

# **Cheltenham Borough Council Treasury Management Strategy 2026/27**

## **1. INTRODUCTION**

- 1.1** Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council, like many similar sized organisations, borrows and invests significant sums of money and is therefore exposed to financial risks including the loss of investments. Treasury risk management at the Council 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 Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
- 1.2** The Council's Treasury Management Strategy forms a key part of our overall Corporate Planning Framework. It provides a mechanism by which our treasury management decisions can be aligned with our over-arching corporate priorities and objectives over a medium-term planning horizon.
- 1.3** The Strategy has direct links to the Council's Asset Management Strategy, Commercial Strategy, Capital Strategy and Investment Strategy and forms a key part of the Council's Medium Term Financial Strategy (MTFS) as presented below:

## **2. PURPOSE OF THIS STRATEGY**

- 2.1** Our 2026/27 Treasury Management Strategy has been developed, with a focus on working with our partner organisations to deliver future place shaping, investment and regeneration in Cheltenham.
- 2.2** The key aims of this document are:
- To outline how we invest our money to ensure we have the financial resources to support the key priorities outlined in the Corporate Plan.
  - To set out the key principles on which our borrowing and investment decisions are made, including how security and risk have been assessed in the development of our investments (See Section 5, page 6).
  - To present the arrangements for managing and monitoring our treasury management decisions, including assessment of outcomes and the continual alignment to our Corporate Plan (See Section 6, page 13).

### **3. WHY WE INVEST OUR MONEY**

**3.1** The Council invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments)
- to directly support local public services by lending to other organisations (service investments), and
- to invest in community led and sustainable place shaping, regeneration and economic development of our town (known as growth investments).

Our Investment Strategy outlines the principles and arrangements in place for the second two categories of investment. This strategy focuses on our approach to the first category.

### **4. HOW WE BORROW MONEY**

#### **Our Borrowing**

**4.1** The council currently holds debt of £201.451m as at 31st January 2026 across both the General Fund and Housing Revenue Account. 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 Council has an increasing CFR due to the capital programme especially within the HRA capital programme to deliver on our affordable housing target, but also on the General Fund in regard to the Cyber Innovation project. With minimal investments the council will therefore be required to borrow up to £60m over the forecast period.

**4.2** CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's external borrowing should be lower than its highest forecast CFR over the following three years. Table 1 below shows that the Council expects to comply with this recommendation during 2026/27.

**4.3** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes 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.

**4.4** 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. The total forecast net borrowing against the CFR and liability benchmark is set out in the table below for the period of the Medium-Term Financial Strategy.

Table: 1

	<b>31.3.25 Actual £m</b>	<b>31.3.26 Estimate £m</b>	<b>31.3.27 Forecast £m</b>	<b>31.3.28 Forecast £m</b>
General Fund CFR	120.328	123.514	164.549	220.280
Housing (HRA) CFR	95.512	117.454	140.609	169.624
<b>TOTAL CFR</b>	<b>215.840</b>	<b>240.969</b>	<b>305.158</b>	<b>389.904</b>
Less: External Borrowing	204.409	204.500	204.500	204.500
<b>Internal (over) Borrowing</b>	<b>11.431</b>	<b>36.469</b>	<b>100.658</b>	<b>185.404</b>
Less: Balance Sheet Resources	(4.795)	(5.597)	(5.231)	(5.231)
<b>Investments/ (New Borrowing)</b>	<b>6.636</b>	<b>30.872</b>	<b>95.427</b>	<b>180.173</b>
<b>Net Borrowing Requirement</b>	<b>211.045</b>	<b>235.372</b>	<b>299.927</b>	<b>384.673</b>
Preferred year-end position (Invest)	10.000	10.000	10.000	10.000
<b>Liability Benchmark (year-end)</b>	<b>221.045</b>	<b>245.372</b>	<b>309.927</b>	<b>394.673</b>

### Our Borrowing Strategy

- 4.5** The Council’s chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council’s long-term plans change is a secondary objective.
- 4.6** Given the significant cuts to public expenditure and in particular to local government funding, the Council’s borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term interest rates have fallen over the past year, and are expected to fall a little further, and it is therefore likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. However, if long term rates prove more attractive, then the Council will switch to using the Public Works Loan Board (PWLb), National Wealth Fund or another lender in the market to fund past and future debt.
- 4.7** By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this ‘cost of carry’ and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2026/27 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

- 4.8** Alternatively, the Council 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 Council may borrow further short-term loans to cover unplanned cash flow shortages on a day to day basis.
- 4.9** An opportunity to replace HRA temporary borrowing of £18m in early December 2024 and to access the PWLB HRA discounted rate for 1 year was taken, fixed at 4.77% has now been replaced by a further loan of £18m fixed for one year at 4.05%, was utilised instead of borrowing from the local authority market which had seen short term rates start to climb from 4.60%. The decisions to take out these loans was to help protect interest costs and keep within the revised budget for 2025/26.
- 4.10** The main sources of approved long-term and short-term borrowing for Cheltenham Borough Council are:

### **Sources of Borrowing**

#### **HM Treasury's PWLB lending facility (formally the Public Works Loan Board):**

The Council has previously raised the majority of its long-term borrowing from the PWLB (currently £134m) but will consider long-term loans from other sources including banks, pension funds and local authorities, and will investigate the possibility of issuing bonds and similar instruments, 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 Council will avoid this activity in order to retain its access to PWLB loans.

#### **National Wealth Fund Ltd (formerly UK Infrastructure Bank Ltd):**

National Wealth Fund is a government-owned policy bank, launched in 2021 looking to provide £6bn of infrastructure finance to local government over the next 4 years to finance regional and local economic growth, support tackling climate change and the investment in infrastructure assets or in new infrastructure technology. Since the change in government in 2024, the name is to change to the National Wealth Fund (NWF). The Council currently holds no loans with the NWF but are in communication with them regarding the funding of the Cyber Innovation project.

#### **Short-term and variable rate loans:**

These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators. However, the use of short-term loans is currently favourable as borrowing costs are still lower compared with long term rates. Arlingclose forecast a slow decrease in rates in 2026/27. The Council as at end of January 2026 holds £58m of these loans.

**Debt rescheduling:**

The PWLB allows councils to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some 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.

**5. HOW WE INVEST OUR MONEY**

**Our Treasury Management investments**

**5.1** The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council’s investment balance has averaged from as high as £25m and as low as £14.5m. On 31 January 2026, we held £15.054m of treasury investments which are outlined in the table 2 below.

Table: 2

	<b>31 January 2026 Actual Portfolio £m</b>	<b>31 January 2026  Actual Rate %</b>
<b>Treasury investments:</b>		
Glos Airport – Revolving credit facility	2.275	5.75%
Glos Airport – Sub Station/ Radar loans	0.897	2.00%
Cheltenham Borough Homes (St Georges Place)	0.535	1.18%
Money Market Funds	4.347	3.89%
<b>Other Pooled Funds</b>		
CCLA Property Investment Management	3.000	3.99%
CCLA Cautious Multi Asset Fund	2.000	2.63%
Schroders Unit Trusts Ltd	2.000	7.15%
<b>Total Treasury investments</b>	<b>15.054</b>	<b>4.58%</b>

**5.2** By the end of the 2025/26 financial year, it is forecast that our investment balance will have reduced as the use of cash liquid accounts i.e., Money Market Funds to reduce the need to borrow at year end. The table below shows the forecast between short- and longer-term holdings. Future capital receipts are not factored in until they are received.

	<b>31.3.2025 Actual £m</b>	<b>31.03.2026 Forecast £m</b>	<b>31.03.2027 Budget £m</b>	<b>31.03.2028 Budget £m</b>	<b>31.03.2029 Budget £m</b>
Near-term investments	5.000	5.000	5.000	5.000	5.000
Longer-term investments	10.054	10.000	10.000	10.000	10.000
<b>Total</b>	<b>15.054</b>	<b>15.000</b>	<b>15.000</b>	<b>15.000</b>	<b>15.000</b>

### **Our Treasury Management investments**

- 5.3** The Council’s policy on treasury investments, in line with the CIPFA Code, is to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council’s objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council 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 Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.
- 5.4** 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 Council’s ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance (from January 2026) and/or the UK Stewardship Code.
- 5.5** As demonstrated by the liability benchmark in table 1, the Council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income
- 5.6** Under the new IFRS 9 standard, the accounting for certain investments depends on the Council’s “business model” for managing them. The Council aims to achieve value from its 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.

**5.7** The Council 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

<b>Sector</b>	<b>Time limit</b>	<b>Counterparty limit</b>	<b>Sector limit</b>
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	2 years to 25 years	£4m	Unlimited
Secured investments *	20 years	£4m	Unlimited
Secured investments – government collateral	25 years	£8m	Unlimited
Banks (unsecured) *	13 months	£1m	Unlimited
Building societies (unsecured) *	13 months	£1m	£10m
Registered providers (unsecured) *	5 years	£2m	£5m
Money market funds *	n/a	£5m	Unlimited
Strategic pooled funds	n/a	£5m	£10m

\* 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 considered.

### **Bank & Building Society 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.

### **Bank & Building Societies secured**

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 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.

### **UK Government**

Sterling-denominated investments with or explicitly guaranteed by the UK Government, including the Debt Management Account Deposit Facility, treasury bills and gilts. These are deemed to be zero credit risk due to the government's ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

### **Corporates**

Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made either following an external credit assessment as part of a diversified pool in order to spread the risk widely.

### **Registered providers**

Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England) and, as providers of public services; they retain the likelihood of receiving government support if needed.

### **Money Market funds**

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

### **Strategic pooled funds**

Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

### **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.

### **Operational bank accounts**

The Council banks with Lloyds (Lloyds Banking Group). On adoption of this Strategy, it will meet the minimum credit criteria of A- (or equivalent) long term. It is the Council's intention that even if the credit rating of Lloyds Bank falls below the minimum criteria A- the bank will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

### **Policy investments**

Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made following an external credit assessment as part of a diversified pool in order to spread the risk widely.

- Gloucestershire Everyman Theatre £100k up to one year duration
- Gloucestershire Everyman Theatre £269k Non-specified duration
- Ubico Limited £500k up to one year duration
- Cheltenham Town Football Club £20k Non-Specified
- Cheltenham BID £100k up to one year duration
- The Cheltenham Trust £100k up to one year duration
- Publica Group £100k up to one year duration
- Cheltenham Borough Homes £97m Non-specified duration
- Cheltenham Borough Homes £10m Equity Non- Specified duration (1)
- Gloucestershire Airport Limited £9m up to one year
- Gloucestershire Airport Limited £7.250m Non-specified duration -dependant on sale
- Folk2Folk (Peer to Peer lending) £575k Non-specified duration (2)

(1) £10m Equity Investment from the council to assist in three areas over the coming years to provide substantial new housing in the town by providing Private Rented Sector (PRS) housing, purchasing 106 sites and building new homes. The drawdown of the loans will be over a period of 40 years.

(2) Folk2Folk is a peer to peer lending platform in which the council can lend to support local, rural and entrepreneurial businesses £575,000 with a capped limit of £100,000 per loan application, up to a maximum of 5 years. Interest rates earned can be between 4.5% and up to 9% per annum.

### **Renewable Energy investments**

Over recent years significant investments from Local Authorities in the Renewable Energy markets have occurred by way of investing in an energy bond. Currently the council has approved the use of Corporate Bonds and has used them on a regular basis but only for a maximum of two years previously. To be able to potentially invest in Green Renewable energy recommendation was made

following consultation with members of the Treasury Management Panel on the 5 June 2017 and approved by Council on 24 July 2017 that up to £2m in relation to Green Investment bonds can be invested up to five years.

Within our treasury management investments, it is critical to get the right balance between social, environmental and financial factors when assessing the investment, we make. Full Council noted in December 2025 that our exposure to gas and oil investments currently stands at £59k down from £120k this time last year. This is part of the Schroder Income Maximiser Fund and makes up 0.84% (1.71% in 2024) of the £7m we have invested in Pooled Funds. However, the current capital value of the fund is valued £116k less than the original £2m invested. Given our current climate priorities, assurance was provided to Council that we are looking to take steps to ensure our investments are contributing to these goals. We are committed in the longer term to divesting from oil and gas but need to balance these priorities with ensuring we are making the right financial decisions to safeguard our residents, businesses and communities. We will continue to closely monitor the performance of this fund and when it is financially prudent to do so, will consider the climate implications of how we invest this money in the future.

### **Monitoring our Treasury Management Investments**

- 5.8** Credit ratings are obtained and monitored by the Council’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.
- 5.9** Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “negative watch”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn (on the next working day) will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.
- 5.10** The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations, in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and advice from the Council’s treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

**5.11** When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not generally reflected in credit ratings but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

**5.12** In order to monitor this, we have set cash limits on the credit quality of the investments.

	<b>Cash Limit</b>
<b>Total long-term investments</b>	£20m
<b>Total investments without credit ratings or rated below A- (except UK Government and local authorities)</b>	£10m
<b>Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+</b>	£10m

### Investment Limits

**5.13** The Council’s revenue reserves available to cover investment losses are forecast to be £5.05 million on 31st March 2026. In order that no more than the available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £4 million. A group of banks 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: Investment limits

	<b>Cash Limit</b>
<b>Any single organisation, except the UK Central Government</b>	£1m each
<b>UK Central Government</b>	unlimited
<b>Any group of organisations under the same ownership</b>	£1m per group
<b>Any group of pooled funds under the same management</b>	£5m per manager
<b>Foreign countries</b>	£1m per country
<b>Registered providers</b>	£2m in total
<b>Unsecured investments with building societies</b>	£1m in total
<b>Loans to unrated corporates – Renewable Energy</b>	£4m in total- £2m max in each
<b>Money Market Funds</b>	£5m per MMF

**5.14** The Council uses purpose-built cash flow forecasting 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 Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council’s medium term financial plan and cash flow forecast.

## 6. TREASURY MANAGEMENT INDICATORS

**6.1** The Council measures and manages its exposures to treasury management risks using the following indicators.

### Security

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	<b>Target</b>
<b>Portfolio average credit rating</b>	A-

### Interest rate exposures

This indicator is set to control the Council’s exposure to interest rate risk. The upper limits on fixed and variable rate interest exposures, expressed as the proportion of net principal borrowed will be:

	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable interest rate exposure	75%	75%	75%

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

### Maturity structure of borrowing

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

	Upper	Lower
Under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%

10 years and within 20 years	100%	0%
20 years and within 30 years	100%	0%
30 years and within 40 years	100%	0%
40 years and above	100%	0%

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.

### **Principal sums invested for periods longer than 364 days**

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

	2025/26	2026/27	2027/28
Limit on principal invested beyond one year	£20m	£20m	£20m

## **7. RELATED MATTERS**

**7.1** There are a number of additional items that the Council is obliged by CIPFA or MHCLG to include in its Treasury Management Strategy.

### **Policy on the use of 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).

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

### **Policy on apportioning interest to the Housing Revenue Account (HRA)**

On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. New long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/ income arising from long-term loans (e.g., premiums and

discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each year and interest transferred between the General Fund and HRA at the Council's average interest rate on treasury investments excluding strategic pooled funds, adjusted for credit risk.

### **Markets in Financial Instruments Directive**

The Council 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 Council's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

### **Investment advisers**

The Council re-appointed Arlingclose Limited as treasury management advisers for three years plus the option for a further two years after a full joint tender with Cotswold District Council, Forest of Dean District Council and West Oxfordshire District Council. The contract commenced from 1st March 2023 and will run to at least 28th February 2026.

### **Investment of money borrowed in advance of need**

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

The total amount borrowed will not exceed the authorised borrowing limit of £308m. The maximum period between borrowing and expenditure is expected to be three years, although the Council is not required to link particular loans with particular items of expenditure.

### **Financial Implications**

The budget for investment income in 2026/27 is forecast to be £733k based on an average investment portfolio of £13 million at an interest rate of 5.64%. For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate of 3% to 3.75%. On top of this interest received on third parties' loans amounts to £264k.

The estimated budget for debt interest to be paid in 2026/27 is forecast to be £6.773 million, based on an average debt portfolio of £197.965m at an average interest rate of 3.42% (3.71% 25/26). The HRA will reimburse the General Fund £4.264m for its share of the debt it holds as of 1 April 2026. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.



## 8. ALTERNATIVE OPTIONS

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The S151 Officer, having consulted the Cabinet Member for Finance and Assets, 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.

<b>Alternative</b>	<b>Impact on income and expenditure</b>	<b>Impact on risk management</b>
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 1 - Arlingclose Limited Economic & Interest Rate Forecast February 2026

### **Economic background:**

While the MPC acceded to widely held expectations to leave Bank Rate unchanged at 3.75% in February, the decidedly dovish tone in which the decision was delivered prompted investors to reassess interest rate expectations. Four Committee members voted to reduce rates, but two of the slim holding majority also indicated that they would likely vote for a cut soon.

Budget policies and base effects will mechanically reduce the CPI rate in 2026, on top of the downward pressure arising from soft economic growth and the looser labour market. However, many policymakers appear concerned that household and business inflation and pricing expectations are proving sticky following recent bouts of high price and wage growth, which may allow underlying inflationary pressure to remain elevated. While, the Bank's measure of household expectations ticked lower in December, it remains above levels consistent with the 2% target at 3.5%.

While policymakers hold valid concerns, these appear somewhat out of line with current conditions; CPI inflation fell to 3.2% in November, private sector wage growth continued to ease amid the highest unemployment rate since the pandemic, and the economy contracted in October after barely growing in Q3. Business surveys pointed to marginally stronger activity and pricing intentions in December but also suggested that the pre-Budget malaise was not temporary. These data are the latest in a trend suggesting challenging economic conditions are feeding into price and wage setting.

Risks to the growth and inflation outlook lie to the downside, which may ultimately deliver lower Bank Rate than our central case. However, the minutes suggest that the bar to further rate cuts beyond 3.25% is higher and the near-term upside risks to our Bank Rate forecast have increased. Having said that, we believe inflation expectations will naturally decline alongside headline inflation rates.

Investors appear to have given the UK government some breathing space following the Budget, with long-term yields continuing to trade at slightly lower levels than in late summer/early autumn. 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.

**Interest rate forecast (February 2026):**

The Council’s treasury management adviser Arlingclose expects the Bank of England’s MPC will continue reducing Bank Rate through 2026, taking it to around 3.25% by the middle of 2026. However, near-term upside risks to the forecast have increased. Continuing disinflation, rising unemployment, softening wage growth and low confidence suggests that monetary policy will continue to be loosened.

Arlingclose expects medium and long-term gilt yields to continue to incorporate premia for UK government credibility, global uncertainty and significant issuance. These issues may not be resolved quickly, and they expect yields to remain higher.

Please see Arlingclose’s interest rate forecasts over the next two years

	Current	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28
<b>Official Bank Rate</b>													
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	3.75	3.50	3.25	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
<b>3-month money market rate</b>													
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	3.82	3.55	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	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
<b>5yr gilt yield</b>													
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	3.96	3.85	3.80	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.80	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
<b>10yr gilt yield</b>													
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	4.52	4.40	4.35	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.35	4.35	4.35
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
<b>20yr gilt yield</b>													
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	5.16	5.00	4.95	4.90	4.90	4.90	4.90	4.90	4.90	4.90	4.95	4.95	4.95
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
<b>50yr gilt yield</b>													
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	4.74	4.65	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.65	4.65	4.65
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%