



# **Treasury Management Strategy Statement**

Minimum Revenue Provision Policy Statement  
and Annual Investment Strategy

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**2026/27**

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## 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 low-risk counterparties or instruments commensurate with the Council's low 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 it 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 risk or cost objectives.

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

CIPFA defines treasury management as:

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

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 which will 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 strategy is to ensure that all elected members fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

The Council's Capital programme was revised and approved by Council at its meeting on 2<sup>nd</sup> March 2026 (and is still considered fit for purpose). For clarity, this Council has not engaged any commercial investments to date.

### 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. **Treasury strategy (including Prudential and treasury indicators –** (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. **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. **Annual treasury (out-turn) 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.
- d. **Quarterly update reports –** In addition to the three major reports detailed above, quarterly reporting (end of June and end of December) are also submitted for consideration by the Accounts and Audit Committee.

### 1.3 Treasury Management Strategy for 2026-27

1. The Treasury Management Strategy Statement (TMSS) sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the full Council for approval before the commencement of each financial year.
2. The formulation of the annual TMSS involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter-term variable interest rates. For instance, this Council may decide to postpone borrowing if fixed interest rates are expected to fall or borrow early if fixed interest rates are expected to rise.
3. The TMSS is concerned with both capital and treasury management issues. The following elements are considered:

#### **Capital issues**

- a) capital expenditure plans and associated prudential indicators
- b) the minimum revenue provision (MRP) policy

### **Treasury management issues**

- c) the current treasury position
  - d) treasury indicators which limit the treasury risk and activities of the Council
  - e) prospects for interest rates
  - f) borrowing requirement
  - g) borrowing strategy
  - h) policy on borrowing in advance of need
  - i) debt rescheduling
  - j) the investment strategy
  - k) creditworthiness policy
  - l) policy on the use of external service providers; and
  - m) any extraordinary treasury issues
4. The Treasury Management Strategy Statement will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable) and highlight sensitivities to different scenarios.
  5. 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 Training**

The CIPFA Treasury Management Code requires the responsible officer (in Pendle's case, this is the Director of Resources) to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to councillors responsible for scrutiny (in the Council's case, this is the Accounts and Audit Committee). The training needs of councillors is continually assessed during the year and training will be arranged as required.

Furthermore, pages 47 and 48 of the Code state that they expect "all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

To monitor and review knowledge and skills, the following will be carried out:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and councilors.
- Require treasury management officers and councilors to undertake self-assessment against the required competencies.
- Have regular communication with treasury management officers and councilors, encouraging them to highlight training needs on an ongoing basis.

Councillors received training on 6<sup>th</sup> December 2022 which was delivered by the Council's treasury management advisors. Further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed as part of the Council's annual Performance Management Review (appraisal) process.

### **1.5 Treasury Management Consultants**

The Council uses MUFG Corporate Markets as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions always remains with the organisation and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services 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 and documented and subjected to regular review.

At this stage, the scope of the Council's investments will include only conventional treasury investments (the placing of residual cash from the Council's functions). It is unlikely that in the near term that the Council will make commercial type investments, such as commercial investment properties. In the event that does happen, there may be a requirement for the Council to retain the services of specialist advisors. Should that be necessary, any decision to do so will be reported to the Executive Committee.

## 2. THE CAPITAL PRUDENTIAL INDICATORS 2026/27 – 2028/29

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

### 2.1 Capital Expenditure and Financing

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital Expenditure £000	2024/25 Actual	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Housing Schemes	1,304	1,740	2,605	1,371	1,371
Regeneration Schemes	11,136	12,113	6,480	1,736	1,605
Engineering Schemes	-	1,011	517	50	50
Council Assets	1,205	1,417	3,151	794	800
IT	73	152	156	100	100
Operational Services	410	1,946	3,139	351	351
S106 schemes	14	142	-	-	-
<b>Total Expenditure</b>	<b>14,142</b>	<b>18,522</b>	<b>16,049</b>	<b>4,402</b>	<b>4,277</b>

Other long-term liabilities - the above financing need excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of Capital Expenditure £000	2024/25 Actual	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Total Expenditure	14,142	18,522	16,049	4,402	4,277
<b>Financed by:</b>					
Capital Grants (In hand & in year)	12,555	12,871	9,013	3,107	2,976
Capital Receipts	494	584	1,509	12	12
Revenue contribution to Capital	15	51	-	-	-
Section 106 Receipts	14	142	-	-	-
<b>Net financing need for the year</b>	<b>1,064</b>	<b>4,874</b>	<b>5,526</b>	<b>1,283</b>	<b>1,289</b>

### 2.2 The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet

been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

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

The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £0m of such schemes within the CFR.

The Council is asked to approve the CFR projections below:

£000	2024/25 Actual	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
<b>Capital Financing Requirement (CFR)</b>					
CFR - Services	22,722	22,722	27,054	31,696	32,046
CFR - Commercial Investments	-	-	-	-	-
<b>Total CFR</b>	<b>22,722</b>	<b>27,074</b>	<b>31,696</b>	<b>32,046</b>	<b>32,351</b>
<b>Movement in CFR</b>		<b>4,332</b>	<b>4,642</b>	<b>349</b>	<b>305</b>

<b>Movement in CFR represented by</b>					
Net financing need for the year (above)		4,874	5,526	1,283	1,289
Less MRP/VRP and other financing movements		(542)	(884)	(934)	(984)
<b>Movement in CFR represented by</b>	<b>-</b>	<b>4,332</b>	<b>4,642</b>	<b>349</b>	<b>305</b>

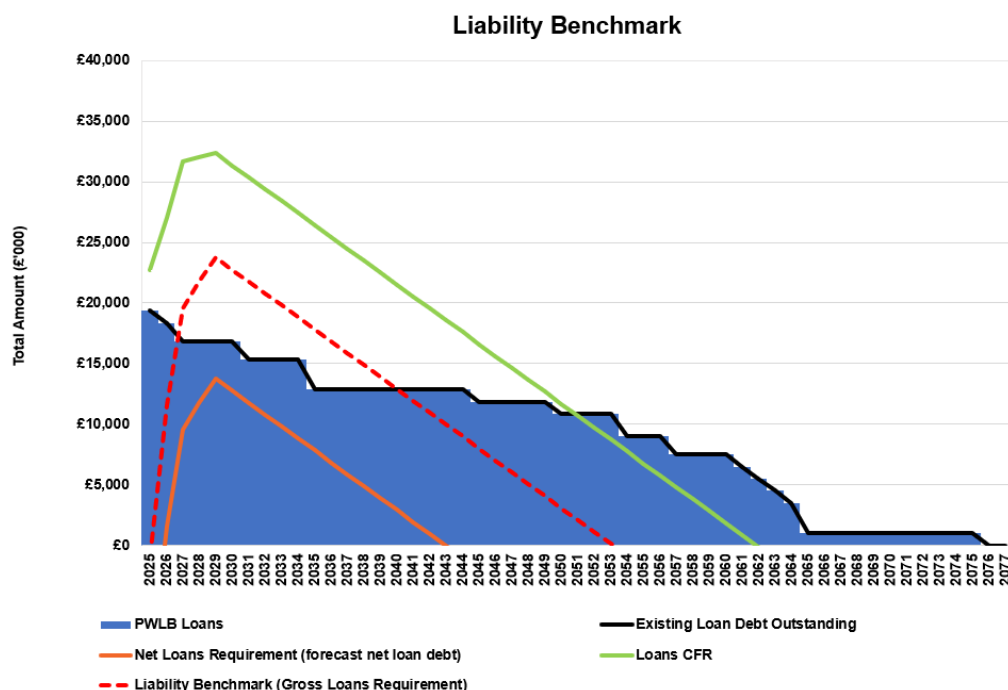
### 2.3 Liability Benchmark

A third prudential indicator for 2026/27 is the Liability Benchmark (LB). The LB is a measure of how well the existing loans portfolio matches the Council's planned borrowing needs. It tells the Council how much it needs to borrow, when and the maturity of investments needed to match the planned borrowing needs. The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB: -

1. **Existing loan debt outstanding:** the Council'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 Council'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.



Any years where actual fixed rate loans are less than the liability benchmark indicate a potential future borrowing requirement. Any years where actual fixed rate loans exceed the benchmark represent an overborrowed position which will result in excess cash requiring investment. The liability benchmark suggests that the Council will need to borrow from 2026/27 for a period of up to 13 years.

## 2.4 Core Funds and Expected Investment Balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources £000	2024/25 Actual	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Fund balances / Reserves	28,465	15,152	14,703	13,397	10,614
Capital Receipts	1,942	1,497	0	0	0
Provisions	1,002	852	702	552	402
Working Capital*	14,425	29,249	7,850	7,850	7,850
<b>Total Core Funds</b>	<b>45,835</b>	<b>46,751</b>	<b>23,255</b>	<b>21,799</b>	<b>18,866</b>

\*Working capital balances shown are estimated year-end; these may be higher mid-year.

## 2.5 Minimum Revenue Provision (MRP) Policy Statement

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).

The Council is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance (2018) gives four ready-made options for calculating MRP, but the Council can use any other reasonable basis that it can justify as prudent.

The MRP policy statement requires full council approval (or closest equivalent level) in advance of each financial year.

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- For supported capital expenditure incurred before 1st April 2008, the Council will apply the Asset Life Method using an annuity calculation.

For capital expenditure from 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

- Unsupported borrowing will be subject to MRP under Asset Life Method. MRP will be based on the estimated life of the assets in accordance with the regulations using the annuity method, under which annual payments gradually increase during the life of the asset. The annuity method will be calculated on a weighted average basis.

The interest rate applied to the annuity calculations will reflect the market conditions at the time, and will for the current financial year be based on PWLB annuity rates. Where applicable, repayments included in annual PFI or finance leases are applied as MRP.

Repayments included in annual PFI or leases are applied as MRP.

**MRP Overpayments** - The MRP Guidance allows that any charges made in excess of the statutory minimum revenue provision (MRP), i.e. voluntary revenue provision or overpayments, can be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

**Exceptions to the MRP Policy** – There are currently the following exceptions to the MRP policy stated above:

- Any borrowing to finance housing projects using the Brownfield Regeneration Fund will also be excluded from the requirement to for an MRP charge. If such borrowing is undertaken, the intention is to repay this borrowing from the capital receipts generated by the sale of properties over a period of up to 5 years.
- A similar approach may be taken on other 'regeneration' type schemes where it is the intention to repay any debt financing from the subsequent disposal proceeds over a 'short' period (usually limited to 5 years).

### 3. BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. 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 the Council's 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.

#### 3.1 Current Portfolio Position

The overall treasury management portfolio as at 31/03/2025 and for the position as at 31/03/2026 are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
	Actual	Actual	Current	Current
	31/03/2025	31/03/2025	31/03/2026	31/03/2026
Treasury Investments	£000	%	£000	%
Banks	3,000	9%	-	-
Building Societies - unrated	-	-	-	-
Building Societies - rated	-	-	-	-
Local Authorities	4,850	15%	4,000	18%
DMADF (H.M. Treasury)	22,250	67%	15,700	69%
Money Market Funds	3,000	9%	3,000	13%
Certificates of Deposit	-	-	-	-
<b>Total Managed in House</b>	<b>33,100</b>	<b>100%</b>	<b>22,700</b>	<b>100%</b>
Bond Funds	-	-	-	-
Property Funds	-	-	-	-
<b>Total Managed externally</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Treasury Investments</b>	<b>33,100</b>	<b>100%</b>	<b>22,700</b>	<b>100%</b>
<b>Treasury External Borrowing</b>				
Local Authorities	-	-	-	-
PWLB	18,359	100%	16,859	100%
LOBOs	-	-	-	-
<b>Total External Borrowing</b>	<b>18,359</b>	<b>100%</b>	<b>16,859</b>	<b>100%</b>
<b>Net Treasury Investments / (borrowing)</b>	<b>14,741</b>		<b>5,841</b>	

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£000	2024/25 Actual	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
<b>External Debt</b>					
Debt at 1 April	19,359	18,359	16,859	27,259	28,543
Expected Debt Repayments	(1,000)	(1,500)			
Expected Replacement Debt					
Expected New Debt					
• Non-Commercial			0	0	0
• Commercial			0	0	0
Other long-term liabilities (OLTL)			0	0	0
Expected change in OLTL			0	0	0
<b>Actual gross debt on 31 March</b>	<b>18,359</b>	<b>16,859</b>	<b>16,859</b>	<b>16,859</b>	<b>16,859</b>
<b>Capital Financing Requirement</b>					
	<b>22,722</b>	<b>27,054</b>	<b>31,696</b>	<b>32,046</b>	<b>32,351</b>
<b>Under / (over) borrowing</b>	<b>4,363</b>	<b>10,195</b>	<b>14,837</b>	<b>15,187</b>	<b>15,492</b>

Within the range of prudential indicators there are several key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2026/27 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

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

### 3.2 Treasury Indicators: Limits to Borrowing Activity

**The Operational Boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational Boundary £000	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Debt				
• Non-Commercial	28,500	30,000	30,000	30,000
• Commercial				
Other long-term liabilities	500	500	500	500
<b>Total</b>	<b>29,000</b>	<b>30,500</b>	<b>30,500</b>	<b>30,500</b>

**The Authorised Limit for external debt.** This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short-term, but is not sustainable in the longer-term.

- This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all local authority plans, or those of a specific authority, although this power has not yet been exercised.
- The Council is asked to approve the following Authorised Limit:

Authorised Limit £m	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Debt				
• None Commercial	31,500	33,000	33,000	33,000
• Commercial				
Other long-term liabilities	500	500	500	500
<b>Total</b>	<b>32,000</b>	<b>33,500</b>	<b>33,500</b>	<b>33,500</b>

### 3.3 Prospects for Interest Rates

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

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

Additional notes by MUFG Corporate Markets on this forecast table: -

- Our last interest rate forecast update was undertaken on 11 August. Since then, a combination of tepid growth (0.2% q/q GDP for Q2 and 0.1% q/q GDP for Q3), falling inflation (currently CPI is 3.2%), and a November Budget that will place more pressure on the majority of households' income, has provided an opportunity for the Bank of England's Monetary Policy Committee to further reduce Bank Rate from 4% to 3.75% on 18 December.
- Surprisingly, to most market commentators, the recent steep fall in CPI inflation in one month from 3.6% to 3.2% did not persuade most "dissenters" from the November vote (Lombardelli, Greene, Mann and Pill) to switch to the rate-cutting side of the Committee. Instead, it was left to Bank Governor, Andrew Bailey, to use his deciding vote to force a rate cut through by the slimmest of margins, 5-4.
- Given the wafer-thin majority for a rate cut it was not unexpected to hear that although rates would continue on a "gradual downward path", suggesting a further rate cut or cuts in the offing, MPC members want to assess incoming evidence on labour market activity and wage growth. Indeed, with annual wage growth still over 4.5%, the MPC reiterated that the case for further rate cuts would be "a closer call", and Governor Bailey observed there is "limited space as Bank Rate approaches a neutral level".
- Accordingly, the MUFG Corporate Markets forecast has been revised to price in a rate cut in Q2 2026 to 3.5%, likely to take place in the wake of a significant fall in the CPI inflation reading from 3% in March to 2% in April (as forecast by Capital Economics), followed by a short lull through the summer whilst more data is garnered, and then a further rate cut to 3.25% in Q4.
- As in August, nonetheless, threats to that central scenario abound. What if wage increases remain stubbornly high? There are, after all, several sectors of the domestic economy, including social care provision and the building/construction industries, where staff shortages remain severe. Moreover, by May 2026, following the local elections, we will have a better handle on whether or not the Starmer/Reeves team is going to see out the current Parliament or whether they face a Leadership challenge from within their own party. If so, how will gilt markets react to these variables...and will there be additional geo-political factors to also bake in, particularly the Fed's monetary policy decisions in 2026 and the ongoing battle to lower rates whilst inflation remains close to 3%.
- Accordingly, our updated central forecast is made with several hefty caveats. We are confident, as we have been for some time, that our forecast for Bank Rate and the 5-year PWLB Certainty Rate is robust, and we have marginally brought forward the timing of the next rate cut(s). But for the 10-, 25- and 50-years part of the curve, the level of gilt issuance, and the timing of its placement, will be integral to achieving a benign trading environment. That is not a "given", and additionally, the inflation outlook and political factors domestically and, crucially, in the US, are also likely to hold sway. Matters should be clearer by June in the UK, but the US mid-term elections are scheduled for November.

- Our revised PWLB rate forecasts are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012. Please note, the lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 for those authorities with an HRA (standard rate minus 60 bps) and is set to prevail until at least the end of March 2026. Hopefully, there will be a further extension to this discounted rate announced in January.
- Money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.

### Gilt yields and PWLB rates

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

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

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

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

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

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

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

### **3.4 Borrowing Strategy**

The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels, albeit only once prevailing inflation concerns are addressed by restrictive near-term monetary policy. That is, Bank Rate remains relatively elevated in 2026 even if further rate cuts arise.

Against this background and the risks within the economic forecast, caution will be adopted with the 2026/27 treasury operations. The Director of Resources will 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.

Any decisions will be reported to the appropriate decision-making body at the next available opportunity.

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

The Council will not borrow more than or in advance of its needs purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward 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 through the mid-year or annual reporting mechanism.

### **3.6 Debt rescheduling**

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

If rescheduling is to be undertaken, it will be reported to the Council at the earliest meeting following its action.

### **3.7 New Financial Institutions as a Source of Borrowing and / or Types of Borrowing**

Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, and sometimes out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

## 4 ANNUAL INVESTMENT STRATEGY

### 4.1 Investment Policy – Management of Risk

The Ministry of Housing, Communities and Local Government (MHCLG) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy, (a separate report).

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

In the current economic climate, it is considered appropriate to maintain a 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, whilst investment rates remain elevated, as well as wider range fund options.

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

1. 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.
2. **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.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This Council has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in section 5.4 under the categories of ‘specified’ and ‘non-specified’ investments.

**Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.

**Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified and loan investment limits.** The Council has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments.
6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.
7. **Transaction limits** are set for each type of investment in paragraph 4.2.
8. This Council will set a limit for its investments which are invested for **longer than 365 days**, (see paragraph 4.4).
9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).
10. This Council has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Council in the context of the expected level of cash balances and need for liquidity throughout the year.
11. All investments will be denominated in **sterling**.
12. As a result of the change in accounting standards for 2023/24 under IFRS 9, the Council 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. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23. Subsequently, a further extension to the over-ride to **31.3.29** was agreed by Government but only for those pooled investments made before 1<sup>st</sup> April 2024.

However, this Council will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

#### **Changed in risk management policy from last year**

The above criteria are unchanged from last year.

## **4.2 Creditworthiness Policy**

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or 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, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Director of Resources will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

The Council applies the creditworthiness service provided by MUFG Corporate Markets. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies – Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counter-parties from only the most creditworthy countries.

For instance, a negative rating Watch applying to counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is 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 will therefore use designated counterparties within the following durational bands:

- Orange – 1 year
- Red – 6 months
- Green – 100 days
- No colour – not to be used

Credit rating information is supplied by MUFG Corporate Markets, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur, and this information is considered before dealing.

The criteria for providing a pool of high-quality investment counterparties, (both specified and non-specified investments) is:

- Banks 1 - good credit quality – the Council will only use banks which:
  - i. are UK banks; and/or
  - ii. are non-UK and domiciled in a country which has a minimum sovereign Long-Term rating of AA-

and have, as a minimum, the following Fitch, Moody's and Standard & Poor's credit ratings (where rated):

- i. Short Term – F1/P1 + A1
  - ii. Long Term – a/A1 + A2
- Banks 2 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.
  - Building Societies (UK based). The Council will use societies which meet the credit rating criteria for banks outlined above.
  - Principal Local Authorities.
  - UK Government (Debt Management Office and Treasury Bills/Gilts).
  - Money Market Funds (to date only the CCLA Public Sector Deposit Fund has been used but this could vary subject to any review in 2026-27).
  - Designated Non-UK Banks meeting minimum credit rating criteria.

The proposed criteria for specified and non-specified investments are shown in Appendix 5.4 for approval.

**Use of additional information other than credit ratings.** Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, rating Watches/Outlooks) will be applied to compare the relative security of differing investment opportunities.

**Time and monetary limits applying to investments.** The time and monetary limits for institutions on the Council's counterparty list are as shown at section 5.2 for approval (these will cover both specified and non-specified investments).

**UK banks – ring fencing.** The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1<sup>st</sup> January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt out. Several banks are very close to the threshold already and so may come into scope in the future regardless.

### **Creditworthiness**

Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. Nonetheless, when setting minimum sovereign debt ratings, this Council will not set a minimum rating for the UK.

### **CDS prices**

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the autumn of 2022, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. MUFG Corporate Markets monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its MUFG Corporate Markets-provided Passport portal.

### **4.3 Other Limits**

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

- a. **Non-specified treasury management investment limit.** The Council has determined that it will not use non-specified investments.
- b. **Country limit.** The Council has determined that it will only use approved counterparties from the UK. In 2016, the Council agreed to exclude the UK sovereign rating from its minimum sovereign rating criteria, and this is still considered appropriate.
- c. **Other limits.** In addition:
  - Despite the exclusion of the UK rating, the Council will only invest with UK institutions that meet the approved minimum lending criteria.

### **4.4 Investment Strategy**

**In-house funds.** Investments will be made with reference to the core balance and cashflow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that rates can be expected to fall throughout 2026, but only if the CPI measure of inflation maintains a downwards trend towards the Bank of England's 2% target. Rates may be cut quicker than expected if the economy stagnates.

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

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

#### **Investment returns expectations.**

The current forecast shown in paragraph 3.3, includes a forecast for the Bank Rate to fall to a low of 3.25% in 2026.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year (updated on 22<sup>nd</sup> December 2025) are as follows:

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

Caution must be exercised in respect of all interest rate forecasts.

For its cashflow generated balances, the Council will seek to utilise its business reserve instant access accounts and Money Market Funds, and short-dated deposits, (overnight to 100 days), in order to benefit from the compounding of interest.

#### **4.5 Investment Performance / Risk Benchmarking**

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of overnight, 7 day, 1, 3, 6 or 12 month compounded / SONIA Sterling Overnight Index Average.

#### **4.6 End of Year Investment Report**

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

#### **AA Environmental, Social and Governance (ESG) policy**

The Council is committed to being a responsible investor at all times. Responsible investment means to recognise the importance of the long-term health and stability of the financial markets, and to understand that this depends on key external and non-financial factors such as environmental, social stability and strong governance. These factors are often referred to under the umbrella of ESG (Environmental, Social and Governance).

## **5 APPENDICES**

2. Prudential and treasury indicators
3. Interest rate forecasts
4. Economic background
5. Treasury management practice 1 – credit and counterparty risk management
6. Treasury management practice 1 – credit and counterparty risk management (Contd)
7. Approved countries for investments
8. Treasury management scheme of delegation
9. The treasury management role of the section 151 officer

## 5.1 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2025/26 – 2027/28

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

### AA Capital Expenditure

See table in Section 2.1.

#### 5.1.2 Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators.

**Ratio of Financing Costs\* to Net Revenue Stream.** This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs), against the net revenue stream.

%	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
<b>Total</b>	9.32%	7.51%	8.04%	8.19%

#### 5.1.3 Maturity Structure of Borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits: -

<b>Maturity structure of fixed interest rate borrowing 2026/27</b>		
	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	20%
12 months to 2 years	0%	30%
2 years to 5 years	0%	40%
5 years to 10 years	0%	60%
10 years and above	0%	100%
<b>Maturity structure of variable interest rate borrowing 2026/27</b>		
	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	25%
12 months to 2 years	0%	25%
2 years to 5 years	0%	25%
5 years to 10 years	0%	0%
10 years and above	0%	0%

#### 5.1.4. Control of Interest Rate Exposure

Please see paragraphs 3.3, 3.4 and 4.4.

## 5.2 INTEREST RATE FORECASTS 2026-2029

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

Please note, PWLB forecasts are based on PWLB certainty rates.

### 5.3 ECONOMIC BACKGROUND (to 23 December 2025)

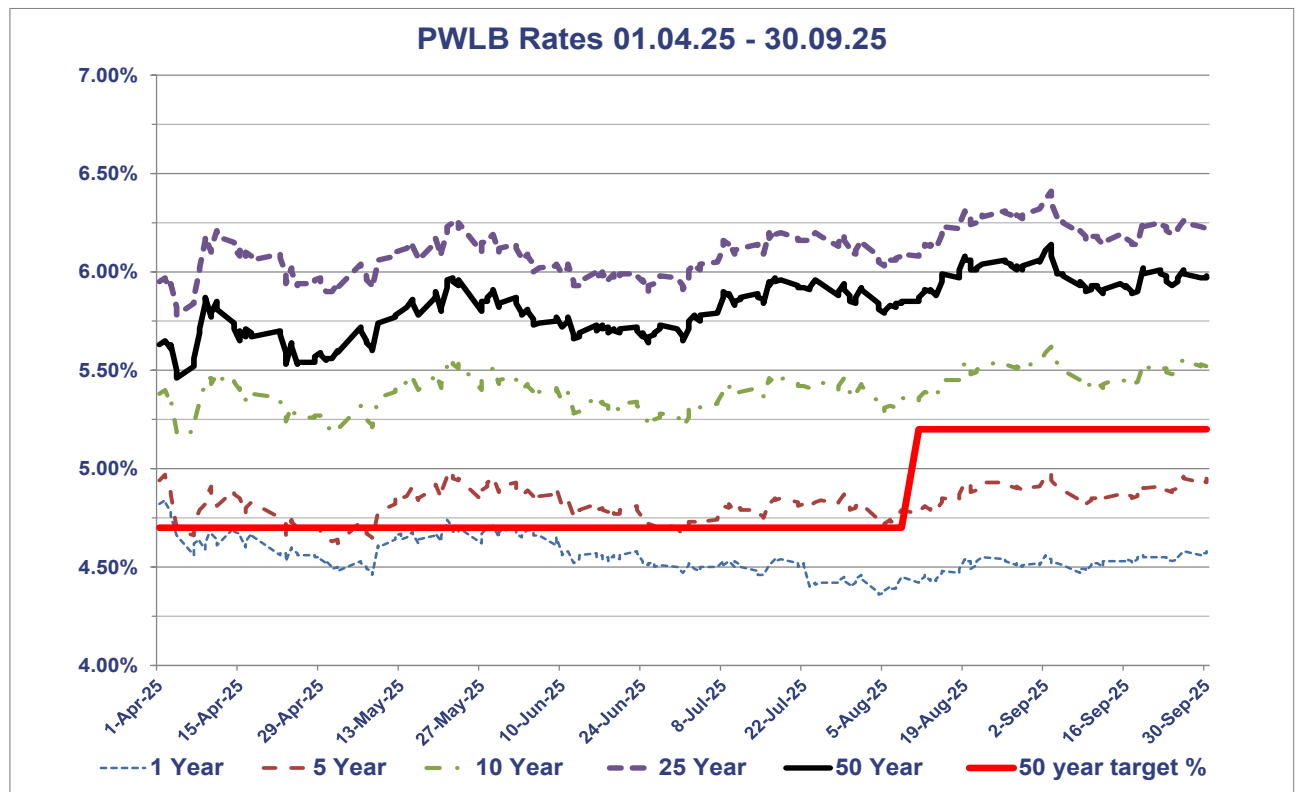
- The first half of 2025/26 saw:
  - A 0.3% pick up in GDP for the period April to June 2025. More recently, the economy flatlined in July, with higher taxes for businesses restraining growth, but picked up to 0.1% m/m in August before falling back by 0.1% m/m in September.
  - The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% to 4.6% in September.
  - CPI inflation has ebbed and flowed but finished September at 3.8%, whilst core inflation eased to 3.5%.
  - The Bank of England cut interest rates from 4.50% to 4.25% in May, and then to 4% in August (and subsequently to 3.75% in December).
  - The 10-year gilt yield fluctuated between 4.4% and 4.8%, ending the half year at 4.70% (before falling back to 4.43% in early November).
- From a GDP perspective, the financial year got off to a bumpy start with the 0.3% m/m fall in real GDP in April as front-running of US tariffs in Q1 (when GDP grew 0.7% on the quarter) weighed on activity. Despite the underlying reasons for the drop, it was still the first fall since October 2024 and the largest fall since October 2023. However, the economy surprised to the upside in May and June so that quarterly growth ended up 0.3% q/q (subsequently revised down to 0.2% q/q). Nonetheless, the 0.0% m/m change in real GDP in July, followed by a 0.1% m/m increase in August and a 0.1% decrease in September will have caused some concern. GDP growth for 2025 – 2028 is currently forecast by the Office for Budget Responsibility to be in the region of 1.5%.
- Sticking with future economic sentiment, the composite Purchasing Manager Index (PMI) for the UK increased to 52.2 in October. The manufacturing PMI output balance improved to just below 50 but it is the services sector (52.2) that continues to drive the economy forward. Nonetheless, the PMIs suggest tepid growth is the best that can be expected in the second half of 2025 and the start of 2026. Indeed, on 13 November we heard that GDP for July to September was only 0.1% q/q.
- Turning to retail sales volumes, and the 1.5% year-on-year rise in September, accelerating from a 0.7% increase in August, marked the highest gain since April. On a monthly basis, retail sales volumes rose 0.5%, defying forecasts of a 0.2% fall, following an upwardly revised 0.6% gain in August. Household spending remains surprisingly resilient, but headwinds are gathering.
- Prior to the November Budget, the public finances position looked weak. The £20.2 billion borrowed in September was slightly above the £20.1 billion forecast by the OBR. For the year to date, the £99.8 billion borrowed is the second highest for the April to September period since records began in 1993, surpassed only by borrowing during the COVID-19 pandemic. The main drivers of the increased borrowing were higher debt interest costs, rising government running costs, and increased inflation-linked benefit payments, which outweighed the rise in tax and National Insurance contributions.
- Following the 26 November Budget, the Office for Budget Responsibility (OBR) calculated the net tightening in fiscal policy as £11.7bn (0.3% of GDP) in 2029/30, smaller than the consensus forecast of £25bn. It did downgrade productivity growth by 0.3%, from 1.3% to 1.0%, but a lot of that influence was offset by upgrades to its near-term wage and inflation forecasts. Accordingly, the OBR judged the Chancellor was going to achieve her objectives with £4.2bn to spare. The Chancellor then chose to expand that headroom to £21.7bn, up from £9.9bn previously.
- Moreover, the Chancellor also chose to raise spending by a net £11.3bn in 2029/30. To pay for that and the increase in her headroom, she raised taxes by £26.1bn in 2029/30. The biggest revenue-raisers were the freeze in income tax thresholds from 2028/29 (+£7.8bn) and the rise in NICs on salary-sacrifice pension contributions (+£4.8bn). The increase in council tax for properties worth more than £2.0m will generate £0.4bn.

- The weakening in the jobs market looked clear in the spring. May's 109,000 m/m fall in the PAYE measure of employment was the largest decline (barring the pandemic) since the data began and the seventh in as many months. The monthly change was revised lower in five of the previous seven months too, with April's 33,000 fall revised down to a 55,000 drop. More recently, however, the monthly change was revised higher in seven of the previous nine months by a total of 22,000. So instead of falling by 165,000 in total since October, payroll employment is now thought to have declined by a smaller 153,000. Even so, payroll employment has still fallen in nearly all the months since the Chancellor announced the rises in National Insurance Contributions (NICs) for employers and the minimum wage in the October 2024 Budget. The number of job vacancies in the three months to November 2025 stood at 729,000 (the peak was 1.3 million in spring 2022). All this suggests the labour market continues to loosen, albeit at a slow pace.
- A looser labour market is driving softer wage pressures. The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% in April to 4.6% in September (still at that level in November). The rate for the private sector has slipped just below 4% as the year end approaches.
- CPI inflation remained at 3.8% in September but dropped to 3.2% by November. Core inflation also fell to 3.2% by November while services inflation fell to 4.4%. Nonetheless, a further loosening in the labour market and weaker wage growth may be a requisite to UK inflation coming in below 2.0% by 2027.
- An ever-present issue throughout recent months has been the pressure being exerted on medium and longer dated gilt yields. The yield on the 10-year gilt moved sideways in the second quarter of 2025, rising from 4.4% in early April to 4.8% in mid-April following wider global bond market volatility stemming from the "Liberation Day" tariff announcement, and then easing back as trade tensions began to de-escalate. By the end of April, the 10-year gilt yield had returned to 4.4%. In May, concerns about stickier inflation and shifting expectations about the path for interest rates led to another rise, with the 10-year gilt yield fluctuating between 4.6% and 4.75% for most of May. Thereafter, as trade tensions continued to ease and markets increasingly began to price in looser monetary policy, the 10-year yield edged lower, and ended June at 4.50%.
- More recently, the yield on the 10-year gilt rose from 4.46% to 4.60% in early July as rolled-back spending cuts and uncertainty over Chancellor Reeves' future raised fiscal concerns. Although the spike proved short lived, it highlighted the UK's fragile fiscal position. In an era of high debt, high interest rates and low GDP growth, the markets are now more sensitive to fiscal risks than before the pandemic. During August, long-dated gilts underwent a particularly pronounced sell-off, climbing 22 basis points and reaching a 27-year high of 5.6% by the end of the month. While yields have since eased back, the market sell-off was driven by investor concerns over growing supply-demand imbalances, stemming from unease over the lack of fiscal consolidation and reduced demand from traditional long-dated bond purchasers like pension funds. For 10-year gilts, by late September, sticky inflation, resilient activity data and a hawkish Bank of England kept yields elevated over 4.70% although by late December had fallen back again to a little over 4.50%.
- The FTSE 100 fell sharply following the "Liberation Day" tariff announcement, dropping by more than 10% in the first week of April – from 8,634 on 1 April to 7,702 on 7 April. However, the de-escalation of the trade war coupled with strong corporate earnings led to a rapid rebound starting in late April. As a result, the FTSE 100 ended June at 8,761, around 2% higher than its value at the end of March and more than 7% above its level at the start of 2025. Since then, the FTSE 100 has enjoyed a further 4% rise in July, its strongest monthly gain since January and outperforming the S&P 500. Strong corporate earnings and progress in trade talks (US-EU, UK-India) lifted share prices and the index hit a record 9,321 in mid-August, driven by hopes of peace in Ukraine and dovish signals from Fed Chair Powell. September proved more volatile and the FTSE 100 closed September at 9,350, 7% higher than at the end of Q1 and 14% higher since the start of 2025. Future performance will likely be impacted by the extent to which investors' global risk appetite remains intact, Fed rate cuts, resilience in the US economy, and AI optimism. A weaker pound will also boost the index as it inflates overseas earnings. In early November, the FTSE100 climbed to a record high just above 9,900. By late December, the index had clung on to most of those gains standing at 9,870 on 23 December.

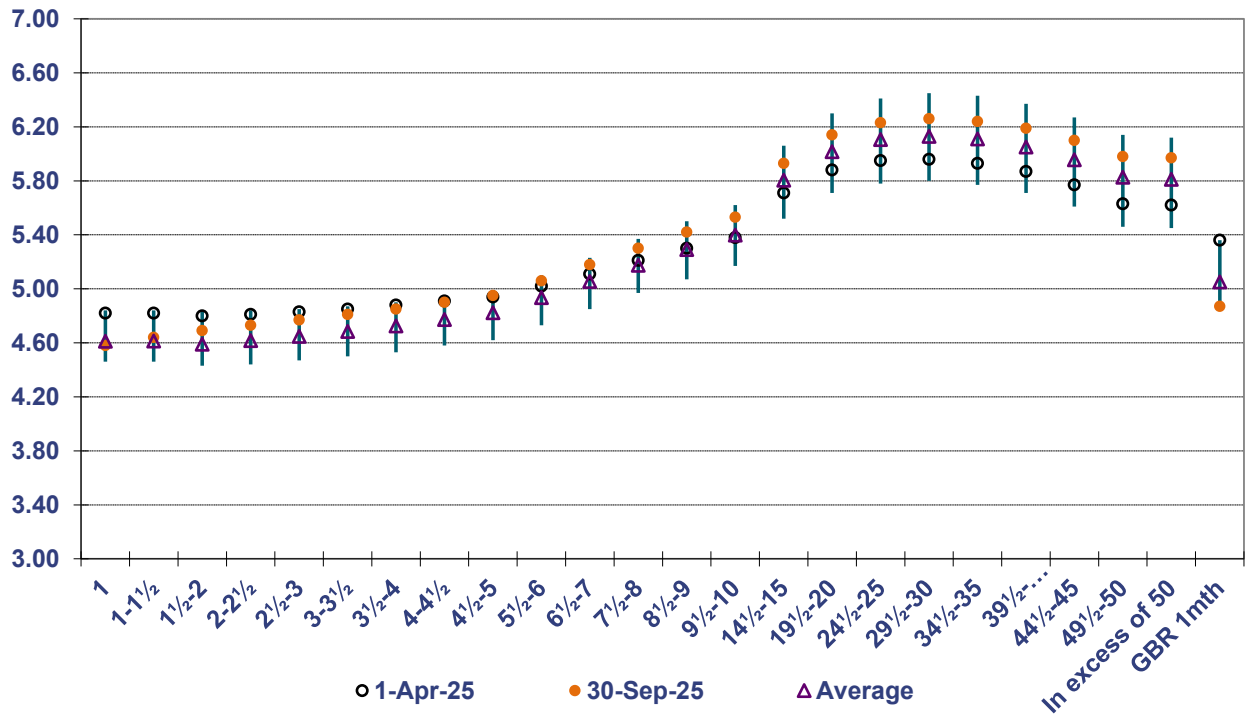
## MPC meetings: 8 May, 19 June, 7 August, 18 September, 6 November, 18 December 2025

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

## PWLB RATES 01.04.25 – 30.09.25



### PWLB Certainty Rate Variations 01.04.25 to 30.09.25



#### HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.25 – 30.09.25

	1 Year	5 Year	10 Year	25 Year	50 Year
<b>01/04/2025</b>	4.82%	4.94%	5.38%	5.95%	5.63%
<b>30/09/2025</b>	4.58%	4.95%	5.53%	6.23%	5.98%
<b>Low</b>	4.36%	4.62%	5.17%	5.78%	5.46%
<b>Low date</b>	04/08/2025	02/05/2025	02/05/2025	04/04/2025	04/04/2025
<b>High</b>	4.84%	4.99%	5.62%	6.41%	6.14%
<b>High date</b>	02/04/2025	21/05/2025	03/09/2025	03/09/2025	03/09/2025
<b>Average</b>	4.55%	4.82%	5.40%	6.11%	5.83%
<b>Spread</b>	0.48%	0.37%	0.45%	0.63%	0.68%

## 5.4 TREASURY MANAGEMENT PRACTICE – CREDIT AND COUNTERPARTY RISK MANAGEMENT

**SPECIFIED INVESTMENTS:** All such investments will be sterling denominated, with **maturities up to a maximum of 364 days**, meeting the minimum 'high' quality criteria where applicable.

**NON-SPECIFIED INVESTMENTS:** The Council will not invest in Non-Specified Investments. These are any investments which do not meet the specified investment criteria.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	** Max % of total investments / £ limit per institution	Max. maturity period
DMADF – UK Government	Yellow	Unlimited	6 months (max. is set by the DMO*)
UK Gilts	Yellow		5 years
UK Government Treasury Bills	Yellow		364 days (max. is set by the DMO*)
Money Market Funds (CCLA Public Sector Deposit Fund)	AAA	£3m	Liquid
Principal Local Authorities	Yellow	£3m (£6m for Lancashire County Council)	5 years (LCC – Liquid)
Term Deposits with Banks and Building Societies	Blue Orange Red Green No Colour	Maximum of £5m with each institution/Group. (£10m is restricted to Lloyds Group as Banker to the Council.	Up to 364 days
			Up to 364 days
CDs or Corporate Bonds with Banks and Building Societies	Blue Orange Red Green No Colour	Maximum of £5m with each institution/Group. (£10m is restricted to Lloyds Group as Banker to the Council.	100 days Not for use
			Up to 364 days Up to 364 days
Gilt Funds	UK sovereign rating		

\* DMO – is the Debt Management Office of HM Treasury

The Council's minimum ratings criteria relating to the above, as per Fitch, Standard & Poor's and

Moody's Ratings Agencies, are summarised below:

Rating Category	Fitch	Standard & Poor's	Moody's
Short term	F1	A1	P1
Long term	A	A1	A2

**Accounting treatment of investments.** The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

## 5.5 TREASURY MANAGEMENT PRACTICE – CREDIT AND COUNTERPARTY RISK MANAGEMENT (CONT).

The MHCLG issued Investment Guidance in 2018, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for local authorities to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective, the Guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council has adopted the Code and will apply its principles to all investment activity. In accordance with the Code, the Corporate Director (Resource) has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

**Annual Investment Strategy** – The key requirements of both the Code and the investment guidance are for the Council to set an Annual Investment Strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of the following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security, and high liquidity investments in sterling and with a maturity of no more than 364 days.

The investment policy proposed for the Council is:

**Strategy guidelines** – The main strategy guidelines are contained in the body of the Treasury Management Strategy Statement.

**Specified investments** – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

- The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills with less than one year to maturity).
- Supranational Bonds of less than one year's duration.
- A Local Authority, Housing Association, Parish Council or Community Council.
- Pooled investment vehicles (such as Money Market Funds currently CCLA Public Sector Deposit Fund only) that have been awarded a high credit rating by a credit rating agency, e.g. Standard & Poor's, Moody's and/or Fitch rating agencies.
- A body that is considered of a high credit quality (such as a bank or building society).

## 5.6 APPROVED COUNTRIES FOR INVESTMENTS

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

### ***Based on lowest available rating (as at 23.12.25)***

#### **AAA**

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

#### **AA+**

- Canada
- Finland
- U.S.A.

#### **AA**

- Abu Dhabi (UAE)
- Finland
- Qatar

#### **AA-**

- U.K.

## COUNTERPARTY LENDING LIST

	Counterparty	Type of Institution	Sovereign Rating	Long Term	Short Term	Group	Individual	Maximum
						Limit £M	Limit £M	Duration (Mths / Days)
	<i>Pendle BC's Minimum Ratings Criteria</i>	<i>(per Fitch)</i>		A-	F1			
1	UK Banks	Bank				5.000	5.000	up to 364 days
2	Royal Bank of Scotland Group					5.000		
3	Natwest Bank PLC	Bank	(AA)	A+	F1		5.000	up to 364 days
4	The RBS PLC	Bank	(AA)	A+	F1		5.000	up to 364 days
5	Lloyds Banking Group PLC					10.000		
6	Lloyds Bank PLC	Bank	(AA)	A+	F1		10.000	Liquid Funds
7	UK Local Authorities	All UK Principal Councils	(AA)	n/a	n/a		3.000	up to 364 days
8	Lancashire County Council	LCC Call Account	(AA)	n/a	n/a		6.000	Liquid Funds
9	Debt Management Facility	UK Government	(AA)	n/a	n/a		Unlimited	up to 6 months
10	CCLA - PSDF	Money Market Fund	(AA)	AAA mmf			3.000	Liquid Funds
11	Nationwide	Building Society	(AA)	A	F1		5.000	up to 6 months
12	Coventry	Building Society	(AA)	A-	F1		5.000	up to 6 months
13	Leeds	Building Society	(AA)	A-	F1		5.000	up to 6 months

Additional Investments in UK Banks, Building Societies may be made providing that they meet the qualifying criteria as set out in Section 5.4.

## **5.7 TREASURY MANAGEMENT SCHEME OF DELEGATION**

### **(i) Full Council**

- Initial approval and adoption of the Treasury Management Policy Statement (TMPS) and subsequent revisions (as and when required).
- Approval of the Annual Treasury Management Strategy (TMS)/Annual Investment Strategy (AIS) and Policy on the Minimum Revenue Provision (MRP) and consideration and approval of any in year changes (in March each year for the forthcoming financial year);
- Approval of the Council's Capital Strategy and related Capital Programme.

### **(ii) Executive Committee**

- Annual Treasury Management outturn report (by July each year for the previous financial year).
- Mid-Year Treasury Management report (by October of each year for the year in question).

### **(iii) Accounts and Audit Committee**

- Approval of/amendments to the Council's adopted treasury management practices (TMPs).
- Receiving and reviewing regular (quarterly) monitoring reports and acting on recommendations.
- Scrutiny of treasury management performance and strategy.

### **(iv) List of documents to be made available for public inspection**

- The Council is committed to the principle of openness and transparency in its treasury management function and in all its functions.
- It has adopted the CIPFA Code of Practice on Treasury Management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement (TMPS) and implementing the other principles of the Code.
- The following documents are available for public inspection:
  - Treasury Management Policy Statement
  - Treasury Management Strategy Statement
  - Annual Investment Strategy
  - Minimum Revenue Provision Policy Statement
  - Annual Treasury Management Outturn Report
  - Treasury Management Monitoring Reports (e.g. half-yearly and quarterly)
  - Annual accounts and financial instruments disclosure notes
  - Annual budget
  - Annual Capital Programme
  - Capital Strategy
  - Minutes of Council / Policy & Resource Committee meetings

- Schedule of all external funds managed by the Council on behalf of others and the basis of attributing earned interest and costs of these investments.

## 5.8 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

### The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- submitting regular treasury management policy reports.
- submitting budgets and budget variations.
- receiving and reviewing management information reports.
- reviewing the performance of the treasury management function.
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- ensuring the adequacy of internal audit, and liaising with external audit.
- recommending the appointment of external service providers.
- preparation of a Capital Strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe (*say 20+ years – to be determined in accordance with local priorities.*).
- ensuring that the Capital Strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money.
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority.
- ensure that the Authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing.
- ensuring the proportionality of all investments so that the Authority does not undertake a level of investing which exposes the Authority to an excessive level of risk compared to its financial resources.
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities.
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees .
- ensuring that members are adequately informed and understand the risk exposures taken on by the Authority.
- ensuring that the Authority has adequate expertise, either in house or externally provided, to carry out the above.
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following (TM Code p54):
  - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
  - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*
  - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in*

*relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*

- *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*
- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*