Item No:
**11**

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| **Report For:** | **Executive** |
| **Date of Meeting:** | 09 February 2026 |
| **Report Of:** | **Director of Finance, Revenues and Benefits** |
| **Report Author:** | **Tatenda Mutsonziwa, Interim Chief Accountant**<br>**Robert Millard, Treasury Manager** |
| **Subject:** | Treasury Management Strategy 2026/27 |
| **Lead Executive Member(s):** | Councillor Rob Roche |
| **Wards Affected:** | All |
| **Consultations:** | Councillors ☑<br>Scrutiny ☑<br>Stakeholders ☐<br>Others ☐ |

## Recommendations

1. **The Executive is recommended to approve the 2026/27 Treasury Management Strategy considered by the Finance Review Group at their meeting on 22nd January 2026 and submit to Full Council on 23rd February 2026 for final approval of the following:**

   i. **the Treasury Management Strategy and Policy Statement.**
   ii. **the Annual Investment Strategy 2026/27 (see Appendix Q of the budget report).**
   iii. **the Borrowing Strategy for 2026/27.**
   iv. **the Council's Prudential and Treasury Indicators.**
   v. **the Capital Financing Requirement and Borrowing estimate.**

## Background

2. 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 needed. Surplus cash arising from treasury activities is invested in low-risk counterparties providing adequate liquidity initially before considering investment return.

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

4. The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet

spending commitments as they fall due, either 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. 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, although they may have a material impact on the Council's borrowing levels and risk profile. Such activities are subject to separate Investment Strategy Report 2026/27 which can be found in full as an Appendix to the Draft Revenue Budget 2026/27 and Capital Programme 2025/30 Report.

**5.** Since the first Executive meeting on 12 January 2026, updates have been made to this Treasury Management Strategy to reflect the latest available information. These revisions are primarily technical or presentational in nature and are intended to improve alignment and consistency with other financial reports to Executive and Full Council. The main changes to note include reprofiling of long- and short-term borrowing estimates, and presentation of refinancing to correctly reflect the overall borrowing position. None of these updates materially change the interest calculations or estimates reported previously. There have also been late changes to the HRA capital expenditure that will be updated in the Full Council report.

**6.** CIPFA defines treasury management as:

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

**7.** The Council is required to receive and approve three main reports each year, which incorporate a variety of policies, estimates and actuals and these are submitted to the Audit and Governance Committee for scrutiny. Additionally, activity reports are submitted to the Executive providing up to date information on a quarterly basis.

**8.** Following extensive consultation, the government published revised regulations covering the minimum revenue provision (MRP). The key changes have been outlined in paragraphs 30 to 33 of this report and have been fully incorporated into the Council's MRP policy.

**9.** The Capital Strategy will be incorporated into the Budget and Capital Programme 2026/27 & MTFP report as an appendix.

## The Current Position

### Treasury Management and Annual Investment Strategy

**10.** This report covers:

a. the Council's current Capital Programme (including prudential indicators);

b. how investments and borrowings are to be organised, and the parameters applied; and

c. an investment strategy – setting out how investments are to be managed.

**Mid-Year Treasury Management Report**

**11.** This report updates Members with the progress of the capital position, amending prudential indicators where necessary and whether the treasury strategy is being adhered to or whether policies require revision.

**Annual Treasury Management Report**

**12.** This provides details of actual prudential and treasury indicators and the actual treasury operations compared to the estimates within the strategy.

**Scrutiny**

**13.** The above reports are submitted to the Audit and Governance for scrutiny.

**Annual Treasury Management Strategy for 2026/27**

**14.** The strategy covers two main areas:

**Capital Programme and Financing**

**15.** The capital issues include:

a. the current Capital Programme, including forecasts of the Capital Financing Requirement (CFR) and prudential indicators,
b. reference to the Minimum Revenue Provision (MRP) policy

**Treasury Management**

**16.** The Treasury Management section includes:

i. the current treasury position
ii. treasury indicators which limit the treasury risk and activities of the Council
iii. prospects for interest rates
iv. the borrowing strategy
v. policy on borrowing in advance of need
vi. debt rescheduling
vii. the annual investment strategy
viii. creditworthiness policy
ix. policy on use of external service providers

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

**Training**

**18.** The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. Officers receive on-the-job training in addition to attending training sessions and seminars provided by CIPFA and the Council's treasury advisers Arlingclose.

**Treasury Management Consultants**

**19.** The Council uses Arlingclose as its external treasury management advisers. It is recognised that responsibility for treasury management decisions remains with the Council at all times and that undue reliance will not be placed upon our external service provider.

**20.** It is also recognised that there is value in employing, when required, external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed, follow Council procurement guidelines and be subjected to regular review.

**21.** The current position incorporates the Council's current use of resources and the latest investment position.

**22.** The application of existing 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.). The Council also utilises cash for policy investments which are outside the remit of the treasury management strategy. Lending for policy investments is approved by the Executive.

**23.** The table below shows the General Fund, HRA position on 31 March 2025, 1 December 2025 and a forecasted position as at 31 March 2026:

| **Investment and Borrowing Position** | **31/03/2025 Actual £'000** | **01/12/2025 Actual £'000** | **31/03/2026 Estimate £'000** |
|---|---|---|---|
| **Total Investments*** | **33,120** | **33,960** | **30,000** |
| **Borrowing** | | | |
| Short Term Borrowing (Other LAs) | 52,000 | 108,000 | 58,000 |
| PWLB | 678,858 | 678,858 | 734,964 |
| Money Market (including LOBOs) | 30,000 | 30,000 | 30,000 |
| Other Long-Term Liabilities (PFI) | 18,397 | 17,224 | 17,224 |
| Long term lease (Wesley House) | 0 | 33,312 | 33,312 |
| **Total Borrowing** | **779,255** | **867,393** | **873,499** |

*Actual investment figures will differ from the accounts because the table excludes investments in subsidiaries

**24.** The Council can utilise the PWLB for its borrowing requirements. During 2025/26 there have been no new PWLB borrowings drawn during 2025/26 to date, however depending on the trajectory of interest rates in the third and fourth quarter of

2025/26, further borrowing may be drawn before 31st March 2026. This would be to fund the capital programme and refinance HRA borrowing.

**25.** Due to the longer period of higher interest rates experienced, the Council utilises internal borrowing to avoid the adverse impact of relatively more expensive borrowing. The current strategy is therefore not to reduce the level of internal borrowing as the cost of borrowing, either in the short or long term, remains higher than in previous years.

**26.** The Council receives interest rate monitoring data from its treasury management adviser Arlingclose. This allows the Council to review the direction of interest rates and therefore make informed decisions on managing investment returns within the Council's risk and liquidity requirements.

**27.** A summary of actual interest for 2024/25, year-to-date interest (as of Dec. 2025) and estimated interest for 2025/26 is provided in the table below.

| **Treasury Interest Income and Cost, £'000** | **2024/25** | **YTD** | **2025/26** |
|---|---|---|---|
| | **Actual** | **Actual** | **Budget** |
| Interest on Investments | 1,190 | 926 | 1,170 |
| Interest paid to 3rd Parties | 0 | 0 | 58 |
| **Total Net Interest income** | **1,190** | **926** | **1,112** |
| **Interest on Total Borrowing** | **16,611** | **18,041** | **21,019** |

The interest payable to third parties relates to Southeast Midlands Learning Enterprise Partnership (SEMLEP).

## Capital Expenditure

**28.** The Council's capital expenditure plans, including those approved previously and those proposed as part of the 2026/27 budget cycle are summarised in the following table. Members are asked to approve the capital expenditure forecasts in the table below. Detail is included in the Capital Programme – section 2 of the Budget report (the "green book").

| **Capital Expenditure Estimates, £'000** | **2025/26** | **2026/27** | **2027/28** | **2028/29** | **2029/30** | **2030/31** |
|---|---|---|---|---|---|---|
| Chief Executive | 4,739 | 3,324 | 2,311 | 2,191 | 1,191 | - |
| Inclusive Economy | 68,307 | 86,645 | 40,386 | 39,317 | 16,858 | 19,781 |
| Children, Families and Education | 9,361 | 8,227 | 5,227 | 5,227 | - | - |
| Commercial | 13,885 | 9,501 | 5,720 | - | - | - |
| Population & Wellbeing | 29,207 | 2,893 | 998 | 998 | 998 | 1,248 |
| **General Fund** | **125,499** | **110,590** | **54,641** | **47,733** | **19,047** | **21,029** |
| Additional Debt and Equity for FHL | | 13,242 | 1,758 | | | |
| **General Fund incl. additional FHL** | **125,499** | 123,832 | 56,399 | 47,733 | 19,047 | 21,029 |
| **HRA** | **23,728** | **40,835** | **37,657** | **18,617** | **13,440** | **16,066** |
| **Total Capital Expenditure** | **149,227** | **164,667** | **94,057** | **66,350** | **32,488** | **37,095** |

** Additional FHL loan and equity are required to fund Foxhall Homes Ltd (FHL) development activities*

**29.** The table below summarises the above General Fund capital expenditure plans and how they are to be financed in-year either by capital or revenue resources. Any shortfall of resources results in a need for additional borrowing for the year.

| General Fund Financing Estimates, £'000 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | 2030/31 |
|---|---|---|---|---|---|---|
| Capital Expenditure | 125,499 | 123,832 | 56,399 | 47,733 | 19,047 | 21,029 |
| **Financed by:** | | | | | | |
| Grants & Contributions | 44,346 | 26,183 | 17,747 | 17,672 | 7,235 | 7,214 |
| Revenue Contributions | 5,511 | 6,484 | 5,655 | 6,805 | 400 | 4,398 |
| Capital Receipts | 221 | - | - | - | - | - |
| **Total financing:** | **50,078** | **32,668** | **23,402** | **24,477** | **7,635** | **11,612** |
| **Capital Financing Requirement (CFR)** | **75,421** | **91,164** | **32,997** | **23,256** | **11,413** | **9,417** |

**30.** A significant proportion of the financing need is generated by the investments in our Wholly Owned Subsidiaries, London Luton Airport Limited and Foxhall Homes Limited. These additional costs will be financed by additional debenture interest payable by our subsidiaries. In addition, The Stage development is now underway, heralding the development of missed residential and commercial properties. UKSPF funding has enabled us to implement a public realm programme, including a new public realm design guide for the town and immediate improvements in lighting, planting and public art. These investments will increase the Council's borrowing requirement and therefore generate much greater loan interest payable each year. All investments are supported by detailed business cases approved by the Executive. Within the figures above, capital expenditure and financing relating to commercial activities through our wholly owned subsidiaries is extracted and shown in the table below.

| Commercial Activities / Non-Financial Investments, £'000 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | 2030/31 |
|---|---|---|---|---|---|---|
| In-Year Capital Financing Requirement | 75,421 | 91,164 | 32,997 | 23,256 | 11,413 | 9,417 |
| Commercial as a % of Net Financing Need | 56.67% | 56.11% | 55.63% | 55.22% | 55.47% | 55.85% |

**31.** The HRA Capital Financing Requirement (CFR) reflects the net historic cost of the HRA Capital Programme after all available HRA resources. As illustrated in the table below, the HRA Capital Programme does not give rise to any additional in-year CFR. Any external borrowing undertaken relates to the financing or refinancing of existing HRA borrowing.

| HRA Financing, £'000 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | 2030/31 |
|---|---|---|---|---|---|---|
| Capital Expenditure | 23,728 | 40,835 | 37,657 | 18,617 | 13,440 | 16,066 |
| **Financed by:** | | | | | | |
| Grants & Contributions | 14,992 | 35,935 | 33,657 | 16,617 | 11,440 | 14,066 |
| Revenue Contributions | 1,432 | - | - | - | - | - |
| Capital Receipts | 7,305 | 4,900 | 4,000 | 2,000 | 2,000 | 2,000 |
| **Total:** | **23,728** | **40,835** | **37,657** | **18,617** | **13,440** | **16,066** |
| **In-Year HRA CFR** | **-** | **-** | **-** | **-** | **-** | **-** |

Revenue Contributions includes the annual contribution from the Major Repairs Reserve (MRR)

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

**32.** The Capital Financing Requirement (CFR) prudential indicator is 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, 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 borrowing need in line with each asset's life. The CFR includes any other long-term liabilities for example PFI schemes, finance leases. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and are financing through contractual arrangements rather than separate new borrowing. The movement in the CFR in 2026/27 is £104.8m, (see tables in paragraphs above) adjusted for MRP and updates to LLAL opening balances in the cumulative CFR table below.

The Council is asked to approve the cumulative CFR projections below.

| **Capital Financing Requirement, £'000** | **2025/26** | **2026/27** | **2027/28** | **2028/29** | **2029/30** | **2030/31** |
|---|---|---|---|---|---|---|
| Service Delivery | 476,029 | 530,230 | 539,343 | 544,960 | 537,036 | 527,736 |
| Commercial | 553,874 | 585,983 | 590,948 | 587,918 | 585,077 | 581,328 |
| **Total General Fund** | **1,029,902** | **1,116,213** | **1,130,291** | **1,132,878** | **1,122,113** | **1,109,063** |
| Housing | 134,090 | 134,090 | 134,090 | 134,090 | 134,090 | 134,090 |
| **Total CFR** | **1,163,993** | **1,250,303** | **1,264,381** | **1,266,968** | **1,256,203** | **1,243,154** |

NOTE: since the first executive meeting on 12 January 2026, there have been changes made to reflect the latest information available

**Minimum Revenue Provision Policy Statement**

**33.** The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision – MRP). Following a national consultation undertaken in 2024/25, the government published revised minimum revenue provision (MRP) regulations which took effect from 1 Apr. 2025.

**34.** The key changes included:

**(i)** Clarification on the use of capital receipts: Local authorities are prohibited from using proceeds from asset sales to replace the revenue charge for MRP.

**(ii)** Inclusion of all debt in MRP calculations: Authorities must include all debt, including that associated with investment assets, in their MRP determinations.

**(iii)** Treatment of capital loans: Provisions were made to allow certain capital loans to be exempt from MRP, provided specific conditions are met.

**35.** MRP requirements relating to expected credit losses and impairments were applied to the Council's new capital loans from 7 May 2024. Amendments to the Council's MRP policy to fully incorporate the 2025/26 revised regulations took effect from 1 April 2025.

**36.** Government wishes to ensure that elected members can scrutinise officers' proposals to confirm prudent MRP provisions are made. The Council's MRP policy complies with the regulations stated above. The Council's MRP Statement can be found in full as an Appendix to the 2026/27 Revenue Budget and 2026/31 Capital Programme Report.

**Capital Prudential Indicators 2026/27 to 2030/31**

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

**Affordability Prudential Indicators**

**38.** 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**

**39.** This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The estimates of financing costs include current commitments and the proposals in this report. The updated table is below:

| Year | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | 2030/31 |
|---|---|---|---|---|---|---|
| Service Delivery | 8.02% | 9.30% | 9.38% | 8.93% | 9.20% | 8.62% |
| Commercial | -18.65% | -15.93% | -13.53% | -12.38% | -11.99% | -11.62% |
| **Total GF** | **-10.63%** | **-6.63%** | -4.15% | -3.44% | -2.79% | -3.00% |
| **HRA** | **9.71%** | **10.14%** | **9.81%** | **9.08%** | **8.73%** | **8.33%** |

NOTE: since the first executive meeting on 12 January 2026, there have been changes made to reflect the latest information available

**40.** The financing costs ratio for service delivery is estimated to increase over the life of the programme which reflects assumed higher interest rates in future years and the additional cost to be incurred as described in the capital programme.

**41.** Commercial activities create a negative ratio due to the income generated from subsidiaries and commercial properties being significantly greater than the cost of the associated capital financing. The Council continues to be reported by LGA as being one of the highest generators of commercial income in the sector.

**42.** HRA debt levels are expected to increase in later years, the financing ratio is estimated to increase due to higher debt interest rates as loans are re-financed in years 2026/27.

**Financing costs impact on Band D**

**43.** This indicator identifies the impact on the average Band D precept of the financing costs of service delivery, the savings generated by commercial activity and the combined capital financing impact. This includes interest payable on debt and MRP set aside for the scheme. Debenture loans to subsidiaries currently do not attract any MRP each year.

**44.** The table below illustrates the proportion of the Council Tax Band D precept which relates to the financing of the capital programme to deliver services to the public. The estimate for 2026/27 is £ 413.28 (24.60% of the proposed Band D precepts of

£1,680.20). The 2025/26 equivalent was £311.90 (19.22% of the proposed Band D precept of £1,622.70).

| Year | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | 2030/31 |
|---|---|---|---|---|---|---|
| Service Delivery | 311.90 | 413.28 | 477.91 | 503.25 | 532.05 | 510.57 |
| Commercial | -725.30 | -707.67 | -689.28 | -697.37 | -693.38 | -688.01 |
| **Total GF** | **-413.40** | **-294.39** | **-211.37** | **-194.12** | **-161.34** | **-177.44** |

NOTE: since the first executive meeting on 12 January 2026, there have been changes made to reflect the latest information available

**45.** Commercial activity creates a significant net revenue stream to the Council through the net investment gains realised through our subsidiaries and the net profits generated through commercial property investments. The impact on the Council's Band D precept if the Council did not generate commercial returns would be a charge of £707.67, representing an increase of 42.12% on the proposed £1,680.20 precept for 2026/27.

**46.** This table illustrates the success of commercial ventures undertaken by the Council but conversely highlights the risk and reliance the Council has on its commercial investments to finance front line services.

| Commercial Returns Estimates | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | 2030/31 |
|---|---|---|---|---|---|---|
| Commercial Returns, £'000s | -41,595 | -40,997 | -40,608 | -41,660 | -42,004 | -42,004 |
| Percentage of Revenue Stream | -18.65% | -15.93% | -13.53% | -12.38% | -11.99% | -11.99% |
| **Impact on Council Tax Band D** | **-£725.30** | **-£707.67** | **-£689.28** | **-£697.37** | **-£693.38** | **-£693.38** |

NOTE: since the first executive meeting on 12 January 2026, there have been changes made to reflect the latest information available

### Debt per dwelling

**47.** A key HRA affordability indicator is the level of debt per dwelling. The below table illustrates the movement in this indicator over the life of the capital programme. The HRA property portfolio is expected to decrease by ~370 properties between 2026-31. This is due to an expected increase in Council House sales before the Right to Buy (RTB) initiative is ended.

| HRA Debt per Dwelling | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | 2030/31 |
|---|---|---|---|---|---|---|
| HRA Debt £'000 | 134,090 | 134,090 | 134,090 | 134,090 | 134,090 | 134,090 |
| Number of HRA Dwellings | 7,316 | 7,186 | 7,056 | 6,966 | 6,956 | 6,946 |
| **Debt per dwelling** | **18.33** | **18.66** | **19.00** | **19.25** | **19.28** | **19.30** |

NOTE: since the first executive meeting on 12 January 2026, there have been changes made to reflect the latest information available

### Borrowing Strategy

**48.** 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 all cash commitments. This will include borrowing for capital purposes when necessary. The strategy covers the relevant treasury /prudential indicators, the current and projected debt positions and the annual investment strategy. The

General Fund will continue to manage the Council's debt portfolio and will recharge the Housing Revenue Account (HRA) under a proper accounting approach.

**Current and Future Years Debt Portfolio Position**

**49.** The Council's estimated debt portfolio position at 31 March 2026, with forward projections are summarised in the table below. The table shows the actual external debt against the underlying borrowing need (CFR) highlighting any over/or under borrowing. The Council would be over borrowed should the external debt exceed the capital financing requirement.

**50.** The Council is currently maintaining an under borrowed position, even with the addition of the 25-year Wesley House lease. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low, and counterparty risk is still an issue that needs to be considered.

| **Debt Position, £'000** | **2025/26** | **2026/27** | **2027/28** | **2028/29** | **2029/30** | **2030/31** |
|---|---|---|---|---|---|---|
| | **Estimate** | **Estimate** | **Estimate** | **Estimate** | **Estimate** | **Estimate** |
| Long term Borrowing | 764,964 | 854,653 | 925,941 | 928,269 | 903,956 | 890,906 |
| Short term Borrowing | 58,000 | 58,000 | 58,000 | 58,000 | 58,000 | 58,000 |
| Other L-T Liabilities | 17,224 | 16,432 | 15,171 | 13,925 | 12,290 | 10,579 |
| Long Term Lease (incl. Wesley) | 33,312 | 33,312 | 33,312 | 33,312 | 33,312 | 33,312 |
| **Gross Debt** | **873,499** | **962,396** | **1,032,424** | **1,033,505** | **1,007,557** | **992,796** |
| CFR | 1,163,993 | 1,250,303 | 1,264,381 | 1,266,968 | 1,256,203 | 1,243,154 |
| **Over/(Under) Borrowing** | **-290,493** | **-287,907** | **-231,958** | **-233,463** | **-248,646** | **-250,357** |

NOTE: since the first executive meeting on 12 January 2026, there have been changes made to reflect the latest information available

**51.** Within the prudential indicators there are a few key indicators to ensure that the Council operates its activities within 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 CFR in the preceding year plus the estimates of an additional CFR for 26/27 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 Service Director (Finance & Audit) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties in the future. This view considers current commitments, existing plans, and the proposals in the budget report.

**52.** The estimated Capital Financing Requirement (CFR) of the Council as at 31 March 2026 is £1.164 billion, the difference between this and the projected gross debt of the authority, £873.499 million is £290.493 million (see the table above). This is the amount of capital financing that the Council has internally borrowed. Any reduction in investment returns is more than offset by the savings generated by reducing the amount of interest payable on external debt.

**53.** This policy will be continually reviewed to ensure the Council is not exposed to interest rate risk and the potential of fixing longer-term debt at higher rates. Any reduction in the level of internal borrowing in the future reflects the council aim to

optimise the treasury management activities by making use of internally generated cash and at the same time reducing the council exposure to increases in future rate of interest.

**Liability benchmark**

**54.** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. The cash and investment balances are kept to a minimum level of circa £20m at each year-end to maintain sufficient liquidity but minimise credit risk.

**55.** The current estimated year end position represents the maximum level of cash backed balances available to inform internal borrowing policy decisions. This policy has, and will continue, to generate sufficient savings through a potential reduction in debt servicing costs. However, if cash backed balances reduce, the Council may require additional borrowing beyond the need to borrow as generated by the Capital Programme. This would increase the Council's exposure to interest rate risk.

**56.** Due to higher interest rates the Council is not planning to reduce internal borrowing in the short to medium term.

| £'000 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | 2030/31 |
|---|---|---|---|---|---|---|
| **Total CFR** | **1,163,993** | **1,250,303** | **1,264,381** | **1,266,968** | **1,256,203** | **1,243,154** |
| Less: Usable reserves | -123,123 | -122,216 | -122,216 | -122,216 | -122,216 | -122,216 |
| Less: Working Capital | -28,851 | -28,851 | -28,851 | -28,851 | -28,851 | -28,851 |
| Plus: Minimum Investments | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 |
| **Liability Benchmark** | **1,042,018** | **1,129,236** | **1,143,314** | **1,145,901** | **1,135,136** | **1,122,087** |

NOTE: since the first executive meeting on 12 January 2026, there have been changes made to reflect the latest information available

**57.** The total movement in the liability benchmark between 2025/26 and 2026/27 of £90m reflects the CFR increase.

**Treasury Indicators: Limits to Borrowing Activity**

**Operational Boundary**

**58.** 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 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | 2030/31 |
|---|---|---|---|---|---|---|
| | Estimate | Estimate | Estimate | Estimate | Estimate | Estimate |
| Borrowing (Long-term and short-term) | 822,964 | 912,653 | 983,941 | 986,269 | 961,956 | 948,906 |
| Other LT Liabilities | 17,224 | 16,432 | 15,171 | 13,925 | 12,290 | 10,579 |
| Long term lease liability (incl. Wesley) | 33,312 | 33,312 | 33,312 | 33,312 | 33,312 | 33,312 |
| **Operational Boundary** | **873,499** | **962,396** | **1,032,424** | **1,033,505** | **1,007,557** | **992,796** |

NOTE: since the first executive meeting on 12 January 2026, there have been changes made to reflect the latest information available

**Authorised Limit for External Debt**

**59.** This indicator represents a control on the maximum level of debt. This being the limit beyond which external debt is prohibited. 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.

| Estimated Authorised Limit | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | 2030/31 |
|---|---|---|---|---|---|---|
| Authorised Limit '£000* | 960,849 | 1,058,636 | 1,135,666 | 1,136,855 | 1,108,313 | 1,092,076 |

**The Authorised Limit for External Debt is assumed to be 10% above the operational boundary*
NOTE: since the first executive meeting on 12 January 2026, there have been changes made to reflect the latest information available

**60.** The Council is also limited to a maximum HRA CFR through the HRA self-financing regime. In October 2018, the government abolished the HRA debt cap.

| HRA Debt Limit Estimate, £000 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | 2030/31 |
|---|---|---|---|---|---|---|
| HRA CFR | 134,090 | 134,090 | 134,090 | 134,090 | 134,090 | 134,090 |
| HRA Debt Limit | 135,431 | 135,431 | 135,431 | 135,431 | 135,431 | 135,431 |

*HRA Debt Limit is assumed to be 1% above the HRA CFR*

**61.** The removal of the Debt Cap created an opportunity to invest in new developments across the town. Any new plans, supported by robust business cases, are evaluated.

**Prospect for Interest Rates**

**62.** The MPC reduced Bank Rate to 3.75% in December. The MPC will continue to reduce Bank Rate, but more slowly and by less.

**63.** Long-term gilt yields have risen to reflect both UK and US economic, monetary and fiscal policy expectations, and increases in bond supply. Volatility will remain elevated as the market digests in coming data for clues around the impact of policy changes.

**64.** This uncertainty may also necessitate more frequent changes to Arlinclose's forecasts than has been the case recently.

**65.** The risks around the forecasts lie to the upside over the next 12 months but are broadly balanced in the medium term.

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

**Investment and borrowing rates**

**67.** The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

**68.** There will remain a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

**69.** 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.

**70.** 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. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

**71.** By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of 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 continues to borrow 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.

**72.** The Council has previously raised the majority of its long-term borrowing from the PWLB. As interest rates have risen in recent months and the outlook for the near future is for higher levels, the Council may consider to borrow using short-term loans from the PWLB, or other sources, while the rate are high and will also continue to 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 intends to avoid this activity in order to retain its access to PWLB loans.

**73.** 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.

**74.** As ever, caution will be adopted with the 2026/27 treasury operations. The Service Director (Finance, Revenues and Benefits) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

**75.** In order to finance the capital programme, the Council will continue to assess the cheapest form of debt available. It is estimated interest costs will be approximately £75m over the next 3 years no matter which form of finance is agreed. This includes the financing costs for the Stage development project mentioned earlier.

**76.** The financing costs will be more than offset by interest earnt on Debenture Loans for London Luton Airport Limited, secured capital loans for Foxhall Homes Ltd and interest income generated from the Stage development project, which will partially offset the corresponding financing cost to mitigate the finance risks of the project (estimated more than £143.8m over the next 3 years). In addition, we have assumed that In view of the scale of borrowing required as part of this strategy, and the impact that borrowing is likely to have on the Council's balance sheet, on the financial gearing, and on financial risks, it is recommended that when the final business cases for the major investments are ready for approval, this is accompanied by a full review of the Annual Borrowing Strategy requiring the approval of the Executive and Full Council.

**Sources of borrowing**:

**77.** The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Bedfordshire Pension Fund)
- capital market bond investors
- UK Infrastructure Bank
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

**Local Government Association (LGA) - Municipal Bonds Agency**

**78.** The UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable.

**Treasury Management Limits on Activity**

**79.** Maturity Structure of Current fixed and variable interest rate long term borrowing based on 2025/26 activity. This indicator is set to control the Council's exposure to refinancing risk.

| Year Ending | 31/03/2026 | 31/03/2026 | 31/03/2026 | 31/03/2026 |
|---|---|---|---|---|
| **Maturity Structure** | **Fixed Rate, £000s** | **Fixed Rate, %** | **Variable Rate, £000s** | **Variable Rate, %** |
| Under 12 months | 0 | 0% | 0 | 0.00% |
| 12 months to 2 years | 4,095 | 1% | 0 | 0.00% |
| 2 years to 5 years | 40,000 | 6% | 0 | 0.00% |

| Year Ending | 31/03/2026 | 31/03/2026 | 31/03/2026 | 31/03/2026 |
|---|---|---|---|---|
| **Maturity Structure** | **Fixed Rate, £000s** | **Fixed Rate, %** | **Variable Rate, £000s** | **Variable Rate, %** |
| 5 years to 10 years | 108,497 | 17% | 0 | 0.00% |
| 10 years to 20 years | 95,000 | 15% | 0 | 0.00% |
| 20 years to 30 years | 93,976 | 15% | 5,000 | 100.00% |
| 30 years to 40 years | 147,000 | 23% | 0 | 0.00% |
| 40 years to 50 years | 125,000 | 20% | 0 | 0.00% |
| 50 years and above | 15,000 | 2% | 0 | 0.00% |
| **Estimated PWLB and MML as of 31 Mar. 2026** | **628,568** | **100%** | **5,000** | **100%** |

*This table excludes short term borrowing (usually from other Local Authorities) and is based on **existing** loans. As of Jan 2025, we expect £25m short-term borrowing balances to be carried forward to 2026/27, however this will depend on operational decisions taken as micro- and macro-economic factors emerge.*

**80.** The profile of borrowing will be continually monitored to ensure the cost of financing is minimised without creating operational liquidity issues and generating unaffordable future financing costs.

**81.** In terms of the blend of the debt portfolio the council will continue to improve the maturity spread, and our assessment of whether it is financially beneficial to enter into more variable rate debt in the future. The council will also apply two key limits:

At least 25% of debt maturing within 10 years
No more than 50% of debt maturing over 50 years

**Policy on Borrowing In Advance Of Need**

**82.** 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 security of such funds.

**83.** 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.

**Debt Rescheduling and Early Repayment of Debt**

**84.** When short-term borrowing rates are considerably lower than longer term fixed interest rates and there is an argument for switching some existing debt from long term to short term debt to create savings the Council would do so. However premature repayment of debt would incur large premiums which currently would far and away exceed any savings created by lower interest rates in current interest rate environment.

**85.** The reasons for rescheduling to take place include:

- to generate cash savings
- to help fulfil the treasury strategy

- to enhance the balance of the debt profile

**86.** If circumstances allow, then consideration will be given to using maturing investment balances to prematurely repay debt as returns on investments are lower than rates paid on debt. The Service Director Finance & Audit monitors interest rates and debt repayment opportunities should they arise. The Council's treasury management adviser Arlingclose also provide updates on early repayment of debt opportunities should they arise. However, in current interest rate environment there are no cost savings from early repayment of LOBO or PWLB debt. All early repayment of debt and rescheduling will be reported to the Executive at the earliest meeting following its action. The Council from time to time monitors the market conditions so as to ensure that opportunities for early repayment or rescheduling of debt are not missed.

**Housing Revenue Account**

**87.** The reform of the HRA, on 28 March 2012, had consequences for the Council in that its treasury management position could be managed separately. The portfolio was split on 28 March 2012 when the Council, borrowed £89.456m from the Public Works Loan Board, and paid this sum to the government to be released from the then existing Subsidy system (i.e. the perceived debt owing to the government in respect of their previous funding of council houses). Half of this debt was refinanced in 2021-22 and the remaining in 2022-23. The table below shows the HRA debt portfolio before HRA self-financing, at self-financing and forecast position on 31 March 2026.

| Actual Debt Pre-Reform £'000 | Actual Debt at Reform Date £'000 | Estimated Debt 31 March 2026 £'000 |
|---|---|---|
| 19,805 | 109,261 | 134,090 |

**88.** One of the principles behind the reform was to provide some level of autonomy for the HRA, separating its debt from the Council's so that its treasury position could be managed separately.

**Future HRA Borrowing**

**89.** Following the split of the portfolio, borrowing decisions have to be made in accordance with the needs of the business plan, provided those decisions are aligned with the Council's treasury management strategy as a whole and are agreed by the Section 151 Officer. The amounts and the maturity period are determined by the profile of the HRA capital expenditure.

**Annual Investment Strategy – Risk Management**

**90.** The Council is exposed to a number of risks. Risks associated with treasury management activities are liquidity risks, interest rate risks, inflation risk, counterparty risk, credit risk, refinancing risk and regulatory risks. The Council monitors and controls risk by ensuring that its day-to-day activities focus on risk mitigation.

**91.** The CIPFA Code requires the Council to invest its 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.

**Instruments available to the council for investment purposes**

**92.** The Council remains in a very difficult investment environment. Whilst counterparty risk appears to have eased, market sentiment has still been subject to bouts of sometimes extreme volatility and economic forecasts abound with uncertainty. The Council will ensure that when considering investments, especially pooled investments vehicles, consideration will be given to wider issues. Liquidity and interest rate risks will be investigated and considered and an understanding of the product will be gained before making informed decisions. The council will not invest purely on the backdrop of other councils investing in the scheme or investment opportunity. Alternative investment instruments available to the council include Enhanced Money Market Funds, Bond Funds including gilts, Property Funds and Equity Funds.

**Investment Policy – management of risk**

**93.** The Council's investment policy has regard to the Community and Local Government's (CLG) Guidance on Local Government Investments ('the Guidance) and the revised Chartered Institute for Public Finance and Accountancy (CIPFA) Treasury Management in Public Services Code of Practice and Cross Sectorial Guidance Notes. The Council's investment priorities will be security first, liquidity second, and then return.

**94.** The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £0m and £62.3million. The majority of the Council's surplus cash is currently invested in money market funds and a higher yielding short term Sterling Cash Plus Fund.

**95.** In accordance with the above, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk.

**96.** The key ratings used to monitor counterparties are the short- and long-term ratings.

**97.** It is recognised that ratings should not be the sole determinant of the quality of an institution it is important to continually assess and monitor the economy and political environment and have regard to market comment.

**98.** Other information sources used include the financial press, share price movement and other such information relating to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

**99.** Investment instruments identified for use are shown at Appendix A under the 'specified and non-specified categories'.

**Divestment Motion**

**100.** The Council has a policy to dis-invest in fossil fuels and therefore commits to the following at the Council meeting on 16th November 2021:

**101.** Luton Council has no investments directly in fossil fuel companies that is coal, oil and gas, and has not done so in recent times.

**102.** Managed by the Bedfordshire Pension fund Luton has around £40million invested in fossil fuels via the Local Government Pension Scheme.

**103.** With COP28 taking place in the UAE in December 2023, there is increased emphasis by the UK government on showing global climate leadership, especially in relation to finance and investments.

**104.** As part of our declaration of a Climate Emergency we are clear that investing in ethical investments funds is a clear and meaningful action that can be taken at a local government level.

**105.** Fossil fuel investments are financially risky because of both the Covid19 pandemic and the global transition to a more sustainable economic and environmental model. They are now being consistently outperformed by renewables.

**106.** As continued investments in fossil fuels pose material financial risks to portfolios, funds have fiduciary duties to consider the benefits of decarbonising as part of their investment strategies. Fiduciary duty is defined by the Law Commission as 'ensuring that pensions can be paid, ensuring that this is undertaken at the best possible value'.

**107.** Pension funds have a legal duty to treat members "fairly as between them". That means taking seriously the longer-term interests of younger members who may well be affected more by the climate transition.

**108.** As part of our commitment to reducing our impact on the planet and ensuring the town is carbon neutral by 2040, Council therefore commits to:

**109.** Calling on the Bedfordshire Pension Fund to divest from fossil fuels by requesting its representative(s) on the Pension Fund Committee to call for the development and adoption of responsible investment policies which:

a. Immediately freeze any new investment in the top 200 publicly-traded fossil fuel companies;
b. Actively seek to invest in companies that will reduce greenhouse gas emissions and minimise climate risk;

c. and undertake an assessment of its investment portfolio with a view to disinvest in institutions which are coal, oil and gas companies;

d. and undertake an assessment of its investment portfolio with a view to disinvest in institutions which are, or have links to, companies that create and sell arms to Governments around the world.

**110.** Additionally, Luton Council will commit to review its Council Treasury Management Strategy to ensure that it rules out future direct investments in oil, coal and gas companies, bringing the revised strategy to Budget Full Council.

**111.** Recognising that fossil fuel investments should be considered as part of the council's 'carbon footprint' and that ensuring that our pension fund makes ethical investments funds is one an important step to reduce our impact on our community and the planet.

**Use of HRA Temporary Cash Balances and Temporary Borrowing**

**112.** Although the HRA's treasury position is now independent of the General Fund, both are managed in the name of the Council as a whole. As such, the day-to-day treasury position of the Council, whilst having regards to the impact on the HRA and General Fund, will be run on a Council basis – this simplifies the risk management of the treasury position, and should help to ensure that the treasury function is providing value for money.

**113.** In order to maintain effective, efficient and economic treasury management for the Council as a whole, the HRA will only be able to invest with the general fund. To achieve this the General Fund will deposit and borrow externally temporarily or long term, but the HRA will only be able to deposit with the General Fund and should it be required only be able to access borrowing through the General Fund. In order to ensure that this is fair, interest rates will be applied to any such internal transfers as summarised below:

**114.** If the General Fund has temporary investments, HRA investments with the General Fund will earn – average three-month treasury bills rate (this excludes General Fund policy investments).

**115.** Borrowing rates will be applied as PWLB borrowing rate plus a debt administration charge.

**Creditworthiness Policy**
**Credit Rating**

**116.** Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies.

Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

**117.** See Appendix A for list of approved counterparties

**Country Limits**

**118.** The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA. The list of countries that qualify using this criterion as at the date of this report is shown at Appendix B. This list will be added to, or deducted from in accordance with this policy.

**Risk assessment and credit ratings**

**119.** Credit ratings are obtained and monitored by the Council's treasury advisers Arlingclose, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

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

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

**Other information on the security of investments**

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

**122.** When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, 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 a reduction in the level of investment income earned but will protect the principal sum invested.

**Investment limits**

**123.** The Council's revenue reserves available to cover investment losses are forecast to be £122 million on 31 March 2026. In order that no more than 66% of 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 £50 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.

**In-house funds**

**124.** Investments will be made with reference to the core balance, cash flow requirements and the outlook for short term interest rates (up to 12 months).

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

**Liquidity management:**

**126.** The Council uses 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. It is unlikely that the council will be able to place term deposits for period longer than one year except for policy investments which are outside the treasury management strategy.

**Investment return expectations**

**127.** The Council's treasury management adviser Arlingclose is forecasting that Bank Rate will be cut to 3.25% by Q2 2026. See Appendix F. (In December 2025 the rate was cut from 4.00% to 3.75%. This represents the lowest base rate in almost three years).

**Investment treasury indicator and limit**

**128.** In the unlikely event the Council invests for periods of over 365 days a limit of 25% of total investments will apply. These exclude policy investments. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early

sale of an investment and are based on the availability of funds after each year end. The Council is asked to approve the following indicators:

| | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|---|---|---|---|---|
| Maximum percentage of outstanding investments >365 days | 25% | 25% | 25% | 25% |

**Investment Defined as Capital expenditure**

**129.** The acquisition of share or loan capital in any corporate body is defined as capital expenditure under section 16(2) of the Local Government Act 2003. Such investments will have to be funded from capital or revenue resources and be classified as non-specified investments.

**130.** Any loan or grant to another body for capital expenditure by that body will also be deemed, by regulation, to be capital expenditure by the Council. This includes loans to wholly owned companies such as London Luton Airport Limited, and Residential Schemes. It is therefore important for the Council to clearly identify if the loan or grant has been made for policy reasons or it is an investment for treasury management purposes in which case it would be governed by the framework set for specified and non-specified investments. The Council will ensure that any State Aid issues are adequately considered.

**Investment Risk Benchmarking**

**131.** These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.

**Liquidity**

**132.** In respect of this area the Council seeks to maintain:

- Bank overdraft - £500k
- Adequate liquid short term deposits available with a week's notice.
- Weighted average life benchmark is expected to be 6 months, with a maximum of 1 year.

**133.** Yield - local measures of yield benchmarks are

- Investments – Returns above the annual average SONIA rate (Sterling Overnight Interbank Average rate). SONIA is the weighted average deposit rate for overnight trades of counterparties with very high creditworthiness

**134.** 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 to determine the duration of the Council's investments. The Council will therefore use counterparties within the following durational bands:

- Yellow- 5 years (AAA rated Government debt or equivalent)
- Purple- 2 years
- Blue - 1 year (only applies to nationalised or semi nationalised UK banks)
- Orange - 1 year
- Red- 6 months
- Green - 100 days
- No colour - Not to be used

**135.** See Appendix A

**136.** The MMF limits remain at £50m for each fund but the maximum investment guidance by the Council's treasury advisors for each fund is also considered.

**137.** Typically, the minimum credit ratings criteria the Council use will be a short-term rating (Fitch or equivalents) of F1 and a Long-Term rating of A-. There may be occasions when institutions' ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information that supports their use.

**138.** All credit ratings will be monitored weekly, and the Council is alerted daily to changes to ratings of all three agencies by the treasury advisors Arlingclose.

a. If a downgrade results in the institution/investment scheme /country no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

b. Should an institution/investment scheme/country counterparty be upgraded then they will be moved into the appropriate band on the Council's lending list thereby increasing their cash exposure and maturity limits, the opposite action will be taken should a downgrade occur

c. If counterparty is placed on monitoring, on the CDS Swap overlay then they will be moved down a band on the Council's list thereby reducing both their cash exposure and maturity limit.

**139.** As mentioned previously sole reliance will not be placed on the use of this external service. In addition the Council will use market data and information, information on government support for banks and the credit ratings of that supporting government.

**Use of Money Market Funds**

**140.** Money market funds are investment instruments that invest in a variety of institutions, therefore diversifying the investment risk.

The funds are managed by a fund manager. The objectives of money market funds are to preserve capital, provide very high liquidity and provide competitive short-term yield. The most important characteristic of a MMF is the highly diversified, high credit quality investments in the fund. The Council will use AAA rated money market funds.

**141.** As the Council has a current policy of maximising internal borrowing and therefore minimising the need to borrow, money market fund investment levels are therefore kept as low as possible.

**Reform of Money Market Funds**

**142.** As a result of the Financial Crisis in 2008, the European Commission proposed new rules for Undertakings for Collective Investment in Transferable Securities (UCITS) money market funds. All funds had to be compliant by 21st January 2019. Money market funds are now categorised into two types of money market fund: Short term MMF's and Standard MMF's and within these categories there are three structural options available:

Government Constant Net Asset Value (CNAV),
Low Volatility Net Asset Value (LVNAV) (new) and
Variable Net Asset Value (VNAV)

**143.** The Regulation requires that MMF managers perform a rigorous internal credit quality assessment of money market instruments, as well as implementing a prudent stress testing regime. Moreover, such credit analysis is to be undertaken by individuals separate from the team responsible for the day-to-day management of the MMF portfolio. This change will not materially alter current investment approaches.

**Treasury Policy Statement**

**144.** The Council's treasury policy statement is shown at Appendix C.

**Markets in Financial Instruments Directive**

**145.** 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 and in order to continue to invest with some of our counterparties it was necessary to opt up to elective professional client status.

**Provision for Credit – Related Losses**

**146.** If any of the Council's investments appeared to be at risk or of loss to default (i.e. a credit-related loss rather than a loss due to a fall in price or movement in interest rates) the Council will make a revenue provision of an appropriate amount.

**External Fund Managers**

**147.** At present the Council does not employ the services of an external fund manager. This is kept under review and if the Council's treasury advisors suggest that an

external fund manager can provide better value, net of fees, for a proportion of the Council's investments, then the Council will consider this.

**Large Scale Voluntary Transfer (LSVT)**

**148.** This involves the Council transferring ownership of its homes with the agreement of its tenants to a new or existing registered provider. Any potential transfer will have treasury management implications and these would need to be considered by the Executive if the situation ever arises.

**Corporate Credit Card**

**149.** The use of corporate credit cards carries significant risks. The Service Director Finance, Revenues & Benefits is responsible for ensuring that the council has appropriate controls in place to protect the Council's funds.

**Other Issues**

**150.** Specific consideration is given to funding PFI arrangements, as approved by the relevant Government department and H.M Treasury.

**Banking Arrangements**

**151.** The Council's banking contract is currently with Lloyds bank. The contact ends 31st October 2026.

**Role of the Section 151 officer**

**152.** Please see Appendix D for the definition of the role of the S151 officer in relation to treasury management.

## Luton 2040 Contribution

**153.** The budget is an integral part of the delivery of the 2040 vision as it prioritises scarce resources towards the delivery of the Council's prioritise and ensures that both the revenue and capital budgets are properly aligned in order to assess the whole life costs of projects. It also helps management to plan, monitor, report and take corrective measures to ensure the Council's goals and priorities are delivered.

## Goals and Objectives

**154.** The key goals and objectives are:

- **(i)** To set an accurate treasury and capital financing budget, including a prudent Minimum Revenue Provision (MRP) provision, for 2026/27.
- **(ii)** To set robust strategies to manage cash, investments and debt to minimise the impact of capital financing costs and maximise investment returns, whilst maintaining acceptable levels of credit and liquidity risk.
- **(iii)** To set effective treasury prudential indicators and monitoring processes.

## Proposal

**155.** Executive agrees and recommends the following documents to Full Council:

(i) the Treasury Management Strategy and Policy Statement;
(ii) the Annual Investment Strategy 2026/27;
(iii) the Borrowing Strategy for 2026/27; and
**156.** (iv) the Council's Prudential and Treasury Indicators

## Key Risks

**157.** Treasury Management is an area of significant risk. In relation to security and probity of investments all activity has been undertaken in accordance with the provisions of the Council's Treasury Management Practices (TMP's) which include a substantial section on risk, to manage and minimise, so far as possible, the risks involved.

## Consultations

**158.** FRG were consulted on the 22 January 2026 and any recommendations will be reflected in the Council report.

## Alternative options considered and not recommended

**159.** To accept or reject the recommendations and request further information.

## Appendices Attached

Appendix A – Investment Terminology & Limits

Appendix B – Approved Countries for Investment

Appendix C – Treasury Policy Statement

Appendix D – Treasury Management Role of S151 Officer

Appendix E – External Context: Economic Background

Appendix F – Economic and Interest Rate Forecast

Appendix G – Treasury Glossary of Terms

## List of Background Papers - Local Government Act 1972, Section 100D

**160.** The Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Code

## Implications - an appropriate officer must clear all statements

For CDM only Legal and Finance are required

**Required**

| Item | Details | Clearance Agreed By | Dated |
|---|---|---|---|
| **Legal** | The Local Government Act 2003 and supporting regulations require the Council to set | Kathryn Thould, In- | 22 Dec 2025 |

| Item | Details | Clearance Agreed By | Dated |
|---|---|---|---|
| | out its treasury strategy for borrowing, which is contained within this report, being the Treasury Management Strategy, and the legal implications are contained within the body of the report. | House Advocate - Childcare | |
| **Finance** | The financial implications are contained within the body of this report. | Dev Gopal, Director (Finance, Revenues & Benefits) | 23 Dec 2025 |
| **Equalities / Cohesion / Inclusion (Social Justice)** | There are no direct equalities implications arising from this report. | Marek Lubelski, Head of Social Justice and Community Safety | 27 Jan 2026 |
| **Environment** | There are no direct environmental implications arising from this report. Reports on borrowing and investments may indirectly have implications dependent upon how these investments are managed and the borrowing is used to enable the council to deliver services | Antony Swift Head of Transport Services | 22 Dec 2025 |
| **Health** | **T**he report has minimal direct health implications, as afar as reports on borrowing and investments. Possible implications are dependent upon how these investments are managed and how the borrowing is used to enable innovative practice, delivering health equity and tackling inequalities.<br>Positives are noted that debt burden is not being passed to residents with investments in infrastructure, local people and attracting greater opportunities to the town invaluable to secure objectives within the Luton 2040 strategy. | Nicola Ainsworth, Interim Joint Director of Public Health | 24 Dec 2025 |

**Optional**

| Item | Details | Clearance Agreed By | Dated |
|---|---|---|---|
| **Community Safety** | No community safety implications | | |

| Item | Details | Clearance Agreed By | Dated |
|---|---|---|---|
| **Staffing** | | | |
| **Other** | | | |

**APPENDIX A**

# INVESTMENT TERMINOLOGY & LIMITS

## SPECIFIED INVESTMENTS

All such investments will be sterling denominated with maturities of up to a maximum of 1 year meeting the maximum high quality criteria where applicable

## NON-SPECIFIED INVESTMENTS

These are investments which do not meet the specified investment criteria. A maximum of 25% will be held in aggregate in non-specified investments (excluding policy investments). All such investments will be sterling denominated.

## OTHER NON-SPECIFIED INVESTMENTS

Policy investments such as loans to London Luton Airport Ltd, other Wholly Owned Companies and Residential Schemes will be subject to separate limits.

## Credit Rating Components

### Long Term Rating

These generally cover maturities of between 1 and 5 years and assess the ongoing stability of the institution's prospective financial condition, addressing the possibility that a financial obligation will not be honoured

| | | |
|---|---|---|
| Fitch | A | Strong capacity to meet all long term financial commitments |
| Moody's | Aa3 | |
| Standard & Poors | A | |

### Short Term Rating

These generally cover maturities of up to 13 months and place greater emphasis on the liquidity necessary to meet financial commitments.

| | | |
|---|---|---|
| Fitch | F1 | Strong capacity to meet all short term financial commitments |
| Moody's | P-1 | |
| Standard & Poors | A-1 | |

A variety of investments are available to use subject to the credit quality of the institution and depending on the type of investment will be categorised as either a specified or non-specified investment.

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

| | Min. Credit Criteria/ colour band/ rating | Max Cash Exposure Limit (or 30% of total Investments excl.MMF's) | Maximum Duration Period | Specified/ Non specified |
|---|---|---|---|---|
| DMADF – UK Government | N/A | 100% | 6 months | S |
| UK Government Gilts | UK Sovereign | 20% | 10 years | S & N/S |
| UK Government Treasury Bills | UK Sovereign | 30% | 12 months | S |
| Bonds issued by multilateral development banks | AAA | 5% | 5 years | S & N/S |
| Money Market Funds CNAV** | AAA | £50m | Liquid | S |
| Money Market Funds LVNAV** | AAA | £50m | Liquid | S |
| Money Market Funds VNAV** | AAA | £50m | Liquid | S |
| Enhanced money market funds** | AAA | £50m | Liquid | S |
| Local Authorities | N/A | £15m | 2 years | S &N/S |
| Term deposits with institutions | Purple<br>Blue<br>Orange<br>Red<br>Green<br>No colour | £25m<br>£30m<br>£22.5m<br>£15m<br>£11.5m | 2 years<br>1 year<br>1 year<br>6 months<br>100 days<br>Not to use | S & N/S |
| Negotiable instruments with institutions*** | Yellow<br>Purple<br>Blue<br>Orange<br>Red<br>Green<br>No colour | 5% | 5 years<br>2 years<br>1 year<br>1 year<br>6 months<br>100days<br>Not to use | S & N/S |
| Corporate Bond Funds | UK Sovereign | 5% | 5 years | S & N/S |
| Gilt Funds | UK sovereign | 5% | 5 years | S & N/S |

**Maximum investment of £50m or maximum investment per fund as advised monthly by the Council's treasury advisors (0.5% of fund size).

*** ( Inc., Commercial Paper, Floating rate notes, Sovereign Bonds, Collateralised deposits, Government Liquidity Funds, Certificates of Deposit)

NB - S or N/S dependent upon duration of investment e.g. purchase of a Gilt with just 6 months to maturity

**OTHER NON-SPECIFIED INVESTMENTS**

| | Use | Maximum Amount £'000 | Maximum maturity period |
|---|---|---|---|
| Guaranteed loans and shares, including redeemable preference shares, to London Luton Airport Limited, other Wholly Owned Companies and Residential Schemes where the expenditure is deemed to be of a capital nature and therefore increasing the Council's capital financing requirement for a period of up to 40 years | In house | 600,000 | 40 years Core Cash |
| Loans to public sector bodies in Luton and housing associations where expenditure is deemed to be of a capital nature and therefore increasing the Council's capital financing requirement for a period of up to 40 years | In house | 10,000 | 40 years Core Cash |

**INSTRUMENTS NOT CONSIDERED BY THIS COUNCIL AS PRUDENT INVESTMENTS FOR ITS SURPLUS TREASURY FUNDS**

| **Investment** |
|---|
| Equities |
| Deposits with un-rated deposit takers (banks and building societies) but with unconditional financial guarantee from HMG or credit-rated parent institution:<br>any maturity |
| Un-rated deposit takers (banks and building societies) which do not have an unconditional guarantee: any maturity |
| Open Ended Investment Companies (OEICS) – those which are equity based. |

**APPENDIX B**

# APPROVED COUNTRIES FOR INVESTMENT

| Rating | Permitted Country of Investment |
|---|---|
| AAA | Australia<br>Austria<br>Canada<br>Denmark<br>Germany<br>Singapore<br>Sweden<br>Netherlands<br>Norway |
| AA+ | Finland<br>Austria |
| AA | UK |

**APPENDIX C**

# LUTON BOROUGH COUNCIL TREASURY POLICY STATEMENT

This organisation defines its treasury management activities as:

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

- This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

- This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principals of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management

**APPENDIX D**

# THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 officer is responsible for:

- 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

In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. From 2019-20 all local authorities will be required to prepare an additional report, a Capital Strategy report (submitted separately) which will extend the functions of the S151 officer role as follows:

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe.
- 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 an 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

**APPENDIX E**

# EXTERNAL CONTEXT – Economic Background

- The impact on the UK from the government's Autumn Budget, slower interest rate cuts, modestly weaker economic growth over the medium term, together with the impact from President-elect Trump's second term in office and uncertainties around US domestic and foreign policy, will be major influences on the Authority's treasury management strategy for 2026/27.

- The Bank of England's (BoE) Monetary Policy Committee (MPC) reduced Bank Rate to 4.75% at its meeting in November 2024, having previously cut by 25bp from the 5.25% peak at the August MPC meeting. At the November meeting, eight Committee members voted for the cut while one member preferred to keep Bank Rate on hold at 5%.

- The November quarterly Monetary Policy Report (MPR) is forecasting Gross Domestic Product (GDP) growth to pick up to around 1.75% (four-quarter GDP) in the early period of the BoE's forecast horizon before falling back. The impact from the Budget pushes GDP higher in 2025 than was expected in the previous MPR, before becoming weaker. Current GDP growth was shown to be 0.5% between April and June 2024, a downward revision from the 0.6% rate previously reported by the Office for National Statistics (ONS).

- ONS figures reported the annual Consumer Price Index (CPI) inflation rate at 1.7% in September 2024, down from 2.2% in the previous month and lower than the 1.9% expected. Core CPI also declined further than expected to 3.2% against a forecast of 3.4% and the previous month's 3.6%. The outlook for CPI inflation in the November MPR showed it rising above the MPC's 2% target from 2024 into 2025 and reaching around 2.75% by the middle of calendar 2025. This represents a modest near-term increase due to the ongoing impacts from higher interest rates, the Autumn Budget, and a projected margin of economic slack. Over the medium-term, once these pressures ease, inflation is expected to stabilise around the 2% target.

- The labour market appears to be easing slowly however, but the data still requires treating with some caution. The latest figures reported the unemployment rate fell to 4.0% in the three months to August 2024, while economic inactivity also declined. Pay growth for the same period was reported at 4.9% for regular earnings (excluding bonuses) and 3.8% for total earnings. Looking ahead, the BoE MPR showed the unemployment rate is expected to increase modestly, rising to around 4.5%, the assumed medium-term equilibrium unemployment rate, by the end of the forecast horizon.

- The US Federal Reserve has also been cutting interest rates, bringing down the Fed Funds Rate by 0.25% at its November 2024 monetary policy meeting to a range of 4.5%-4.75%. Further interest rate cuts are expected, but uncertainties around the potential inflationary impact of incoming President Trump's policies may muddy the waters in terms of the pace and magnitude of further rate reductions. Moreover, the

US economy continues to expand at a decent pace, rising at an annual rate of 2.8% in the third quarter of 2024, and inflation remains elevated suggesting that monetary policy may need to remain more restrictive in the coming months than had previously been anticipated.

- Euro zone inflation fell below the European Central Bank (ECB) 2% target in September 2024, the first time in over three years. This allowed the ECB to continue its rate cutting cycle and reduce its three key policy rates by 0.25% in October. Inflation is expected to rise again in the short term, but then fall back towards the 2% target during 2025, with the ECB remaining committed to maintaining rates at levels consistent with bringing inflation to target, but without suggesting a specific path.

APPEDIX F

# Arlingclose Economic & Interest Rate Forecast – Dec 2025

**Underlying assumptions:**

- The Budget signalled further fiscal (tax/spend) tightening across this parliament. Most tax changes take effect from 2028, while welfare and spending start from April 2026. Taken together, the timing of these announcements means the fiscal stance is likely to be slightly looser than expected for the next two years (with increased government spending), before tightening sharply from 2028 (with large tax rises)

- Despite the near-term looser fiscal stance, the new policies add little support for activity in 2026. Even before the Budget, economic data was pointing to a slower growth outlook. Meanwhile, disinflation has been evident and planned government actions on train fares and energy bills will also dampen inflation next year.

- The close vote in November to keep Bank Rate at 4% reflected pre-Budget uncertainty. With no major growth or inflation boosts in the Budget, a cut to 3.75% in December continues to look highly likely.
- Inflation fell to 3.6% in October. Business surveys point to weaker pricing power and household inflation expectations are easing, although they remain high. Wage growth is moderating amid rising unemployment and overall activity is flat. Confidence has been hit by the run-up to the Budget and a strong rebound seems improbable in the near term.

- Weak growth and softer inflation strengthen the case for dovish MPC members to push for further Bank Rate cuts, while undermining arguments of more hawkish members. There will still be questions over whether Government can deliver the fiscal tightening it set out, given a history of U-turns, and timing ahead of the next General Election. The December meeting will offer a clearer view of how divided the MPC really is.

- Risks to the growth and inflation outlook lie to the downside, which if crystallised may ultimately deliver lower Bank Rate than our central case.

- Lower inflation expectations and a tighter fiscal stance have helped bring down gilt yields, especially at the long end. Even so, sustained heavy borrowing across advanced economies, the DMO's move towards issuing more short-dated gilts and lingering doubts about the government's fiscal plans will keep short to medium yields above the levels implied by interest rate expectations alone

**Forecast:**

- Following the 2025 Budget, we continue to forecast a 0.25% Bank Rate cut in December to 3.75%.
- Continuing disinflation, rising unemployment, softening wage growth and low confidence suggests that monetary policy will be eased to stimulate activity ahead of incoming fiscal tightening post-2028.

- Arlingclose now expects Bank Rate to be cut to 3.25% by Q2 2026, with risks weighted to the downside.
- Medium and long-term gilt yields continue to incorporate premia for UK government credibility and global uncertainty. These issues may not be resolved quickly and we expect yields to remain higher than would normally be consistent with Bank Rate expectations.
- However, the lower path for Bank Rate maintains the downside risks to Arlingclose's gilt yield forecasts.

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

PWLB Standard Rate = Gilt yield + 1.00%
PWLB Certainty Rate = Gilt yield + 0.80%
PWLB HRA Rate = Gilt yield + 0.40%
UK Infrastructure Bank Rate = Gilt yield + 0.40%

**APPENDIX G**

# GLOSSARY OF TERMS

**Authorised Limit** - This Prudential Indicator represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It is the expected maximum borrowing need, with some headroom for unexpected movements.

**Bank Rate** – the rate at which the Bank of England offers loans to the wholesale banks, thereby controlling general interest rates in the economy.

**Counterparty** – one of the opposing parties involved in a borrowing or investment transaction

**Covered Bonds** - Debt instruments secured by assets such as mortgage loans. These loans remain on the issuer's balance sheet and investors have a preferential claim in the event of the issuing institution defaulting.

**Credit Rating** – A qualified assessment and formal evaluation of an institution's (bank or building society) credit history and capability of repaying obligations. It measures the probability of the borrower defaulting on its financial obligations, and its ability to repay these fully and on time.

**Discount** – Where the prevailing interest rate is higher than the fixed rate of a long term loan, which is being repaid early, the lender can refund the borrower a discount, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender is able to offer the discount, as their investment will now earn more than when the original loan was taken out.

**Fixed Rate Funding** - A fixed rate of interest throughout the time of the loan. The rate is fixed at the start of the loan and therefore does not affect the volatility of the portfolio, until the debt matures and requires replacing at the interest rates relevant at that time.

**Gilts** - The loan instruments by which the Government borrows. Interest rates will reflect the level of demand shown by investors when the Government auctions Gilts.

**LIBID (London Interbank Bid Rate)** – This is an average rate, calculated from the rates at which individual major banks in London are willing to borrow from other banks for a particular time period. For example, 6 month LIBID is the average rate at which banks are willing to pay to borrow for 6 months.

**LIBOR (London Interbank Offer Rate)** – This is an average rate, calculated from the rates which major banks in London estimate they would be charged if they borrowed from other banks for a particular time period. For example, 6

month LIBOR is the average rate which banks believe they will be charged for borrowing for 6 months.

**Liquidity** – The ability of an asset to be converted into cash quickly and without any price discount. The more liquid a business is, the better able it is to meet short-term financial obligations.

**LOBO (Lender Option Borrower Option)** – This is a type of loan where, at various periods known as call dates, the lender has the option to alter the interest rate on the loan. Should the lender exercise this option, the borrower has a corresponding option to repay the loan in full without penalty.

**Maturity Profile/Structure -** an illustration of when debts are due to mature, and either has to be renewed or money found to pay off the debt. A high concentration in one year will make the Council vulnerable to current interest rates in that year.

**Monetary Policy Committee** – the independent body that determines Bank Rate.

**Money Market Funds -** Investment instruments that invest in a variety of institutions, therefore diversifying the investment risk.

**Operational Boundary** – This Prudential Indicator is based on the probable external debt during the course of the year. Actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the Authorised Limit is not breached.

**Premium** – Where the prevailing current interest rate is lower than the fixed rate of a long-term loan, which is being repaid early, the lender can charge the borrower a premium, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender may charge the premium, as their investment will now earn less than when the original loan was taken out.

**Prudential Code -** The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

**PWLB** - Public Works Loan Board. Part of the Government's Debt Management Office, which provides loans to public bodies at rates reflecting those at which the
Government is able to sell Gilts.

**Specified Investments** - Sterling investments of not more than one-year maturity.
These are considered low risk assets, where the possibility of loss of principal or investment income is very low.

Non-specified investments - Investments not in the above, specified category exceeding one year or outside our minimum credit rating criteria.

**Treasury Bills** - These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low.

**Treasury Management Risks** – These are the risks to the Council's treasury activities.

**Credit and counterparty risk** - Managing risk to principal sums deposited by setting a counterparty policy in respect of organisations it may deposit funds with, including restrictions to entity/banking group limits, instruments and methods used, and term of deposits.

**Liquidity risk** - Ensuring sufficient (though not excessive) cash resources are available to achieve business and service objectives, including understanding the immediate and medium-term cash flow profile, being able to react to change in forecasts or the economic outlook, and putting arrangements in place to safeguard public services.

**Interest rate risk** - Managing exposure to interest rate volatility, including the use of instruments and methods that provide stability and cost certainty, retaining flexibility to react to change in authorities and the economic outlook, and limiting lender options to increases.

**Refinancing risk** - Managing the maturity profile of investment and loan portfolios, as well as keeping under consideration options to repay loans/recall investments where favourable, including time-limits for loan/investment maturity, the regular review of settlement opportunities, and avoiding overreliance on any single source of financing.

**Legal and regulatory risk** - Ensuring that treasury activities comply with statutory powers and regulatory requirements, including ability to demonstrate compliance, evidence of authority to transact, and where possible, seeking to minimise the impact of any future legislative or regulatory changes.

**Fraud, error and corruption, and contingency management** - Identification of circumstances that may expose the authority to fraud, error and corruption, including systems to detect suspicious activity, procedures to deal with occurrences, and contingent arrangement to ensure service objectives are fulfilled.

**Market risk** - Managing the impact of a change in the economic climate including limiting exposure to instruments that may be subject to adverse market fluctuations, revaluation of financial instruments in times of market stress, and seeking to protect the authority from the effects of economic market volatility.

**Variable Rate Funding** - The rate of interest either continually moves reflecting interest rates of the day, or can be tied to specific dates during the loan period. Rates may be updated on a monthly, quarterly or annual basis.

**Volatility** - The degree to which the debt portfolio is affected by current interest rate movements. The more debt maturing within the coming year and needing replacement, and the more debt subject to variable interest rates, the greater the volatility.

**Yield Curve** - A graph of the relationship of interest rates to the length of the loan. A normal yield curve will show interest rates relatively low for short-term loans compared to long-term loans. An inverted Yield Curve is the opposite of this.