being a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life.

The table also presents the impact of the additional borrowing requirement in the form of a capitalisation direction. Where revenue costs may be treated as capital expenditure by virtue of a capitalisation direction and the costs are financed by debt (borrowing), this will increase the council's CFR and MRP will be due. The MRP guidance recommends that MRP in cases of capitalisation direction should be charged over a maximum of 20 years.

<b>Table 4 – Capital Financing Requirement</b>				
<b>2025/26 Projected £m</b>		<b>2026/27 Projected £m</b>	<b>2027/28 Projected £m</b>	<b>2028/29 Projected £m</b>
292	Opening Capital Programme CFR	313	334	339
29	Capital Programme Borrowing (table 3)	30	15	6
(8)	Minimum Revenue Provision	(9)	(10)	(11)
<b>313</b>	<b>Closing Capital Programme CFR</b>	<b>334</b>	<b>339</b>	<b>334</b>
-	Opening Capitalisation Direction CFR	-	70	67
-	Capitalisation Direction Borrowing (table 3)	70	-	-
-	Minimum Revenue Provision	-	(3)	(3)
-	<b>Closing Capitalisation Direction CFR</b>	<b>70</b>	<b>67</b>	<b>64</b>

<b>313</b>	<b>Total Capital Financing Requirement</b>	<b>404</b>	<b>406</b>	<b>398</b>
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*\*CFR in Table 4 is the underlying need to borrow and excludes PFI and lease arrangements, which are included in the CFR figure in the Prudential Indicators in Annex C*

**Table 5** below compares the forecast CFR position against the current debt portfolio to demonstrate how this is expected to increase the Council’s under-borrowed position if no further borrowing is undertaken.

<b>Table 5 – Level of Under Borrowing</b>				
<b>2025/26 Projected £m</b>		<b>2026/27 Projected £m</b>	<b>2027/28 Projected £m</b>	<b>2028/29 Projected £m</b>
200	External Debt at 31 March (table 2)	195	190	184
313	Capital Financing Requirement (table 4)	404	406	398
<b>(113)</b>	<b>Level of Under Borrowing</b>	<b>(209)</b>	<b>(216)</b>	<b>(214)</b>

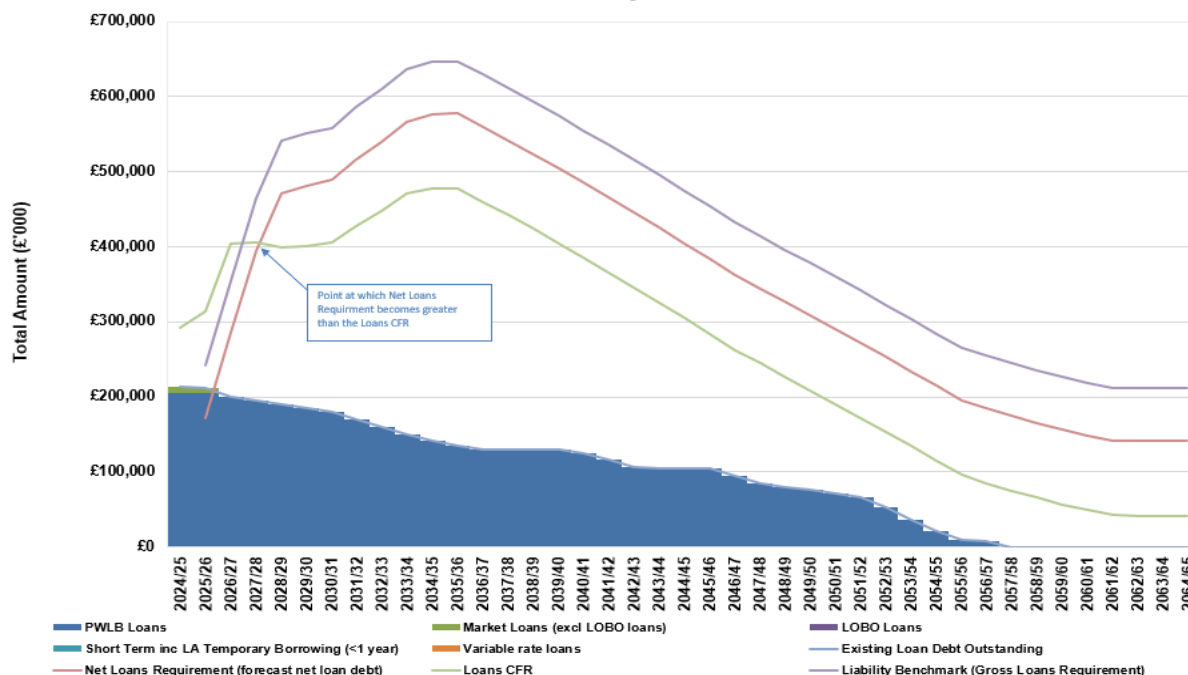
The Council’s priority is to strike a balance between cost and certainty, and therefore the internal borrowing position will be carefully monitored to avoid incurring higher borrowing costs in the future at a time when the authority may not be able to avoid new borrowing to finance capital expenditure or refinance maturing debt.

### **2.3 Liability Benchmark**

The Liability Benchmark is a measure of the Council’s borrowing need were it to fully utilise its cash-backed reserves and balances to avoid external borrowing. It assumes a liquidity buffer is maintained to ensure the Council’s obligations are able to be met.

The Council’s liability benchmark is shown below:

### Liability Benchmark



- 1) **External Debt** – The maturity profile of the current portfolio of external debt is shown by the bars. The debt has a very gradual maturity profile which means that there are no requirements to pay back large amounts of debt in any one year.
- 2) **Loans CFR** – This is the projections of the Council’s underlying borrowing requirement (or CFR) based on the Council’s capital plans and capitalisation direction, and is shown by the green line. The 2025/26 opening Loans CFR was £292m, and it is expected to peak at £478m in 2035/36. This only shows the Loans CFR projection based on the current capital programme of the Council, therefore if ongoing borrowing is required beyond 2035/36 then the CFR would rise further and for longer.
- 3) **Net Loans Requirement** – The expected net treasury position is shown by the red line. This shows a projection of the loans requirements measured by opening external debt for 2025/26 (£212m) less the opening external investments for 2025/26 (£115m). The projections are then based on the expected borrowing and the expected movement in reserves and balances, and shows the borrowing requirement if the Council were to utilise all of its reserves and balances for internal borrowing. This shows that the Council had more external debt than external investment as at 31/03/25, which is expected to continue into 2026/27 and beyond as reserves reduce and borrowing is required in the capital programme. The Net Loans Requirement also peaks in 2035/36 as a result of the end of current capital planning period.

The graph shows that the Net Loans Requirement will become greater than the Loans CFR value in 2028/29, suggesting that if the council’s financial position continues as expenditure currently forecast, then the Council will need to borrow to finance its day-to-day expenditure in addition to its capital programme and applied capitalisation direction.

- 4) **Liability Benchmark** – The liability benchmark shows the Net Loan Requirement, but with a buffer of £70m incorporated to ensure the Council has sufficient cash to meet its cash obligations. This measure shows the level to which the Council can internally borrow based on the projection of the capital programme, movement of reserves and allowing for a liquidity buffer. Where the liability benchmark rises above the current debt portfolio, this shows a

*need for external borrowing, and where the benchmark reduces back below the current portfolio, it shows that the Council will be over-borrowed based on current plans.*

*This graph demonstrates that the Council will need to externally borrow in 2026/27, and that the external borrowing requirement will peak at £647m in 2034/35, before falling.*

Whilst the Liability Benchmark is a good indicator of the Council’s direction of travel in terms of borrowing need, it assumes that capital borrowing stops after the current capital planning period, and ignores future borrowing beyond the planning period. Therefore it should not be used in isolation when making long term decisions, but as part of a range of factors.

#### **2.4 Policy on Borrowing in Advance of Need**

The Council will not borrow purely in order to profit from investment of extra sums borrowed. Any decision to borrow in advance will be within approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting.

#### **2.5 Debt Rescheduling**

Officers continue to regularly review opportunities for debt rescheduling, but there has been a considerable widening of the difference between new borrowing and repayment rates, which has resulted in much fewer opportunities to realise any savings or benefits from rescheduling PWLB debt.

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

The strategy is to continue to seek opportunity to reduce the overall level of Council’s debt where prudent to do so, thus providing in future years cost reduction in terms of lower debt repayments costs, and potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt. All rescheduling will be agreed by the Chief Finance Officer.

#### **2.6 Interest Rate Risk & Continual Review**

The total borrowing requirement in **Table 3**, as well as the debt at risk of maturity shown in **Table 6** below is the extent to which the Council is subject to interest rate risk. Note that the 2025/26 figure includes the early repayment of the last remaining market loan (with Barclays) at a discount to the initial loan value.

<b>Table 6 – Debt Maturity</b>				
<b>2025/26 Projected £m</b>		<b>2026/27 Projected £m</b>	<b>2027/28 Projected £m</b>	<b>2028/29 Projected £m</b>
12	Maturing Debt	5	5	6
0	Debt Subject to Early Repayments	0	0	0
<b>12</b>	<b>Total debt at risk of maturity</b>	<b>5</b>	<b>5</b>	<b>6</b>

Officers continue to review the need to borrow taking into consideration the potential increases in borrowing costs, the need to finance new capital expenditure, refinancing maturing debt, and the cost of carry that might incur a revenue loss between borrowing costs and investment returns.

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

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.
- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

### **3. MINIMUM REVENUE PROVISION POLICY STATEMENT**

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) regulation 2023, where the Council has financed capital expenditure by borrowing, The Council it is required to pay off an element of the accumulated General Fund capital spend each year (the Capital Financing Requirement - CFR) through a revenue charge (the Minimum Revenue Provision - MRP). The 2003 Regulations have been further amended with full effect from April 2025 to expressly provide that in determining a prudent provision local authorities cannot exclude any amount of CFR from its calculation, unless by an exception set out in statute.

The Ministry of Housing, Communities and Local Government (MHCLG) regulations require the full Council to approve an MRP Statement in advance of each year. A variety of options are available to Councils, so long as the principle of any option selected ensures a prudent provision to redeem its debt liability over a period which is commensurate with that over which the capital expenditure is estimated to provide benefits (i.e. estimated useful life of the asset being financed).

The Minimum Revenue Provision Policy Statement for 2025/26 forms part of the council's Treasury Management Strategy 2025/26 which was formally approved at Full Council on 11 February 2025. Under MHCLG guidance, when a local authority varies the methodology used to determine prudent provision, they should present a revised MRP statement to the next full Council or equivalent explaining the rationale for the change and the financial impact. Changes to policy or methodologies from the previously approved policy are:

- Clarity to the interest rate used for annuity calculations. It is recommended that annuity calculations use an interest rate based on the Council's average rate of all long-term external borrowing. This is a change from the previous methodology, which used a straight 2% interest rate on all charges, regardless of timing of expenditure and asset life. The revised methodology is considered to be a more prudent methodology for provision, as it better represents the Council's actual cost of borrowing and ensures that any decisions on further capital expenditure are based on the actual cost of borrowing. For historical expenditure, the revised policy will be applied to the remaining balance as at 31<sup>st</sup> March 2025 for each asset.
- Clarification on the policy for expenditure which is subject to a capitalisation direction.

It is recommended that this revised policy is applied for the 2025/26 financial year onwards, to ensure that prudent provision is made at the earliest opportunity.

The Council is recommended to approve the following MRP Statement for 2025/26 onwards.

**For borrowing incurred before 1 April 2008, the MRP policy will be:**

- Annuity basis over a maximum of 40 years.

**From borrowing incurred after 1 April 2008, the MRP policy will be:**

- Asset Life Method (annuity method) – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations. A maximum useful economic life of 50 years for land and 40 years for other assets. This option will also be applied for any expenditure capitalised under a capitalisation directive.
- The interest rate to be used for annuity calculations will be the Council's prevailing average rate of all long-term borrowing as at the 31<sup>st</sup> March of the financial year in which the expenditure was incurred.
- Where the debt relates to expenditure which is subject to a capitalisation direction issued by the government, the council will set aside a sum equivalent to repaying the debt over a period consistent with the nature of the expenditure on an annuity basis for a maximum of period of 20 years in accordance with the Statutory Guidance.

**For PFI schemes, leases and closed landfill sites that come onto the Balance Sheet, the MRP policy will be:**

- Asset Life Method (annuity method) - The MRP will be calculated according to the flow of benefits from the asset, and where the principal repayments increase over the life of the asset. Any related MRP will be equivalent to the "capital repayment element" of the annual charge payable that goes to write down the balance sheet liability.

Expenditure financed by borrowing will not be subject to an MRP charge until the financial year after the expenditure has been incurred, or in the case of assets under construction, MRP will be delayed until the relevant asset becomes operational.

There is the option to charge more than the prudent provision of MRP each year through a Voluntary Revenue Provision (VRP). The cumulative amount of any future VRP will be included in the MRP Policy Statement to enable the Authority to 'offset' this against future MRP charges. To date there has been no VRP made by the Authority.

For loans to third parties that are being used to fund expenditure that is classed as capital in nature, the policy will be to charge an MRP over the life of the loan.

In view of the variety of different types of capital expenditure incurred by the Council, which is not in all cases capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure. This approach also allows the Council to defer the introduction of an MRP charge for new capital projects/land purchases until the year after the new asset becomes operational rather than in the year borrowing is required to finance the capital spending.

#### **4. ANNUAL INVESTMENT STRATEGY**

The MHCLG and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals with financial investments. Non-financial investments are covered in the Capital Strategy.

The Council’s investment policy has regard to the following:

- MHCLG’s Guidance on Local Government Investments (the “Guidance”)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 (the “Code”)
- CIPFA Treasury Management Guidance Notes 2021

***The Council’s investment priorities will be the security of capital first, portfolio liquidity second and then yield (return). The Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to the Authority’s risk appetite.***

#### **4.1 Annual Investment Strategy for 2026/27**

Investments will be made with reference to the core balance and cash flow requirements and the outlook for interest rates.

Greater returns are usually obtainable by investing for longer periods. However, based on the forecast of Bank Rate below and the Councils’ ongoing challenging financial position, it is considered appropriate to maintain a large degree of liquidity to cover cash flow needs, but to also consider “laddering” investments for periods up to 12 months with high credit rated financial institutions if cash balance allows.

While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is predicted that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments on short term or variable terms.
- Conversely, if it is predicted that Bank Rate is likely to fall within that time period, consideration will be given to locking in the higher rates currently obtainable, for longer periods.

It is currently expected that the Bank Rate will not fall during the remainder of 2025/26, but with the prospect for Bank Rate to be cut further into 2026/27. MUFG Bank Rate forecasts for financial year ends (March) are:

Year	2025/26	2026/27	2027/28	2028/29
Bank Rate	3.75%	3.25%	3.25%	3.25%

The MUFG view on the prospect for interest rates, including their forecast for short term investment rates is appended at Annex B.

The primary principle governing the Council’s investment criteria is the security of its investments, although the return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in and the criteria for choosing investment counterparties with adequate security, and monitoring their security;
- It has sufficient liquidity in its investments;

- It receives a yield that is aligned with the level of security and liquidity of its investments;
- Where possible, it actively seeks to support Environmental, Social and Governance (ESG) investment products and institutions that meet all of the above requirements.

The preservation of capital is the Council's principal and overriding priority.

#### **4.1.1 Changes from 2025/26 Strategy**

A number of changes are proposed from the 2025/26 the Annual Investment Strategy in response to reducing investment balances and to manage subsequent risks to security and liquidity.

- Maximum investment limits on counterparty types been reduced compared to the 2025/26 strategy to avoid over exposure to individual sectors due to reducing investment balances and subsequent risk to overexposure.
- Limits for investments in individual UK Local Authorities have been reduced from a maximum £60m to £20m per authority to avoid over exposure to individual counterparties, and to manage size of individual investments to manage ongoing liquidity,
- A reduction in maximum investment limit on some individual counterparties to avoid overexposure.
- Reduced limits of principal sums to be invested for longer than 365 days to ensure liquidity is maintained,

#### **4.2 Investment Policy – Management of risk**

The guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

- i) Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
- ii) Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.
- iii) Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- iv) This authority has defined the list of types of investment instruments that the treasury management team are authorised to use.
  - a. **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year. The limits and permitted instruments for specified investments are listed within Table 7.
  - b. **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. The

limits and permitted instruments for non-specified investments are listed within Table 8.

- v) Lending limits (amounts and maturity) for each counterparty will be set through applying the credit criteria matrix (within Table 7).
- vi) This authority will set a limit for the amount of its investments which are invested for longer than 365 days, detailed in the Treasury Indicators in Annex C.
- vii) Investments will only be placed with counterparties from countries with a specified minimum sovereign rating of AA- (see paragraph 4.3).
- viii) This authority has engaged external consultants, (see paragraph 5.3), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
- ix) All investments will be denominated in sterling.
- x) As a result of the change in accounting standards for 2025/26 under IFRS 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.

However, this authority will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year and included within the quarterly reporting.

### **4.3 Sovereign Credit Ratings**

The current approved strategy of lending to sovereign nations and their banks which hold a minimum of AA- remains in place. The proposed Maximum investment limits and duration periods will remain the same as in the previous strategy at £60 million and one year respectively. The list of countries that qualify using this credit criteria (as at the date of this report) are shown below:

- AAA** Australia, Denmark, Germany, Netherlands, Norway, Singapore, Sweden, Switzerland
- AA+** Canada, USA
- AA** Abu Dhabi (UAE), Finland,
- AA-** **United Kingdom**

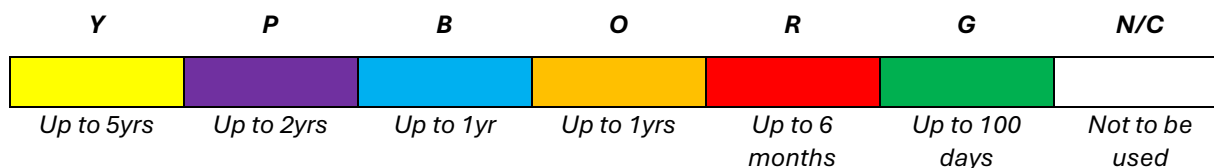
### **4.4 Creditworthiness Policy**

The Council applies the creditworthiness service provided by the MUFG Corporate Markets. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies which is then supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- credit default swap (CDS) spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This weighted scoring system then produces an end product of a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council (in addition to other due diligence

consideration) will use counterparties within the following durational bands provided they have a minimum A- (UK Banks) and AA- (Non-UK Banks) credit rating:



Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A- for UK Banks. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

The primary principle governing the Council’s investment criteria is the security of its investments, although the return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in and the criteria for choosing investment counterparties with adequate security, and monitoring their security;
- It has sufficient liquidity in its investments.

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

In addition to the use of credit ratings, the Council is advised of information re movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council’s lending list. The counterparties in which the Council will invest its cash surpluses is based on officer’s assessment of investment security, risk factors, market intelligence, a diverse but manageable portfolio and their participation in the local authority market.

**Table 7** below summarises the types of specified investment counterparties available to the Council, and the maximum amount and maturity periods placed on each of these. A full list of the Council’s counterparties and the current limits for 2026/27 are appended at Annex A.

**Criteria for Specified Investments**

Table 7	Country/ Domicile	Instrument	Min. Credit Criteria/LAS colour band	Max. Amount	Max. maturity period
Debt Management and Deposit Facilities (DMADF)	UK	Term Deposits (TDs)	N/A	£50m (previously unlimited)	6 Months (previously 12 months)
Government Treasury bills	UK	TDs	UK Sovereign Rating	£50m (previously unlimited)	6 Months (previously 12 months)
UK Local Authorities*	UK	TDs	UK Sovereign Rating	£20m (previously £60m)	12 Months

Table 7	Country/ Domicile	Instrument	Min. Credit Criteria/LAS colour band	Max. Amount	Max. maturity period
Banks – part nationalised	UK	<ul style="list-style-type: none"> <li>▪ TDs</li> <li>▪ Deposits on Notice</li> <li>▪ Certificates of Deposit (CDs)</li> </ul>	N/A	£20m (previously £60m)	12 Months
Banks	UK	<ul style="list-style-type: none"> <li>▪ TDs</li> <li>▪ Deposits on Notice</li> <li>▪ CDs</li> </ul>	Blue	£20m (previously £60m)	12 Months
			Orange		12 Months
			Red		6 Months
			Green		100 Days
Building Societies	UK	<ul style="list-style-type: none"> <li>▪ TDs</li> <li>▪ Deposits on Notice</li> <li>▪ CDs</li> </ul>	Blue	£20m (previously £60m)	12 Months
			Orange		12 Months
			Red		6 Months
			Green		100 Days
Individual Money Market Funds (MMF) CNAV and LVNAV	UK/Ireland/ EU domiciled	AAA Rated Money Market Fund Rating	N/A	£60m	Liquid
VNAV MMF's and Ultra Short Dated Bond Funds	UK/Ireland/ EU domiciled	AAA Rated Bond Fund Fund Rating	N/A	£60m	Liquid
Banks – Non-UK	Those with sovereign rating of at least AA-**	<ul style="list-style-type: none"> <li>▪ TDs</li> <li>▪ Deposits on Notice</li> <li>▪ CDs</li> </ul>	Blue	£20m (previously £60m)	12 Months
			Orange		12 Months
			Red		6 Months
			Green		100 Days

\* Local Authorities appear on both Specified and Non-specified investment list – an investment with a LA for up to a year is Specified, and between 1-2 years is Non-specified. The maximum amount that can be lent to any single Local Authority is £20m across both specified and unspecified Investments

\*\*See Paragraph 4.3 for full list of countries that meet these criteria

**Non-Specified investments** are any other types of investment that are not defined as specified. The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out in **Table 8** below:

Table 8	Minimum credit criteria	Maximum investments	Period
UK Local Authorities**	Government Backed	£20m (previously £60m)	2 years
Corporate Bond Fund(s)	Investment Grade	£30m	2 - 5 years
Pooled Property Fund(s)	N/A	£30m	5+ years

Mixed Asset Fund(s)	N/A	£30m	2 - 5 years
Short Dated Bond Fund(s)	N/A	£30m	2 – 5 years

*\*\* Local Authorities appear on both Specified and Non-specified investment list – an investment with a LA for up to a year is Specified, and between 1-2 years is Non-specified. The maximum amount that can be lent to any single Local Authority is £20m across both specified and Unspecified Investments*

The maximum amount that can be invested will be monitored in relation to the Council’s surplus monies and the level of reserves. The approved counterparty list will be maintained by referring to an up-to-date credit rating agency reports, and the Council will liaise regularly with brokers for updates. Where Externally Managed Funds are not rated, a selection process will evaluate relative risks & returns. Security of the Council’s money and fund volatility will be key measures of suitability. Counterparties may be added to or removed from the list only with the approval of the Chief Finance Officer. A full list of the Council’s counterparties and the current limits for 2026/27 are appended at Annex A.

#### **4.5 Investment Risk Benchmarking**

The weighted average benchmark risk factor for 2026/27 is recommended to be 0.05%. This is unchanged from 2025/26. This is a measure of the percentage of the portfolio deemed to be at risk of loss by reference to the maturity date, value of investment, and credit rating of the individual investments within the portfolio compared to the historic default data for those credit ratings.

This benchmark is a simple target (not limit) to measure investment risk and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that the in-house treasury team can monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported with supporting reasons in the mid-year or end of year reviews.

This matrix will only cover internally managed investments, excluding externally managed cash that has been subject to an individual selection process. It also excludes funds lent to other Local Authorities, consistent with the CIPFA Accounting Code.

#### **4.6 Investment Performance Benchmarking**

The performance of the Council’s investment portfolio will be measured against the overnight SONIA Rate.

### **5. OTHER TREASURY ISSUES**

#### **5.1 Banking Services**

NatWest currently provides banking services for the Council.

#### **5.2 Training**

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

The scale and nature of this will depend on the size and complexity of the organisation’s treasury management needs. Organisations should consider how to assess whether treasury management

staff and board/ Council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/Council members.
- Require treasury management officers and board/Council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
- Have regular communication with officers and board/Council members, encouraging them to highlight training needs on an ongoing basis.”

In further support of the revised training requirements, CIPFA’s Better Governance Forum and Treasury Management Network have produced a ‘self-assessment by members responsible for the scrutiny of treasury management’, which is available from the CIPFA website to download.

The training needs of treasury management officers are periodically reviewed.

A formal record of the training received by officers central to the Treasury function and members who are responsible for decision making and scrutiny of the Treasury function will be maintained by the Principal Accountant (Treasury).

### **5.3 Policy on the use of External Service Providers**

The Council uses MUFU as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed, documented and subject to regular review.

### **5.4 Lending to Third Parties**

The Council has the power to lend monies to third parties subject to a number of criteria. These are not treasury type investments rather they are policy investments. Any activity will only take place after relevant due diligence has been undertaken.

### **5.5 Updates to Accounting Requirements**

#### **▪ IFRS9 – local authority override – English local authorities**

The MHCLG has extended the IFRS 9 statutory override to apply to existing local authority investments in pooled investment funds that were made before 1st April 2024. The government has extended this specific override for these existing investments until 1st April 2029, to provide local authorities with additional time to manage their investment strategies.

However, any new investments in pooled investment funds made on or after 1st April 2024 are subject to the standard IFRS 9 accounting requirements, meaning fair value movements must be

recognised directly in the general fund. The override prevents these "paper" fluctuations from immediately impacting the authority's revenue accounts and annual balanced budget requirement.

Additionally, IFRS9 impacts the write-down in the valuation of impaired loans.

▪ **IFRS 16 – Leasing**

The CIPFA LAASAC Local Authority Accounting Code Board has deferred implementation of IFRS16 until 1.4.24, the 2024/25 financial year. Once implemented, this has the following impact to the Treasury Management Strategy:

- The MRP Policy sets out how MRP will be applied for leases bought onto the balance sheet. Where a lease (or part of a lease) is brought onto the balance sheet, having previously been accounted for off-balance sheet, the MRP requirement is regarded as having been met by the inclusion in the charge for the year in which the restatement occurs, of an amount equal to the write-down for that year plus retrospective writing down of the balance sheet liability that arises from the restatement;
- The Council's Capital Financing Requirement authorised limit and operational boundary expectations for 2025/26 onwards have been increased to reflect the estimated effect of this change.

**COUNTERPARTY LIST 2026/27**

Bank with duration colour	Country	Fitch Ratings				Moody's Ratings		S & P Ratings		ESCC Duration (Months)	MUFG Duration Limit (Months)	Money Limit (£m)
		L Term	S Term	Viab.	Supp.	L Term	S Term	L Term	S Term			
<b>Specified Investments:</b>												
<b>UK Counterparties:</b>												
Lloyds Bank PLC (RFB)	UK	AA-	F1+	a+	WD	A1	P-1	A+	A-1	12	12	20
Lloyds Bank Corporate Markets Plc (NRFB)	UK	AA-	F1+	-	WD	A1	P-1	A	A-1	12	12	
Bank of Scotland PLC (RFB)	UK	AA-	F1+	a+	WD	A1	P-1	A+	A-1	12	12	
NatWest Bank (RFB)	UK	AA-	F1+	a+	WD	A1	P-1	A+	A-1	12	12	20
NatWest Markets Plc (NRFB)	UK	AA-	F1+	WD	WD	A1	P-1	A	A-1	12	12	
Royal Bank of Scotland (RFB)	UK	AA-	F1+	a+	WD	A1	P-1	A+	A-1	12	12	
HSBC UK Bank (RFB)	UK	AA-	F1+	a+	WD	Aa3	P-1	A+	A-1	12	12	20
HSBC Bank (NRFB)	UK	AA-	F1+	a	WD	A1	P-1	A+	A-1	12	12	
Barclays Bank UK (RFB)	UK	A+	F1	a	WD	A1	P-1	A+	A-1	6	6	20
Barclays Bank (NRFB)	UK	A+	F1	a	WD	A1	P-1	A+	A-1	6	6	
Santander UK	UK	A+	F1	a	WD	A1	P-1	A	A-1	6	6	20
Santander Financial Services (NRFB)	UK	A+	F1	-	WD	A1	P-1	A-	A-2	6	6	
Goldman Sachs International Bank	UK	A+	F1	-	WD	A1	P-1	A+	A-1	6	6	20
Handelsbanken PLC	UK	AA	F1+	-	WD	-	-	AA-	A-1+	12	12	20
SMBC Bank International Plc	UK	A-	F1	-	WD	A1	P-1	A	A-1	6	6	20
Standard Chartered Bank	UK	A+	F1	a	WD	A1	P-1	A+	A-1	6	6	20
Clydesdale Bank PLC	UK	A	F1	a	WD	A1	P-1	A+	A-1	6	6	20
Nationwide Building Society	UK	A	F1	a	WD	A1	P-1	A+	A-1	6	6	20
<b>Non UK Counterparties:</b>												
Royal Bank of Canada	Canada	AA-	F1+	aa-	WD	Aa1	P-1	AA-	A-1+	12	12	20
Toronto-Dominion Bank	Canada	AA-	F1+	aa-	WD	Aa1	P-1	A+	A-1	12	12	20
Nordea Bank Abp	Finland	AA-	F1+	aa-	WD	Aa2	P-1	AA-	A-1+	12	12	20
NRW.BANK	Germany	AAA	F1+	-	WD	Aa1	P-1	AA	A-1+	12	24	20
Landwirtschaftliche Rentenbank	Germany	AAA	F1+	-	WD	Aaa	P-1	AAA	A-1+	12	24	20
BNG Bank N.V.	Netherlands	AAA	F1+	-	WD	Aaa	P-1	AAA	A-1+	12	24	20
DBS Bank Ltd.	Singapore	AA-	F1+	aa-	WD	Aa1	P-1	AA-	A-1+	12	12	20
Oversea-Chinese Banking Corp. Ltd.	Singapore	AA-	F1+	aa-	WD	Aa1	P-1	AA-	A-1+	12	12	20
United Overseas Bank Ltd.	Singapore	AA-	F1+	aa-	WD	Aa1	P-1	AA-	A-1+	12	12	20
Svenska Handelsbanken AB	Sweden	AA	F1+	aa	WD	Aa2	P-1	AA-	A-1+	12	12	20
First Abu Dhabi Bank PJSC	UAE	AA-	F1+	a-	WD	Aa3	P-1	AA-	A-1+	12	12	20
Bank of New York Mellon	USA	AA	F1+	aa-	WD	Aa1	P-1	AA-	A-1+	12	24	20
<b>Non-Specified Investments:</b>												
	<b>Minimum Credit Criteria</b>					<b>Maximum Investments</b>			<b>Period</b>			
UK Local Authorities	Government Backed					£20m			2 years			
Corporate Bond Fund(s)	Investment Grade					£30m			2 – 5 years			

Pooled Property Fund(s)	N/A	£30m	5+ years
Mixed Asset Fund(s)	N/A	£30m	2 - 5 years
Short Dated Bond Fund(s)	N/A	£30m	2 - 5 years